

OPERATION OF THE TRADE AGREEMENTS PROGRAM

**38th Report
1986**



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United States International Trade Commission - Washington, DC 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

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UNITED STATES INTERNATIONAL TRADE COMMISSION

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PREFACE

The annual *Operation of the Trade Agreements Program* report is one of the principal means by which the U.S. International Trade Commission provides the U.S. Congress with factual information on trade policy and its administration. The report also serves as a historical record of the major trade-related activities of the United States, for use as a general reference by Government officials and others with an interest in U.S. trade relations. This report is the 38th in a series to be submitted under section 163(b) of the Trade Act of 1974 and its predecessor legislation.¹ The trade agreements program includes "all activities consisting of, or related to, the administration of international agreements which primarily concern trade and which are concluded pursuant to the authority vested in the President by the Constitution . . ." and Congressional legislation.² Among such laws are the Reciprocal Trade Agreements Act of 1934 (which modified the Tariff Act of 1930 and initiated the trade agreements program), the Trade Expansion Act of 1962, the Trade Act of 1974, the Trade Agreements Act of 1979, and the Trade and Tariff Act of 1984.

The report consists of a summary, an overview, five chapters, and appendices. The overview sketches the economic and international trade environment within which U.S. trade policy was conducted in 1986. Chapter 1 treats special topics that highlight developments in trade activities during the year. Chapter 2 is concerned with activities in the General Agreement on Tariffs and Trade (GATT), the main area of multilateral trade-agreement activities. Such activities outside the GATT are reported in chapter 3. Chapter 4 discusses bilateral relations between the United States and its major trading partners. The administrative actions taken under U.S. laws, including decisions taken on remedial actions available to U.S. industry and labor, are discussed in chapter 5. The period covered in the report is calendar year 1986, although occasionally, to enable the reader to understand developments more fully, events in early 1987 are also mentioned.

¹ Section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) directs that "the International Trade Commission shall submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program."

² Executive Order No. 11846, Mar. 27, 1975.

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SUMMARY

SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1986

The U.S. merchandise trade deficit reached a historical high of \$162.3 billion in 1986. Although tensions with some trading partners mounted, there were also several encouraging developments in U.S. multilateral and bilateral relations during 1986. U.S. trade negotiations focused on three areas in 1986: the initiation of the Uruguay Round of trade talks, the opening of formal negotiations on a United States-Canada Free Trade Agreement, and the extension of the Multifiber Arrangement (MFA).

The launching of the Uruguay Round of Multilateral Trade Negotiations in September 1986 culminated almost a year of intensive negotiating within the General Agreement on Tariffs and Trade (GATT) Preparatory Committee. The agenda for the new round was the result of tough bargaining and compromising among trading partners since each country had its own "shopping list" for the talks. The United States strongly supported the upcoming negotiations and worked hard to ensure that its five priority issues (agriculture, services, intellectual property rights, investment measures, and GATT dispute settlement) were included on the agenda.

The major objectives of the Uruguay Round are to strengthen existing GATT rules and to extend coverage to new areas of trade such as services. The upcoming negotiations are also expected to shift attention away from tariff reductions that have already occurred as a result of earlier multilateral trade negotiations (MTN) to nontariff measures (NTM'S) that have become increasing barriers to trade in recent years. Other subjects that will be included in the negotiations are tropical products, natural resource-based products, and textiles and clothing. Negotiators hope to achieve an agreement on safeguards and improve the operation of the various codes negotiated during the Tokyo Round.

Another important multilateral action during 1986 was an agreement on July 31 to extend the MFA for 5 more years. The MFA provides a framework for the negotiation of bilateral agreements between the major textile importing countries and the textile exporting countries. After over a year of negotiations, the United States successfully gained the inclusion of three key provisions in the agreement that (1) extend MFA coverage to previously uncontrolled vegetable fibers and silk blends, (2) increase control over import surges, and (3) permit participants to impose quotas as an antifraud measure. The U.S. negotiating position was strengthened by the near enactment of more restrictive textile legislation that would have cut or frozen U.S. textile imports

from major supplier countries. The new accord contains special provisions for small supplier countries and new entrants into the market. Special consideration is also given to least developed countries and wool-producing countries.

The administration started negotiations with the Government of Canada on a free-trade agreement in June 1986. Support for formal negotiations had gained momentum throughout 1985, following President Reagan's and Prime Minister Mulroney's endorsement of the talks at their March summit and President Reagan's subsequent notification to Congress on December 10. During another summit in April 1986, the two leaders reaffirmed their commitment to liberalizing bilateral trade. The negotiations formally began in June. The negotiations first turned to an identification of issues and negotiating principles before addressing specific barriers to trade and investment. Several working groups and fact-finding groups were established to discuss the various topics to be covered in the negotiations such as energy, customs matters, services, and intellectual property rights. In January 1987, the Commission submitted its advice to the President on the probable economic effects on U.S. industries and consumers of establishing duty-free trade with Canada. The Congressional authority under which the negotiations are being conducted ends in early 1988.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE AND THE TOKYO ROUND AGREEMENTS

The GATT is a multilateral agreement, drafted 40 years ago, that sets forth general rules of conduct for trade between signatory countries. The GATT has become both a comprehensive set of rules governing most aspects of international trade, and a formal organization and forum for MTN and the resolution of disputes among the Contracting Parties. In the Tokyo Round of 1973-79—the seventh round of GATT trade negotiations—NTM's were addressed in a set of nine MTN agreements.

In 1986, in addition to their regular agenda, GATT committees and working groups wrapped up activities related to the 1982 Ministerial program to provide background for the eighth round of trade negotiations that were launched in September (the Uruguay Round). The Preparatory Committee, established in November 1985, coordinated the early negotiations on a draft Ministerial Declaration launching the Uruguay Round. Other notable events in 1986 included the accession of two new signatories to the GATT—Hong Kong and Mexico.

In addition, chapter 2 reports on the regular activities of the committees and working groups of the GATT in 1986, notifications and other actions taken under GATT articles, and activities

under the nine Tokyo Round agreements. Six of the Tokyo Round agreements establish rules of conduct governing the use of NTM's (codes on subsidies and countervailing duties (CVD's), government procurement, standards, import licensing procedures, customs valuation, and antidumping), and three are sectoral agreements covering trade in civil aircraft, bovine meat, and dairy products.

TRADE ACTIVITIES OUTSIDE THE GATT

In 1986, the 24 member nations of the Organization for Economic Cooperation and Development (OECD) continued to consult with one another and to use the organization as a forum for the facilitation and coordination of policy on a broad range of economic issues facing industrialized countries. At the OECD's April Ministerial-level meeting, the ministers noted recent more favorable trends in economic growth, inflation, interest rates, and oil prices. They identified four specific levels of cooperative policy initiatives that could support the trends in OECD growth: macroeconomic policies, structural policies, relations among developing countries, and trade policy. Of particular note is the increasing recognition of the need for a revamping of member countries' agricultural policies in order to encourage structural adjustment. The ministers underscored their 1985 commitment to the open multilateral trading system and the need to resist protectionist pressures. The importance of the ongoing MTN on international trade in services was highlighted. Other trade-related activities of the OECD focused on the implementation of existing work programs covering such topics as trade in agriculture and high-technology trade.

The United Nations Conference on Trade and Development (UNCTAD) continued to focus on commodities trade and the problems of protectionism and structural adjustment. At the annual review of protectionism and structural adjustment, members were unable to agree on a continuing work program, with some members emphasizing the major conference, UNCTAD VII, coming up in 1987, as the appropriate venue for discussion of new initiatives. Consideration of the preliminary agenda for UNCTAD VII was a major focus of the year's work. Given UNCTAD's responsibilities in the area of trade preference schemes, the attention of certain committees was focused on the Generalized System of Preferences (GSP) as well as the Global System of Trade Preferences, negotiations for the establishment of which began in 1986. This preference scheme is envisioned to enhance trade among developing countries, as a supplement to existing regional or interregional trade arrangements.

Five international commodity agreements (coffee, sugar, natural rubber, tin, and cocoa) contain specific price-stabilization mechanisms. The agreements covering wheat, jute, and tropical timber were not specifically designed to minimize price fluctuations. Although the United States is not a signatory to the international commodity agreements covering cocoa or tin, it is a signatory to agreements covering coffee, sugar, wheat, jute, natural rubber, and tropical timber. In 1986, the wheat and cocoa agreements were renegotiated. The new wheat agreement expands the scope and reporting to include information on other grains. The tropical timber agreement, which entered into force provisionally in 1985, established its permanent organizational headquarters in Yokohama, Japan. The tin agreement virtually collapsed in 1986, after trading was suspended in 1985 following the tin council's announcement that it could no longer support tin prices at the agreement's floor level.

In 1986, GATT members agreed to include international trade in services on the agenda of the Uruguay Round of trade negotiations. The United States has long advocated extending GATT discipline to services where international rules are limited or nonexistent. The GATT, OECD, and UNCTAD also continued to conduct studies and host important discussions on issues related to trade in services in 1986. In addition to multilateral efforts on services trade issues, the United States is exploring bilateral avenues to open service markets. In 1986, the United States continued negotiations with Israel concerning free trade in several service sectors. Similar discussions with Canada were initiated during the year as part of the United States-Canada free-trade negotiations.

DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

The U.S. merchandise trade deficit in 1986 was \$162.3 billion, of which \$139.3 billion (86 percent) was with the countries under review in this report: the European Community (EC), Canada, Japan, Mexico, Taiwan, the Republic of Korea, and Brazil. The largest bilateral merchandise trade deficit was with Japan (\$59.1 billion or 36 percent of the total U.S. merchandise trade deficit) followed by Canada and the EC (\$25.2 billion or 16 percent each). The U.S. merchandise trade deficit with the newly industrialized countries covered in this report totaled \$29.8 billion, or 18 percent of the total U.S. merchandise trade deficit in 1986.

During much of 1986 the United States and the EC were involved in agricultural trade disputes largely related to the accession of Spain and Portugal into the EC and EC import preferences for Mediterranean citrus, which appears to be finally resolved.

Trade relations between the United States and Canada were characterized by trade disputes as well as efforts at trade harmonization. Intense discussions regarding the establishment of a bilateral free-trade area were undertaken during the year. However, steel and softwood lumber imports and Canada's licensing system for pharmaceuticals were subjects of bilateral disputes during the year.

U.S.-Japanese trade relations were strained in 1986 by numerous bilateral trade disputes, set against the backdrop of another record U.S. trade deficit. During the course of the year, discussions were held on both new and continuing disputes, yielding mixed results. A variety of market access issues were considered, and export restraints were extended or initiated for several Japanese exports to the United States.

Several issues vital to U.S.-Mexican trade were considered in 1986. Mexico's accession to the GATT stands as a major move to benefit not only bilateral trade, but also Mexico's trade with other countries. Protection of intellectual property rights in Mexico, Mexico's foreign investment policy, and a U.S. tax on imported crude oil were other notable bilateral issues of 1986.

A variety of U.S.-Taiwan trade issues were successfully addressed in 1986. In particular, agreements were reached on disputes regarding protection of intellectual property rights, customs valuation, market access, and export restraints.

The United States and the Republic of Korea settled disputes over the sale of foreign cigarettes, market access for U.S. insurance companies, and intellectual property rights protection in Korea. In addition, Korea agreed to extend quotas on textile exports to the United States.

During 1986, the United States and Brazil worked toward expanding market access for U.S. exports of informatics, and extended the Bilateral Maritime Agreement for another 3 years.

ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

In 1986 the U.S. International Trade Commission completed five investigations under a major statute safeguarding U.S. industries from import injury (sec. 201 of the Trade Act of 1974). The Commission voted in the negative on electric shavers and parts thereof, metal castings, apple juice, and steel fork arms, and in the affirmative on wood shakes and shingles. Following the Commission's affirmative finding in the shakes and shingles case, the President imposed relief in the form of a tariff on imports of red cedar shingles and shakes for a 5-year period. The tariff amounted to 35 percent ad valorem during the first 30 months of the time period

which is to be phased down to 20 and 8 percent ad valorem during the final 30 months of the relief period.

The U.S. Department of Commerce and the Commission continued to have large caseloads of antidumping and CVD investigations during the year. Commerce completed 44 final antidumping investigations in 1986, a decrease from the 53 final investigations completed in 1985. The Commission completed 70 preliminary and 45 final antidumping investigations. Antidumping duties were imposed as a result of 29 of these investigations on a total of 14 products from 13 countries. The Commission completed 26 preliminary and 12 final CVD investigations. Commerce completed 24 final CVD investigations. Commerce imposed CVD's as a result of 13 of these investigations on a total of 10 products from 9 countries.

The Commission completed 20 investigations in 1986 under section 337. No violation of the statute was found in 6 of the 20 investigations completed. Three investigations resulted in exclusion orders. The remaining 11 investigations were terminated by the Commission prior to issuance of findings.

In September 1985, the President announced, among other things, that the administration would be more aggressive in combatting the use of unfair trade practices by foreign governments through the initiation of more section 301 investigations. Four section 301 investigations were initiated by the President on his own motion during 1986. Two private section 301 petitions were filed in 1986, one on Argentine differential export taxes affecting soybeans and soybean products, and one on Canadian bans on exports of unprocessed herring and salmon.

Changes in the GSP program resulting from the 1986 annual review became effective on July 1, 1986. As a result of the 1986 review, products accounting for \$13 billion in 1985 imports were removed from the GSP list under the statutory competitive-need provision. The value of GSP imports from advanced beneficiary countries collectively amounted to \$11 billion in 1986. The leading beneficiaries continued to be Taiwan, South Korea, Hong Kong, Mexico, Brazil, Israel, and Singapore.

Duty-free imports entering the United States under the Caribbean Basin Economic Recovery Act (CBERA) preferences totaled \$690 million in 1986 or 11.4 percent of overall U.S. imports from the region. This figure compares with \$498 million, or 7.3 percent in 1985. Beef was the leading product imported under CBERA provisions during 1986. Other major agricultural imports included tobacco, coffee, fruits, and vegetables. Industrial products included chemicals, electrical articles, and jewelry. xv

OVERVIEW: THE INTERNATIONAL ECONOMIC ENVIRONMENT IN 1986

In 1986, the volume of world merchandise trade increased by about 3.5 percent. This increase was equal to the expansion of world trade in 1985, but exceeded by a full percentage point the average annual growth of world trade thus far in the 1980's. In real terms, 1986 growth of world trade was faster than the 3-percent growth of the world economy. In terms of value, world merchandise exports passed the two trillion dollar mark during the year, reaching an estimated \$2.1 trillion, an increase of 10 percent over 1985. In addition to the larger volume, this 10-percent increase reflected the rapid depreciation of the U.S. dollar, which is used as the standard of measurement for international trade developments.

The geographic patterns of world trade measured in U.S. dollars changed markedly in 1986, making the previous imbalances even more pronounced. Among the world's leading trading countries, the deficit of the United States and the surpluses of Japan and the Federal Republic of Germany set new records. The United States registered an all-time high deficit for the fifth consecutive year. The recordbreaking U.S. trade deficit was largely attributable to an accelerated influx of foreign goods to the U.S. market; the volume of imports increased by 13.5 percent in 1986 compared with 5.3 percent in 1985.¹

The value of U.S. exports edged up by only 2 percent in 1986, whereas West German and Japanese exports rose sharply (by 32 percent and 19 percent, respectively). As a result, for the first time since World War II, the United States lost its preeminent position as the world's leading exporter, dropping to second place after West Germany. However, these data were strongly affected by the rapid depreciation of the U.S. dollar. The sharp currency shifts taking place since the fall of 1985 added to the dollar value of Japan's and West Germany's exports and reduced the value of their imports. For the United States, these shifts produced the opposite effect, making exports cheaper and imports costlier. The comparative performance of major trading countries, as described above, is therefore at variance with a trade picture based on volume calculations. In volume terms, the 1986 export performance of the United States compared favorably with West Germany's, and even more favorably with Japan's. According to the GATT, the volume of U.S. exports increased in 1986

¹ U.S. trade volume data are calculated by the Bureau of Economic Analysis, Department of Commerce. The same data are used in GATT statistics.

by 4.1 percent, West Germany's increased by 1.4 percent, and Japan's export volume declined by 1.3 percent.

Price developments that were unrelated to the dollar's slide also shaped 1986 geographic trade patterns. Conditions in the world market for primary products remained depressed during the year: the price of petroleum fell sharply, and the price of nonfuel commodities continued to soften. The shrinking cost of these products played a major role in reducing the import bill of advanced industrial areas such as Japan and the EC. For example, 1986 imports of the EC, as measured in their own accounting unit (ECU), declined by 17 percent. These significantly cheaper imports allowed the EC in 1986 to record their first trade surplus ever.

In contrast, falling oil and mineral prices reduced the value of exports from developing countries, and were a major factor in the swing from a combined trade surplus position of these countries in 1985 to a combined deficit in 1986. The sharp reduction in export earnings also caused the developing countries' share in overall world exports to decline. Notably, the 1986 earnings of developing countries from primary products were so depressed that, for the first time, they were exceeded by revenues generated from manufactured exports. A higher volume of manufactured exports also contributed to the increased value of developing countries' earnings in this sector during the year.

On a global scale, the 1986 growth of world trade in real terms was advanced principally by a 7-percent increase in the volume of mining products exports. In particular, the trade volume of petroleum and derivatives soared in response to the sharp fall in the prices of these products. In contrast, the 3-percent growth of global manufacturing exports marked one of the worst performances in three decades. Sluggish manufactures trade between the industrial countries, and weak demand for manufactured products in the oil-producing countries and in the severely indebted developing countries, contributed to the slowdown in exports of manufactured goods. The volume of global agricultural trade increased by a modest 1 percent in 1986, continuing a pattern of slow growth during the 1980's thus far.

International commitment to resist protectionism was reaffirmed during the year by the GATT Contracting Parties when they launched their eighth round of trade negotiations in September. At this meeting in Punta del Este, Uruguay, GATT trade ministers called for strengthening existing GATT rules and expanding the multilateral trading system to cover major areas currently not under GATT disciplines such as services, intellectual property rights, and investment.

The United States continued to lead efforts in 1986 to curb protectionist policies worldwide

by strengthening the GATT. However, protectionist sentiment continued to mount in the United States itself as the dollar's depreciation failed to bring the expected degree of relief in the country's trade situation. Although the 99th Congress did not pass a comprehensive trade bill, its activities built momentum towards the trade legislation currently under consideration by the 100th Congress.

CHAPTER 1

SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1986

INTRODUCTION

This chapter describes three significant trade developments in 1986: the initiation of the Uruguay Round of trade negotiations, extension of the Multifiber Arrangement (MFA), and progress in negotiation of a U.S.-Canadian free-trade arrangement.

The Uruguay Round of trade negotiations will focus on expanding coverage of the GATT to include new sectors such as services, reducing the impact of nontariff barriers to trade and increasing overall market access for GATT members. During 1986, the United States gave priority to the inclusion of agriculture, services, intellectual property rights, investment measures, and GATT dispute settlement on the negotiating agenda.

In another area of multilateral negotiations, the MFA, which has been in effect since 1974, was extended for another five years through July 1991. The Protocol extending the MFA expands the fiber coverage of the MFA, authorizes extension of unilaterally imposed quotas for a second year, and addresses such issues as import surges and fraudulent country-of-origin practices.

Finally, in June 1986, the United States began formal negotiations on developing a free-trade agreement (FTA) with the Canadian Government under "fast track" negotiating authority from Congress. Plenary negotiating sessions were held to identify specific problem areas and issues. Working groups were established to begin substantive negotiations on specific topics. By year's end, negotiators were gearing up for a year of intensive discussions in order to complete their work before October 3, 1987, the deadline for the President to notify the Congress of his intention to enter into an agreement and to provide detailed information on the proposed agreement.

LAUNCHING THE URUGUAY ROUND

A meeting of GATT trade ministers held in Punta del Este, Uruguay, on September 15-20, 1986, led to the launching of the Uruguay Round of Multilateral Trade Negotiations (MTN). Following the session, United States Trade Representative Clayton Yeutter reported that "we achieved what many thought was impossible—an international commitment to resist protectionism, strengthen existing rules, and expand the multilateral trading system to cover major areas currently not under effective GATT disciplines."¹

¹ Testimony of Ambassador Clayton Yeutter before the House Ways and Means Committee on Sept. 25, 1986.

The resulting Ministerial Declaration contained a standstill and rollback commitment to curb protectionist actions pending completion of negotiations.² It scheduled 4 years of negotiations in which participants are expected to consider proposals to improve the GATT rules, notably those covering agriculture, safeguards, dispute settlement, and nontariff measures (NTM'S). New areas of negotiation on services, intellectual property rights, and investment were also included.³ For the United States and its trading partners, the new round may help ease trade frictions in view of a GATT Secretariat warning that "continuation of the large current account deficit in the United States could trigger a tit-for-tat escalation of protection, leading to a shrinking of markets worldwide."⁴

The decision to launch the new trade round followed months of discussions in a Preparatory Committee established by the GATT contracting parties in November 1985. In its annual report on international trade, the GATT noted that "while unusually large trade imbalances in the world's three leading trading nations and frequent and large movements in exchange rates clearly have added to protectionist pressures, the reluctance of groups of producers to adjust to changes in comparative advantage remains the primary challenge to the trading system." In the perspective of the GATT Ministerial Session in Punta del Este," the report continued, "governments need to demonstrate the same capacity for major policy changes in the area of trade as they have in other areas when the costs of inappropriate economic policies became too high."⁵

Background

The GATT Preparatory Committee began meeting in January 1986 to solicit proposals for the negotiating agenda and prepare a draft Ministerial Declaration. By June 1986, the date by which the Committee was to have completed a draft Ministerial Declaration text, several issues were still unresolved, including the issue of whether services would be on the agenda. As a result, resolution of the final issues was left to the ministers who were faced with three different draft texts for a Ministerial Declaration. The final text, which was closest to what had been

² Standstill can be defined as an undertaking by governments not to introduce new restrictive, or trade distortive, measures that are inconsistent with the General Agreement. Rollback refers to a phaseout or gradual elimination of existing inconsistent GATT measures or their transformation to eliminate the inconsistency. See GATT Ministerial Session—Background Notes, GATT Press Release No. 1395, Sept. 10, 1986, pp. 2-3.

³ See full text of the Ministerial Declaration in App. A.

⁴ GATT, *International Trade in 1986 and Current Prospects*, First Assessment by the GATT Secretariat, Geneva, March 1987, p. 25.

⁵ GATT, *International Trade 1985-86*, Geneva, August 1986, p. 11.

labeled the "Group of 48 draft," resulted from a compromise effort led by a coalition of developed and developing countries.¹

The Uruguay Round is the eighth round of negotiations conducted under GATT auspices. Previous trade rounds held since the GATT's inception were as follows:

	Year
Geneva negotiations	1947
Annece negotiations	1949
Torquay negotiations	1950-1951
Geneva negotiations	1955-1956
Dillon Round	1959-1962
Kennedy Round	1963-1967
Tokyo Round	1973-1979

Twenty-three countries were among the original Contracting Parties to the GATT that participated in the first round of tariff cutting exercises, the Geneva Round, in 1947. In that round, 45,000 tariff concessions were exchanged, representing cuts in tariffs on about one-half of world trade volume at the time.² For the United States, the duties were reduced overall by an average of about 21 percent during this round.³ The next three rounds were relatively low key. During the Annece (1949) and Torquay (1950) Rounds, the GATT was heavily involved with the accession negotiations for 16 new countries to join the General Agreement. The 1955-56 Geneva negotiations occurred at a time when much attention and resources were directed toward the formation of the European Community (EC). After the EC was established in 1957, the Dillon Round launched large-scale tariff negotiations related to the EC's new common customs tariff (under art. XXIV:6 on customs unions and free-trade areas). Concurrently, other GATT members held a modest round of tariff negotiations that yielded about 4,400 tariff concessions.⁴

Beginning with the Kennedy Round (1963-67), trade rounds began to adopt a broader scope in terms of both tariff and nontariff coverage. In the Kennedy Round, new across-the-board tariff negotiating methods were adopted that resulted in average tariff cuts of

35 percent for industrial products staged over 5 years. In addition, negotiations addressed major NTM's for the first time, resulting in the first antidumping code, and an agreement which was not subsequently implemented to modify U.S. customs valuation rules. Although trade in agriculture was given particular attention, cuts in tariffs on agricultural products were not substantial. A focus on trade problems of developing countries resulted in formal recognition of a preferential mechanism in favor of the developing countries and faster implementation of concessions on products of interest to them.

In the Tokyo Round, the scope of negotiations broadened still further. Tariff cuts covered trade valued at US\$300 billion, reducing the duties of industrialized countries to a weighted-average value of about 4.7 percent, compared with about 35 percent prior to GATT establishment.⁵ Not only were new codes concluded covering nontariff measures, but codes were framed to cover trade in the meat, dairy, and aircraft sectors. Using a tariff cutting formula, the biggest cuts were generally applied to the highest duties resulting in a rough harmonization of industrialized countries' tariff rates.⁶

The trend toward expanded coverage remains an element of trade negotiations in the Uruguay Round, with the inclusion of new areas such as services, intellectual property rights, and investment. As of December 31, 1986, the GATT had 92 members whose total merchandise trade accounted for nearly 85 percent of world trade in 1984.⁷ In 1984, U.S. tariff rates were at an average overall level of 3.7 percent, including duty-free imports. However, duties on some products, particularly textiles and wearing apparel, remained much higher. With tariffs of industrial countries at such low levels, an across-the-board tariff cutting formula may not be found to be useful. Emphasis may instead fall on increasing market access generally and on certain sectors such as agriculture, in particular, and on reducing the impact of nontariff barriers to trade.

U.S. Negotiating Priorities

As part of its international economic strategy, the United States has pushed for a new round since the conclusion of the 1982 Ministerial meeting. Although the United States is concerned about a broad range of topics covered in the Uruguay Round, in public statements and in negotiations leading up to the round, U.S. officials have emphasized five main areas of nego-

¹ The draft text (GATT document W-47/Rev. #2) was formulated by the Group of 48 which included the United States, the 12 EC countries, Japan, Australia, Austria, Canada, Switzerland, New Zealand, the 4 Nordic countries, the 5 Association of Southeast Asian Nations (ASEAN) countries, Bangladesh, Chile, Colombia, Cyprus, Ghana, Hong Kong, Jamaica, Korea, Mexico, Pakistan, Romania, Sri Lanka, Turkey, Uruguay, Zaire, Hungary, Poland, Kuwait, Senegal, and Trinidad and Tobago. See Yu, Diane C. and Blum, Charles H., "The New GATT Round Preliminary Developments, and Future Plans: A Report from the Administration," in *U.S. Trade Law and Policy*, Commercial Law and Practice Course Handbook Series, No. 408, Practising Law Institute: 1987, p. 412.

² *GATT Focus*, March 1987.

³ Phillippe Lavergne Real, *The Political Economy of U.S. Tariffs*, Ph.D. thesis, University of Toronto, 1981.

⁴ *GATT Focus*, March 1987.

⁵ *Ibid.*

⁶ See Alan Deardorff and Robert Stern, "The Effects of the Tokyo Round on the Structure of Protection," in Robert Baldwin and Anne Krueger, eds., *The Structure and Evolution of Recent U.S. Trade Policy*, University of Chicago Press, 1984, pp. 370-375.

⁷ GATT, *International Trade 1985-86*, Geneva, August¹ 1986, pp. 161-162.

tiating priority. These areas include agriculture, services, intellectual property rights, investment measures, and GATT dispute settlement.¹ In Congressional testimony prior to the September Ministerial session, Ambassador Yeutter stated that the U.S. "stake in a strong and open trading system . . . is real and actual," and emphasized the importance of the U.S. priority issues to the private sector.²

Reasons behind the focus on these issues reflect important U.S. economic and trade trends. In his May testimony, Yeutter noted, for example, that the United States is still the largest exporter of agricultural products with agriculture accounting for 17 percent of U.S. exports. This factor made it imperative, he said, "that we bring agriculture under effective trading rules and disciplines, by eliminating import restrictions on agricultural products, treating agricultural export subsidies no differently than subsidies for industrial products, and eliminating other barriers to market access."³ In services trade, Yeutter indicated that the sector accounts for about \$60 billion in U.S. exports. He said that the United States needs "to act now to develop meaningful rules to discipline government actions that restrict or distort the movement of services internationally—before protectionism in this sector curtails our access to foreign markets."⁴ Intellectual property rights emerged as an issue because the U.S. private sector has become increasingly concerned about international piracy in recent years, particularly in industries such as computer software and pharmaceuticals.⁵ Investment policies have also caused concern because of their tendency to distort trading patterns.

The United States expended considerable efforts on the five priority issues⁶ that dominated highly contentious debate throughout the year. Reaching agreement on agriculture called for hard bargaining with EC negotiators, who resisted U.S. pressure in response to "powerful farm blocs, particularly in France, and the Community's extensive export subsidy policies."⁷ U.S.

and "hardline" developing country delegates battled over the inclusion of "new issues"—services, intellectual property rights, and investment—on the agenda.⁸ Services' inclusion was most strenuously opposed by the Brazilians and Indians who saw disadvantages to opening up trade in a sector in which the United States had a distinct lead.⁹

Investment was the most strongly opposed of any of the U.S. agenda items. Developing country reservations stemmed from their "fear that expanding investment disciplines would interfere with their national economic development priorities" and relinquish national sovereignty.¹⁰ Compromises were finally struck on the new issues that enabled the major parties to conclude that their concerns were addressed.

Setting the Agenda

Structure of the negotiations

The Ministerial Declaration established a Trade Negotiations Committee (TNC) that began meeting before the end of 1986 to initiate its task of coordinating negotiating activities. The TNC, chaired by GATT Director General Arthur Dunkel, is responsible for oversight of every aspect of the negotiations. Also formed were a Group of Negotiations on Goods (GNG), chaired by Director General Dunkel, and a Group of Negotiations on Services (GNS), chaired by Ambassador Felipe Jaramilla of Colombia. Both groups will report to the TNC. By the end of January 1987, the TNC adopted decisions concerning the standstill and rollback commitment and the structure of negotiations.

Issue-specific negotiating groups

The GNG also designated the 14 issue-specific negotiating groups in which national delegates will address the various Uruguay Round agenda items. The 14 subgroups are scheduled to begin meetings throughout the spring of 1987.

These negotiating groups that will report to the GNG and their designated chairmen¹¹ are listed on the following page:

¹ See, inter alia, *Economic Report of the President*, January 1987, pp. 141-145, and Address by Ambassador Clayton Yeutter before the U.S. Chamber of Commerce on Sept. 10, 1986, *Department of State Bulletin*, Nov. 1986.

² "U.S. Objectives in the New Round of Multilateral Trade Negotiations," Testimony of Ambassador Clayton Yeutter before the U.S. Senate Committee on Finance, May 14, 1986.

³ *Ibid.*

⁴ *Ibid.*

⁵ *Ibid.*, p. 409-410.

⁶ *Ibid.*, p. 409.

⁷ *Ibid.*, p. 411.

⁸ The "hardline" countries, also known as the "group of 10", consisted of Brazil, India, Nicaragua, Argentina, Cuba, Egypt, Nigeria, Peru, Tanzania, and Yugoslavia.

⁹ Diane C. Yu and Charles H. Blum, "The New GATT Round Preliminary Developments, and Future Plans: A Report from the Administration," in *U.S. Trade Law and Policy*, Commercial Law and Practice Course Handbook Series, No. 408, Practising Law Institute: 1987, p. 412.

¹⁰ *Ibid.*, p. 411.

¹¹ GATT Press Release No. 1406, Feb. 10, 1987

Ambassador Lindsay Duthie (Australia)	Group 1	Tariffs
	Group 2	Nontariff Measures
	Group 3	Natural Resource-Based Products
	Group 4	Textiles and Clothing
Aart de Zeeuw (The Netherlands)	Group 5	Agriculture
Paul L. K. Seong (Malaysia)	Group 6	Tropical Products
Vice Chair: Ambassador Staka Coulibaly (Ivory Coast)		
John M. Weekes (Canada)	Group 7	GATT Articles
Vice Chair: Dr. Chulsu Kim (Korea)	Group 8	MTN Agreements and Arrangements
Ambassador Georges A. Maciel (Brazil)	Group 9	Safeguards
Michael D. Cartland (Hong Kong)	Group 10 ...	Subsidies and Countervailing Measures
Ambassador Lars E.R. Anell (Sweden)	Group 11 ...	Trade-Related Aspects of Intellectual Property Rights and Trade in Counterfeit Goods
Ambassador Tomohiko Kobayashi (Japan)	Group 12 ...	Trade-Related Investment Measures
Ambassador Julio Lacarte-Muro (Uruguay)	Group 13 ...	Dispute Settlement
Vice Chair: Julius Katz (United States)	Group 14 ...	Functioning of the GATT System

Standstill and rollback surveillance mechanism

GATT members viewed the development of protectionism since the end of the 1970's as necessitating the adoption of firm standstill and rollback commitments that would go beyond simple efforts by governments to do their best to avoid introducing or maintaining protectionist measures.¹ Standstill commitments are not as important today in the area of tariffs, because over 90 percent of the tariffs of most industrialized countries are already bound as a result of previous tariff negotiations. During the Uruguay Round, nontariff measures are likely to be the main focus of standstill and rollback commitments.

Less contentious than some other issues, but equally important, the strong standstill and rollback commitment quelled some developing countries' fears that the "moratorium" on protectionist actions would not be taken seriously by developed countries. The commitment calls for members to refrain from taking trade actions inconsistent with the GATT and to phase out existing GATT-inconsistent measures. The standstill, in particular, is also intended "to ensure that, while the negotiations are progressing, no participant will seek to improve its bargaining position by introducing new trade restrictive or distorting measures."²

The TNC has agreed on the means of surveillance to oversee the implementation of this commitment. Under procedures for overseeing the standstill commitment, a Surveillance Body will be formed. Participants may bring actions or measures taken by itself or other members to the attention of this body through notification to the GATT Secretariat. Notifications so addressed to the Surveillance Body will then be circulated to all participants, along with any comments or other factual information received. The Surveillance Body will examine the information and forward a record of its proceedings to the next meeting of

the TNC.³ Procedures on rollback commitments will operate in a similar fashion except that consultations concerning a possible rollback commitment will be undertaken by interested parties and the results reported to the Surveillance Body.⁴

Negotiating topics

Agriculture

The negotiating objectives of the Agriculture Group are to achieve greater liberalization of trade in agriculture through (1) improving market access, (2) improving the competitive environment, and (3) minimizing the adverse trade effects of health and sanitary regulations. According to the negotiating plan adopted in late January, the negotiators will seek initially to identify major problems, drawing upon the work accomplished since 1983 in the Committee on Trade in Agriculture, and gather further information on agricultural measures and policies. Also in the early phase, the group will begin consideration of the basic principles of world agricultural trade and circulate various participants' proposals on how to achieve the negotiating objectives. Ultimately, the group plans to negotiate on the wording of substantive GATT rules intended to strengthen agricultural coverage, decide on multilateral commitments to be undertaken, and exchange concessions, as appropriate.⁵

Services

The objectives of the GNS are to expand and liberalize services trade by establishing a multilateral framework of principles and rules and elaborating possible disciplines for individual service sectors. Only the initial phases of services negotiations were hammered out in the January 1987 meetings. This phase will consist of discussing a list of elements, which includes definitional and

¹ GATT Ministerial Session—Background Notes, GATT Press Release No. 1395, Sept. 10, 1986, pp. 2-3.

² Speech delivered by GATT Director General Arthur Dunkel before the International Chamber of Commerce in New Delhi, GATT Press Release No. 1407, Feb. 11, 1987, p. 4.

³ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 4.

⁴ *Ibid.*

⁵ See ch. 4 section on the EC for a discussion of U.S./EC views on agricultural issues in the Uruguay Round. 1-4

statistical issues, broad concepts, existing arrangements, and current practices that are perceived as barriers.¹

Intellectual property rights

The objective of negotiations on intellectual property rights is to promote effective and adequate protection and to ensure that such protection is not implemented in ways that may obstruct legitimate trade. Negotiators will work toward developing a framework of principles, rules, and disciplines covering trade in counterfeit goods.² In the initial negotiating phase, GATT provisions with possible application to intellectual property rights will be identified. At the same time, prior GATT work on trade in counterfeit goods will be reviewed and other factual information will be submitted.³ Following the review of information and suggestions, specific texts will be drafted and tabled by participants, and negotiations on the texts will begin.

Investment

Of the various investment-related issues originally suggested by the United States for inclusion in the Uruguay Round, the resulting topic for negotiation focuses on trade-related investment measures (TRIM's). The group will examine GATT articles that could apply to trade restrictive and distorting effects of investment measures and the means to avoid adverse effects on trade.⁴ In the first stages, negotiations will identify relevant GATT articles and define areas of negotiation. Subsequently, the group will negotiate on proposals tabled by participants.⁵

Dispute settlement

Negotiations on dispute settlement will aim to "ensure prompt and effective resolution of disputes . . . to improve and strengthen the rules and procedures of the dispute settlement process."⁶ In the initial phase of negotiations, participants in this group will review submissions that analyze the functioning of the dispute settlement process and factual background papers by the Secretariat. Specific proposals for improvement will be tabled, and negotiation on the proposals will ensue. In

¹ For a lengthy discussion of GATT and other multilateral developments in the areas of services trade see ch. 3. "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 25.

² A code on counterfeit goods, along with one on safeguards, was one of the "unfinished" codes of the Tokyo Round. See *Operation of the Trade Agreements Program, 31st Report, 1979*, USITC Publication 1121, June 1980, pp. 56.

³ The GATT Group of Experts on Trade in Counterfeit Goods issued a report (GATT Document No. L/5878) that will be reviewed by the group.

⁴ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 22.

⁵ *Ibid.*

⁶ *Ibid.*, p. 20.

view of recent difficulties regarding compliance with adopted findings of GATT dispute settlement panels,⁷ it is notable that the negotiations also aim to develop a mechanism for overseeing and monitoring compliance with adopted recommendations.⁸

Tariff concessions

Although taking second place to nontariff concerns for the first time in the history of the GATT, tariff reductions will nevertheless remain an important aspect of negotiations. Tariff-cutting exercises, traditionally featured in trade rounds, have substantially reduced tariff levels over the last 40 years. Tariff negotiations entail binding commitments not to impose tariffs above an agreed level on specific products. At times, an across-the-board, tariff-cutting formula was used, with general rules for departures from the formula.

The agreed negotiating objectives for tariffs call for the reduction or elimination of tariffs. In the initial phase, participants will submit proposals on possible tariff-cutting approaches. The necessary statistics and information including tariff study files and the Harmonized System data bank will be put in order for use in negotiations. Subsequently, the bilateral phase of negotiations on individual tariffs will begin.⁹

Nontariff measures

As tariff levels have fallen, governments have recognized the impact on trade of nontariff measures. A look at the issues included in the Ministerial Declaration shows that the Uruguay Round will focus more than previous rounds on reducing and regulating the use of NTM's. In negotiations on nontariff barriers, the central aim, like that in tariff negotiations, is to liberalize global market access.

To meet the objectives of the reduction and elimination of NTM's, negotiations will first focus on examining the issues and completing the data base.¹⁰ Participants in the Nontariff Measures Group will submit proposals on barriers they want addressed and possible negotiating techniques that could apply. Following this phase, negotiators are scheduled to table detailed requests for bilateral or plurilateral negotiations on specific measures.¹¹ This facet could consist of tradeoffs

⁷ For background, see *Review of the Effectiveness of Dispute Settlement Under the GATT and Tokyo Round Agreements*, USITC Publication 1793, December 1985.

⁸ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 20.

⁹ *Ibid.*, p. 9.

¹⁰ See section in ch. 2 on Quantitative Restrictions and Nontariff Measures for information on the data base thus far developed by that group.

¹¹ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 10.

to eliminate and reduce nontariff barriers modeled after the concession swapping associated with tariff negotiations.

Other negotiation topics

One of the key concerns of trade policymakers in the 1980's has been that trade liberalization and GATT rules have not benefited all sectors equally. Such sectors as tropical products, natural resources, and textiles are important in this regard. Developing countries showed particular concern about the adequacy of GATT rules with respect to trade in tropical products. Developing as well as developed countries (such as Canada) complained of GATT inattention to problems of trade in natural resources. In addition, developing countries insisted on including textiles and clothing negotiations because of their concern that these have been too long removed from direct GATT coverage by the MFA.¹

Other rulemaking activities on the new round agenda include subsidies (closely linked to agriculture issues) and safeguards, as well as other articles of the GATT such as those covering state trading or balance of payments restrictions. GATT rules also will be examined with an eye to the strengthening of the GATT as an institution in order to enhance its international credibility.

Tropical products.—Negotiations on tropical products were included on the negotiating agenda in recognition of the importance of trade in this sector to developing countries. Negotiators in this group will first compile background material and propose techniques for negotiations. After this phase, tropical products negotiations are slated for "fast track" treatment as early as possible in 1988.²

Natural resource-based products.—Tariffs, NTM's, and tariff escalation affecting trade in processed and semiprocessed natural resource products will be the focus of these negotiations. Negotiators will first review the work undertaken since the 1982 Ministerial session by the Working Party on Natural Resources with a view to developing the factual basis and techniques to be used.³ Later, requests and offers will be tabled.⁴

Textiles and clothing.—Textiles and clothing negotiations are intended to develop a means to eventually integrate this sector into the GATT. Initially, the work of various GATT groups responsible for covering these issues will be

reviewed, and existing documentation will be updated. Later, techniques for integrating the sector more fully into the GATT regime will be examined.⁵

GATT articles.—In addition, the rules themselves are targeted for improvement. Members hope that strengthening the rules will help close the loopholes and stem the evasion of rules that has troubled trade relations. Work of other negotiating groups covers issues relevant to numerous articles of the GATT. For this negotiating group, certain articles have been singled out for particular attention to improving their effectiveness and observance. Among such articles are XVII on state trading enterprises, XXIV on customs unions and free-trade areas, and XXVIII on procedures to use in modifying or withdrawing concessions.

Negotiations will begin with the preparation of factual background papers by the GATT Secretariat on various articles and their application. After these are reviewed, negotiators plan to submit proposed texts for improving the operation of the articles.⁶

*Safeguards.*⁷—Negotiations on safeguards will be conducted with the intent of arriving at a comprehensive agreement. Similar efforts during the Tokyo Round and as part of the 1982 Ministerial work program were unsuccessful in this regard.⁸ Negotiators reportedly envision an agreement that will reinforce the disciplines of the General Agreement and elaborate on, among other things, transparency, criteria for action such as serious injury, digressivity,⁹ structural adjustment, compensation and retaliation, and means for notification, consultation, surveillance, and dispute settlement. These basic elements have been the focus of safeguards discussions in the past.¹⁰

Participants in the safeguards group plan first to circulate papers on the various elements and review previous GATT efforts on safeguards. Participants will then draw up a draft text and proceed to negotiate on the text "as expeditiously as possible."¹¹

MTN agreements and arrangements.—One aspect of negotiations will hinge upon improving

¹ For information on the operation of the MFA, see chs. I and IV.

² "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 11.

³ For information on the Working Party on Natural Resources, see ch. 2.

⁴ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 12.

⁵ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 13.

⁶ *Ibid.*, p. 16.

⁷ Safeguards are emergency actions by governments, sometimes covered by GATT art. XIX, to temporarily restrain imports to protect domestic industries from an influx of imports and give them time to adjust to competition. See testimony of Ambassador Clayton Yeutter before the House Ways and Means Committee on Sept. 25, 1986.

⁸ See *Operation of the Trade Agreements Program, 31st Report, 1979*, p. 54, and *34th Report, 1982*, p. 17.

⁹ Digressivity refers to the principle that safeguards measures should be enacted so as to be progressively reduced over time.

¹⁰ See *Operation of the Trade Agreements Program, 31st Report, 1979*, p. 54, and *34th Report, 1982*, p. 17.

¹¹ "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 17.

the operation of the codes negotiated during the Tokyo Round. Some of the codes cover NTM's such as antidumping, subsidies and countervailing duties (CVD's), standards, government procurement, customs valuation, and import licensing. Three other agreements cover sector trade in bovine meat, dairy products, and civil aircraft.¹

The negotiators will start by suggesting improvements to the MTN agreements and reviewing background papers prepared by the Secretariat. Negotiations on specific texts will follow.²

Subsidies and countervailing measures.—Distinct from the group on MTN agreements and arrangements, this group will examine the subsidies-related provisions of the General Agreement as well as the MTN code on subsidies and countervailing measures in order to improve all GATT rules and disciplines relating to the measures. The group's negotiators will submit proposals and examine these proposals together with other background papers and documentation. Drafting proposals will then be tabled and negotiated.³

Functioning of the GATT System.—The objective of this negotiating group is to improve institutional features of the GATT such as (1) surveillance and monitoring of trade policies and practices, (2) the effectiveness of its decisionmaking, and (3) its relationship with other international organizations responsible for monetary and financial affairs. The group plans to develop texts of understandings or other arrangements relating to these aspects of the functioning of the GATT system.⁴

Uruguay Round Prospects

The Uruguay Round negotiations were scheduled for completion in 4 years by the Ministers in Punta del Este. However, the Tokyo Round, with its work on a number of new non-tariff barrier and sectoral codes, took 6 years to complete. Reportedly, U.S. proposals for "fast tracking" certain issues have not been well received by other GATT members who fear their own priority issues may then be relegated to lesser status. Further, many of the issues to be covered have presented serious obstacles to negotiators in recent years and in previous rounds. One example is agriculture, which remained a distant second to negotiations on industrial products in previous rounds. A dramatic shift in political

will and climate may be required to alter existing national agricultural policies. Safeguards is another example. Talks of negotiations on a safeguards code have continued intermittently since the Tokyo Round, yet significant disagreement still remains on a number of fundamental concepts.⁵ Finally, although services are included on the roster of Uruguay Round agenda items, it was relegated to a separate section (part II) of the Ministerial Declaration, indicative of a compromise that may conceal the fact that services are not yet fully accepted by all members as an appropriate or integral area of GATT negotiations. Discussion of services was until recently considered a distinct, extra GATT exercise.⁶

Nevertheless, the initial procedural questions have been ironed out and the negotiating groups have set what is considered to be an ambitious schedule of meetings in the first half of 1987 to begin fine tuning negotiating procedures and deciding among various specific negotiating proposals.

EXTENSION OF THE MULTIFIBER ARRANGEMENT

On July 31, 1986, negotiators from most major textile-importing and textile-exporting countries agreed to a protocol extending the Arrangement Regarding International Trade in Textiles, known as the MFA. Established under the aegis of the GATT, the MFA is a compact that provides the framework for the negotiation of bilateral agreements between importing and exporting countries, or for the unilateral action by importing countries in the absence of an agreement, to control textile and apparel trade among its signatories. Specifically, it allows the signatories to establish quantitative limits on textile and apparel imports to prevent market disruption in the importing country—restrictions that would otherwise be a departure from GATT provisions. All the principal importing and exporting countries except Taiwan are MFA signatories.

⁵ Despite universal agreement on the need for a safeguards code, wide disagreement persists over whether or not safeguard measures should be applied selectively and whether or not grey area measures, such as voluntary export restraints, should be covered by the proposed safeguards code. Although discussions continued in 1985, the Contracting Parties only incrementally narrowed their differences on most of these central issues.

⁶ The 1982 Ministerial Declaration called for a review of services trade to be conducted outside official GATT channels in which interested contracting parties would informally exchange examinations of problems in various service sectors. The United States and at least 12 of its major trading partners participated in the exercise. By the end of 1984, the Contracting Parties had agreed to discuss these issues more formally under GATT auspices and to draw upon the GATT Secretariat for assistance. The first formal exchange of information on services took place in February 1985.

¹ For details on activities of the Tokyo Round codes, see ch. 2.

² "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 18.

³ *Ibid.*, p. 19.

⁴ *Ibid.*, p. 23.

The protocol of extension, called MFA IV, expands the fiber coverage of textiles and apparel to include not only cotton, wool, and manmade fibers but also previously uncontrolled silk blends and vegetable fibers. However, it excludes from quota historically traded textiles such as bags, sacks, luggage, carpetbacking, mats, and carpets of fibers such as jute, coir, sisal, abaca, maguey, and henequen. The Protocol also authorizes extension of unilaterally imposed quotas for a second year, provides for cutbacks in highly underused quotas and their subsequent reinstatement if needed, and establishes a mechanism for charging illegally transshipped merchandise to quotas of the true country of origin.

Origin of the MFA¹

World trade in textiles and apparel has been subject to some form of government control since the 1950's,² when the growth in U.S. imports of cotton textiles, especially from Japan, generated pressure in the United States for import restraints. Under the then newly enacted Agricultural Act of 1956, the President was authorized, under section 204,³ to negotiate agreements with foreign governments to limit their exports of agricultural or textile products to the United States. Pursuant to this authority, the United States negotiated a 5-year voluntary restraint agreement (VRA) on cotton textile exports from Japan for the period 1957-61.

However, cotton textile imports from other countries increased rapidly,⁴ with the result that the United States began to seek a more comprehensive approach to controlling textile and apparel imports. In May 1961, the President announced an assistance program for the textile industry that included calling for a conference of the principal textile-importing and textile-exporting countries to develop an international agreement governing textile trade. In July 1961, a textile conference was held under GATT auspices that culminated on July 21, 1961, with the drafting of the Arrangement Regarding International Trade in Cotton Textiles. The Arrangement consisted of the following three major sections: a statement of principles and objectives recognizing the need for cooperative action to facilitate expansion of world trade without causing disruption of individual markets; a "short-term arrangement" for the period October 1, 1961-Septem-

ber 30, 1962, which established circumstances and rules for restricting trade in cotton textiles; and creation of a Provisional Cotton Textile Committee to consider ". . . a long-term solution to the problems in the field of cotton textiles . . ." The Arrangement was accepted by 16 countries⁵ that accounted for over 90 percent of the free world's trade in cotton textiles.

The Long-Term Arrangement Regarding International Trade in Cotton Textiles was concluded in February 1962, and set out the framework within which participating countries could regulate trade in cotton textiles. This agreement was initially in force for 5 years, but was extended twice—in 1967 and 1970—and by 1973 had 82 signatories.

During the 1960's, the use of manmade fibers in textiles increased rapidly, and importing countries felt the need to control imports of textiles and apparel of manmade fibers in addition to those of cotton. Recognizing the need for special attention to be paid to the difficulties arising out of international trade in textiles, the GATT Council, in June 1972, set up a working party on textiles to conduct a factfinding study of the economic, technical, social, and commercial elements that influence world trade in textiles. In April 1973, the Council instructed the working party to identify and examine the problems that exist in international trade in textiles and to seek multilateral solutions to these problems. A progress report submitted in June 1973 to the Council served as the basis for the drafting of what is now the MFA.

The MFA, which entered into force in January 1974, covered trade in most textile products manufactured from cotton, wool, and manmade fibers. Article 1 provides the basic objectives of the MFA which are as follows:

to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production on both importing and exporting countries. In the case of those countries having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production, account should be taken of the avoidance of damage to those countries' minimum viable production of textiles.

¹ A more detailed history of the MFA and the textile trade agreements which preceded it may be found in *The History and Current Status of the Multifiber Arrangement*, USITC Publication 850, January 1978.

² Prior to 1941, U.S. and Japanese textile producers entered into interindustry agreements that limited exports of some Japanese textile products to the United States.

³ Public Law 84-540, approved May 28, 1956, 70 State. 200, as amended by Public Law 87-488, approved June 19, 1962, 76 State. 104, 7 U.S.C. 1854.

⁴ U.S. cotton textile imports increased from 492 million square yards in 1958 to 1.1 billion in 1960.

⁵ These countries were Australia, Austria, Canada, India, Japan, Pakistan, Portugal, Spain, Sweden, the United Kingdom (also representing Hong Kong), the United States, and at that time five members of the 1-8 EC—Belgium, France, Germany, Italy, and the Netherlands.

In addition, a principal aim of the MFA is "to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade in these products."

The MFA was considered to represent a compromise between the interests of the developed importing countries and the developing exporting countries. It enabled the importing countries to apply selective restraints on particular textile products from particular sources, under certain prescribed circumstances. The exporting countries, although generally opposing impediments to free trade, accepted the MFA, at least in part, because it appeared to provide assurance of access to the developed countries' markets and to reduce the likelihood of other, less predictable, forms of trade restrictions.

The MFA, an Exception to the GATT

The MFA is an exception to the MFN principles of the GATT in that it permits import restrictions on other than an MFN basis. Under GATT rules, the United States, or any other signatory country, is required to provide no less favorable treatment to any one contracting party than it does to all other contracting parties and restore the balance of concessions if import restrictions are imposed. GATT rules also require a product-by-product determination that imports were a cause of serious injury, or the threat thereof, to the domestic market before import restraints can be imposed.

The MFA, however, allows importing countries to limit imports without having to compensate their trading partners affected by the restraints. Restraints on imports may be established through negotiation of bilateral agreements under article 4 or through "calls" or requests for consultations to set limits in cases of market disruption, whether or not a bilateral agreement exists, under article 3. If agreement is not reached following article 3 consultations, a unilateral limit can be imposed without compensation. Limits may apply to one or a small number of suppliers, rather than to all suppliers as required by the nondiscrimination principle of the GATT.

Structure of the MFA

The MFA set the terms under which countries can establish controls on international trade in textiles and apparel, primarily through the negotiation of bilateral agreements between importing and exporting countries. Articles 2, 3, and 4 are particularly significant, as they address trade restrictions. Article 2 deals with phasing out of pre-MFA restrictions. Article 3 covers situations of actual market disruption by imports from coun-

tries either not covered by existing bilateral agreements or not covered by consultation clauses under an existing bilateral agreement and provides that if a mutually agreeable solution is not found, unilateral restraints may be imposed. Article 4 addresses the circumstances and provisions necessary for the establishment of bilateral agreements. Under article 4, only bilateral agreements are recognized under the MFA, and unilateral restraints based on the risk of market disruption would fall outside of the scope of the MFA.

In an effort to ensure fair treatment to the exporting countries, annex B of the MFA provides criteria for year-to-year quota growth as well as percentage standards for flexibility, i.e., shifting quota from one year to another and for increasing the quota for individual categories within a group of several categories provided that the aggregate limit for the group is not exceeded. In practice, however, annex B standards are not always adhered to when the category in question is considered sensitive by the importing country. When the MFA was renewed in 1977 and 1981, the developed countries negotiated the authority to depart from the provisions of annex B and subsequently entered into some bilateral agreements, particularly with major suppliers, which provided for reduced growth and/or flexibility for certain products and in certain instances precluded all use of flexibility for import-sensitive categories.

The MFA also created the Textile Surveillance Body (TSB) to supervise the functioning of the Arrangement. The TSB is composed of a chairman and eight members chosen from countries nominated by the GATT Textiles Committee and appointed by the parties to the Arrangement. The TSB receives notification of all actions taken and agreements concluded under the MFA, examines them for conformity with the MFA, discusses those in dispute with the principals concerned, and offers, when appropriate, non-binding recommendations to the governments involved. It reports at least annually to the GATT Textiles Committee.

MFA I was in effect during 1974-77, and MFA II spanned the period 1978-81. During MFA III, 1982-July 1986, trends of reduced employment and increased import penetration in the United States continued. U.S. textile and apparel employment declined from 1.9 million employees in 1982 to 1.8 million in 1985. Mill consumption of fibers increased by 18 percent from 9.4 billion pounds in 1982 to 11.1 billion pounds in 1985. During the period, however, import penetration increased significantly from 16.4 percent in 1982 to 23.4 percent in 1985. U.S. imports of cotton, wool, and manmade-fiber textiles and apparel, those products then covered by the MFA, increased from 5.9 billion square yard equivalents

(SYE)¹ in 1982 to 10.6 billion SYE in 1985, or by 80 percent. Imports from countries with which the United States had bilateral agreements increased by 67 percent, from 5.0 billion SYE in 1982 to 8.3 billion SYE in 1985. Apparel imports increased by 47 percent during the period from 3.4 billion SYE to 5.0 billion SYE; fabric imports increased by 63 percent to 2.4 billion SYE; yarn imports increased by 152 percent to 1.3 billion SYE; and imports of miscellaneous textile products increased by 219 percent to 1.8 billion SYE.

1985-86 Developments in MFA Negotiations

On July 23, 1985, talks concerning renewal of the MFA formally began in Geneva. These negotiations continued for slightly more than a year and culminated on July 31, 1986, with the signing of a protocol of extension, continuing the MFA for an additional 5 years, or through July 1991. At the start of negotiations, none of the major participants had submitted official proposals but their views regarding renewal were generally known.

Negotiating positions

A group of 21 developing exporting countries had held a workshop in Mexico City during April 1985, at the end of which they issued a joint communique.² In the communique, they called for a return to "full application of GATT provisions, with a movement towards trade liberalization." Points specifically addressed included application of unconditional MFN treatment and of the principle of comparative advantage; prohibition of quantitative restrictions, including voluntary export restraints; and differential and more favorable treatment for developing countries. However, many, particularly the smaller, exporting countries recognized that the MFA provided a certain order and stability to textile and apparel trade. Without the structure of the MFA, the dominant, long-established suppliers would have a definite advantage over new, smaller suppliers, which in fact benefit from certain clauses of the MFA that guarantee them access to importing countries' markets.

In the United States, the Textile and Apparel Trade Enforcement Act of 1985 was introduced in Congress in May 1985. This bill, which initially had 290 cosponsors in the House and 52 in the Senate, called for strict limits on textile trade and would have resulted in reductions in import levels from the major suppliers. The President vetoed the bill in December 1985; however, he

stated that he was directing the United States Trade Representative to "most aggressively renegotiate the MFA on terms no less favorable than present." The threat of an override of the President's veto by Congress helped strengthen the U.S. position in the MFA negotiations. The EC was concerned the bill's enactment could result in diversion of shipments from the affected exporting countries to its market.³ The developing countries, particularly major suppliers to the U.S. market, did not want stricter limits or cut-backs affecting their shipments to the United States. All countries were faced with the prospect that enactment of the bill could cause a total breakdown of the MFA.

The European Commission had expressed its belief that the EC should aim at liberalizing trade in textiles and apparel. As negotiations began, the EC also stated its belief that moves toward liberalization should be made within the framework of the MFA.⁴ The EC, with support from the United States, expressed concern that the importance of promoting growth in exports from small suppliers and new entrants be addressed in MFA IV and, as a result, MFA IV allows restrictions on imports from least developed countries to be "significantly more favorable" than those applied to other sources. Both the EC and the United States wanted more explicit provisions for dealing with circumvention of the MFA through transshipment and fraud.

The Canadian Textile Institute had urged its Government to support renewal of the MFA past July 1986 and to include coverage of such fibers as silk, ramie, and linen.⁵

July 31, 1986, extension of the MFA

On July 31, 1986, after over a year of intensive negotiations, the parties to the MFA agreed to a protocol extending the MFA for a period of 5 years or until July 31, 1991. An integral part of the protocol was the Conclusions of the Textiles Committee, which establishes guidelines for certain procedures and policies to be followed by participants in regulating their trade in textiles and apparel. The provisions of these conclusions form the basis of MFA IV and differentiate it from the initial MFA and the two previous protocols of extension.

The participants stressed the importance of liberalizing trade in textiles and apparel and that the final objective is the application of GATT rules to textile and apparel trade.⁶ However, this issue is not more specifically addressed; neither a timeframe for a phaseout is mentioned, nor is an extension of the MFA beyond July 1991 precluded. The participants agreed to give full and

¹ Square yard equivalents (SYE's) is the standard unit of measurement for all textiles and apparel products and is used in the administration of the U.S. textile trade agreements program. In this system, 1 dozen woven shirts equals 24 SYE, 1 pound of cotton yarn converts to 4.6 SYE, and so forth.

² *Textile Asia*, August 1985, p. 22.

³ *Ibid.*, p. 26.

⁴ *Ibid.*

⁵ *Ibid.*, p. 22.

⁶ "Protocol Extending the Arrangement Regarding International Trade in Textiles," 31 July 1986.

due consideration to all factors related to market disruption or the threat thereof in requests for action under article 3 of the MFA.

The Committee confirmed that participants could agree to any mutually acceptable solution to the growth and flexibility provisions of the MFA, but that in no case should such growth and flexibility be negative. They reaffirmed their commitment to article 6 of the MFA concerning restraints on exports of new entrants and small suppliers and they established guidelines in this regard permitting restrictions on imports from least developed countries to be "significantly more favorable" than restraints on imports from other sources. They also agreed to give special regard to the needs of those wool-producing developing countries whose economy and textile and apparel trade are highly dependent on the wool sector.¹

An antifraud provision was adopted to address the concerns of the EC and the United States relating to false declarations of country of origin and of quantity and type of products. Under this provision, participants agreed that adjustments in charges to quotas as a result of circumvention involving false country of origin under Article 8 would be decided through consultations between the countries concerned, that the exporting countries must cooperate and exchange available information and documentation, and that the inability to reach a mutually satisfactory solution would be referred to the TSB. The TSB's powers were expanded to include broader authority to interpret the MFA. Provision also was made to allow for an increase in membership of the TSB.

Largely at the insistence of the United States and Canada, MFA IV provided for invocation of articles 3 and 4 on imports of textiles of the previously uncontrolled vegetable fibers, particularly linen and ramie, and silk blends. The importing country must demonstrate that such imports are directly competitive with domestically produced products of cotton, wool, or manmade fibers and are causing or threatening to cause market disruption. However, the conclusions stipulate that restraints will not be applied to historically traded textile products of jute, coir, sisal, abaca, maguey, and henequen. This expansion of the fibers covered by the MFA was strongly opposed by China and India. China is the world's largest producer of ramie fiber and silk and has significantly increased its exports of ramie and silk products since 1983. India, a leading producer of jute, has been conducting research on methods of processing this fiber to make it more acceptable for use in apparel.

MFA IV permits importing countries that have imposed quotas under article 3 to continue

¹ "Protocol Extending the Arrangement Regarding International Trade in Textiles," 31 July 1986.

such quotas for a second 12-month period and sets forth the criteria for setting the quota amount for this period. As a result of this provision, the second quota amount could be established at a lower amount than it might have been previously.

As with the previous extensions of the MFA, none of the parties achieved all their objectives as concessions were, of necessity, made by all. Mere extension of the MFA was a victory for some and defeat for others. As in previous extensions, the advantages gained by importing countries are greater than those of the exporting countries. The inclusion of products of previously uncontrolled fibers, the addition of an anti-surge provision and the changes in article 3 are major changes benefiting importing countries. Provisions of MFA IV favoring exporting countries, such as the requirement that quotas not be reduced and preferential treatment for less developed countries and wool-producing countries, are less far reaching and, to some extent, merely reinforce preexisting provisions of the MFA.

World trade in textiles and apparel

World trade in textiles and apparel,² as reported by the United Nations, increased by 4 percent from 1981 to 1985, from \$82.5 billion to \$85.9 billion.

Shipments from the developing countries increased by 11 percent from \$26.5 billion to \$29.5 billion. Shipments from the "Big Three,"³ after more than tripling during 1973-80, increased by only 10 percent during 1981-85 because they were faced with increasingly tighter restraints on shipments to the major markets of the EC and the United States. Their share of developing-country shipments declined from 62 percent in 1981 to 61 percent in 1985.

Shipments from developed countries declined by 3 percent from \$48.9 billion in 1981 to \$47.6 billion in 1985. U.S. exports declined by \$2.0 billion from \$4.1 billion to \$2.1 billion while exports from other developed countries increased by \$0.7 billion. The decline in U.S. shipments primarily reflected the high value of the dollar during this period, which had the effect of reducing the price competitiveness of U.S.-produced textiles and apparel in the world market. Shipments from the EC member nations followed the global trend, increasing by 4 percent to \$34.3 billion. The U.S. share of world textile and apparel shipments declined from 5 percent in 1981 to 2 percent in 1985, whereas that of the EC members remained at 40 percent.

² Includes trade reported under SITC Division 65, textile yarn, fabrics, made-up articles, n.e.s., and related products, and Division 84, Articles of apparel and clothing accessories.

³ Hong Kong, Korea, and Taiwan are referred to as the "Big Three" in textile and apparel trade.

Shipments from nonmarket economy sources, primarily the People's Republic of China, increased by 16 percent during 1981-85 to \$8.2 billion. China's shipments increased by 41 percent, from \$4.9 billion to \$6.9 billion, and its share of world shipments increased from 6 to 8 percent.

Growth in demand in the United States and Western Europe, the major markets for textiles and apparel, is expected to average between 1 and 5 percent annually over the next few years. The Big Three's shipments to these markets are likely to continue increasing at a slower rate than shipments from other developing countries, because of the small growth in quota levels. The provisions in MFA IV relating to new entrants and small suppliers should encourage the shift from the Big Three to other countries. Most of the growth in shipments from developing countries, as in the past, is expected to occur in the labor-intensive apparel sector.

The weakening of the dollar since 1985 has led to increasing U.S. shipments to the world of textiles and apparel. U.S. trade data indicate that exports of textiles and apparel in 1986 amounted to \$3.5 billion, a 12-percent increase over the comparable figure for 1985. This improvement in U.S. shipments is expected to continue as U.S.-produced textiles and apparel again become competitively priced in world markets and as U.S. apparel producers increase exports of apparel parts to low-wage countries for assembly and importation into the United States under TSUS item 807.00.

During 1986, U.S. imports of textiles and apparel increased by 17 percent over 1985, to a record \$20.8 billion. Imports from China showed the greatest increase, growing by 65 percent, or \$855 million, to \$2.2 billion. Imports from the Big Three increased by \$815 million, or by 10 percent to \$8.9 billion; imports from the Association of Southeast Asian Nations (ASEAN) rose by \$184 million, or by 12 percent, to \$1.7 billion; and those from the Caribbean Basin countries climbed by \$183 million, or by 29 percent, to \$821 million.

UNITED STATES-CANADA FREE-TRADE NEGOTIATIONS

Context of the Negotiations

On September 26, 1985, Prime Minister of Canada Brian Mulroney informed Canada's House of Commons that on that day he had spoken to President Reagan to express Canada's interest in pursuing a new trade agreement between Canada and the United States. He noted that at Quebec City 6 months earlier he and President Reagan had made a declaration on trade in goods and services in which they pledged to explore all

possible ways to reduce and eliminate existing barriers in bilateral trade between the two countries, and had instructed Canada's Minister of International Trade and the United States Trade Representative to report on how trade could be enhanced between the two countries. In support of his decision, the Prime Minister cited the rise in restrictive trade policies and protectionism throughout the world and stated "The answer to this problem lies in sound agreements, legally binding, between trading partners, to secure and remove barriers to their mutual trade." He further stated, "We seek to negotiate the broadest possible package of mutually beneficial reductions in tariff and non-tariff barriers between our two countries."

Prime Minister Mulroney laid before the House of Commons the report¹ of Canada's Minister of International Trade, James Kelleher, who had concluded that the time had come to explore prospects for a new trade agreement and listed among Canada's broad objectives in such negotiations ". . . to secure and enhance our access to the U.S. market by enshrining a better set of rules whereby our trade is conducted," and "to develop a more predictable environment for trade and investment." The report stated that Canadian producers are concerned about their access to the U.S. market and listed these specific barriers which many thought should be reduced:

- the manner in which Canadian companies' access to the U.S. market can be frustrated by the use of trade remedy laws;
- the ease with which imports from Canada are swept up in measures aimed at others;
- the continual threat of unilateral changes in the rules of the game;
- the lack of access to the U.S. procurement market because of "Buy American" provisions at the Federal and State levels;
- the large number of U.S. tariffs that continue to limit access to that market; and
- the inadequacy of current mechanisms to resolve disputes.

These actions by the Government of Canada were the result of an elaborate and extensive reexamination, which began in the early 1980's in Canada, of that country's basic economic interests and trade policy.²

President Reagan issued a statement in which he warmly welcomed the offer of Prime Minister Mulroney to explore the scope and prospects for

¹ Report by the Honourable James Kelleher, Minister for International Trade, to the Right Honourable Brian Mulroney, Prime Minister of Canada, Sept. 25, 1985.

² See *Operation of the Trade Agreements Program, 36th Report, 1984*, JSITC Publication 1725, July 1985, p.122-127, and *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 18742, June 1986, pp. 29-43.

Developments in 1986

bilateral trade negotiations and stated that United States Trade Representative Clayton Yeutter would promptly begin consultations with the Senate Committee on Finance and the House Committee on Ways and Means on the advisability of entering negotiations and would emphasize the significance that the administration attached to this effort.

In the United States Trade Representative's report to the President on bilateral trade with Canada, Ambassador Yeutter stated that the most promising way to reduce and eliminate bilateral barriers to U.S.-Canadian trade in goods and services would be the exploration of a comprehensive bilateral trade negotiation. He listed the following as significant barriers to U.S. exports of goods and services to Canada:

- high Canadian tariffs across a wide spectrum of products which act as major impediments to U.S. exports;
- nontariff barriers at both the Federal and Provincial level that effectively preclude many U.S. exports from entering the Canadian market;
- obstacles to U.S. investment;
- Federal and Provincial regulations that impede U.S. exports of services; and
- Federal and Provincial governmental assistance programs that may result in subsidized competition.

After extensive consultations with the Congress by Ambassador Yeutter, President Reagan on December 10, 1985, notified the Congress of his intent to enter into negotiations leading to a bilateral free-trade arrangement with Canada. Under the provisions of section 102 of the Trade Act of 1974, as amended, the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives have 60 legislative days to disapprove the use of section 151 of the Trade Act of 1974 (the so-called fast track) to implement such an agreement, thereby effectively blocking the negotiations. On April 23, 1986, the final day of the 60-day period, the Senate Committee on Finance, by a tie vote, failed to adopt a measure denying the President the fast track authority, and the negotiations were thus free to proceed.¹

¹ A number of Senators characterized their negative vote as less of a protest over the prospect of freer trade with Canada than a signal of dissatisfaction with what was observed as the administration's policy of not fully engaging the Congress in the formulation and development of trade policy. The vote, however, was preceded by a call on the part of 12 members of the Committee asking the President to withdraw the initiative. Reasons for this position differed—some were concerned with the stalled lumber issue, others were concerned with the Senate's role in trade matters. The impasse was broken hours before the deadline when one of the opponents switched his position and supported the President.

U.S. trade with Canada in 1985 and the first half of 1986 was marked by several difficult issues which carried implications for possible Congressional action on the President's proposal to enter into free-trade negotiations, as well as for the commencement of the negotiations. The most important of these issues concerned softwood lumber imports from Canada, which had increased significantly in recent years, giving rise to proposed legislation imposing quantitative limitations on such imports, and in May of 1986, to the filing of a second CVD petition contending that the stumpage practices of the Canadian Provincial governments constituted a subsidy.² A second issue, also involving a much smaller volume of trade, was the U.S. imposition, in May 1986, of a duty of 35 percent ad valorem on imports of wood shakes and shingles (hitherto free of duty and virtually all supplied by Canada) following a finding by the U.S. International Trade Commission under section 201 of the Trade Act of 1974 that the U.S. shake and shingle industry was seriously injured by such imports. Despite the fact that U.S. duties on shakes and shingles are not bound, Canada retaliated against this U.S. action by increasing duties on Canadian imports of certain U.S. products.³ Among other areas of disagreement are compulsory licensing of pharmaceutical patents⁴ and policies of Provincial liquor boards which limit access of U.S. alcoholic beverages to the Canadian market.⁵ The argument was made by many that these current problems should be resolved before entering into negotiation on establishment of a broad free-trade arrangement.

Notwithstanding these difficulties, the negotiations formally began in Washington on June 17, 1986, with Ambassador Simon Reisman representing Canada and Ambassador Peter Murphy representing the United States. Subsequently, plenary negotiating sessions at the ambassadorial level have occurred at 4-6 week intervals, generally alternating between Ottawa, Canada, and Washington, D.C. Early in the process, the negotiators agreed that the goal should be a comprehensive agreement under which free trade—the elimination of all tariff and nontariff barriers to trade—would be achieved by the year 2000.

The plenary negotiating sessions during the remainder of 1986 sought to identify specific areas where obstacles to trade were perceived to exist and specific issues or irritants that should be addressed in the negotiations. As the parameters of these areas or issues were set, either working

² See ch. 4 section on Canada.

³ See ch. 5.

⁴ See the ch. 4 section on Canada.

⁵ See *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 138 and *35th Report, 1983*, USITC Publication 1535, June 1984, pp. 239-240.

groups were established to proceed with detailed negotiations, or factfinding groups were established to determine the conditions of trade in specific sectors. These groups were to report their progress and recommendations at plenary sessions as the negotiations progressed.

Factfinding groups were established on the energy, telecommunications, and automotive sectors.¹ By the end of the year, working groups had begun substantive negotiations in the following areas: intellectual property rights, services, customs matters other than tariffs (e.g., rules of origin), subsidies, government procurement, a group of miscellaneous U.S. and Canadian NTM's, and all issues in the agricultural sector except tariffs.

The fundamental element in the establishment of a free-trade arrangement is the removal of tariffs. At the beginning of the negotiations both parties agreed to postpone any substantive discussions on the process by which U.S. and Canadian tariffs on bilateral trade would be dismantled until after the United States Trade Representative received the confidential report from the United States International Trade Commission. This report contained estimates of the probable economic effects on U.S. industries and on consumers of the removal of U.S. tariffs on imports from Canada.² Early in 1986, however, technical discussions were held to establish an exchange of computerized trade and tariff data in

¹ In 1965, the U.S.-Canadian Automotive Products Agreement (the Auto Pact) was signed removing tariffs on U.S.-Canadian trade in automotive products with certain exceptions. The relationship of this agreement to a free trade agreement is undetermined. For further information on the Auto Pact, see ch. 4.

² The Commission's report was delivered in January 1987, and the first negotiating session of the Tariffs Working Group took place in April 1987, in Washington.

terms of both the existing tariff nomenclatures and the proposed Harmonized System nomenclatures, which are expected to be in effect in both the United States and Canada when implementation of a free-trade area would begin.

Other areas either under discussion or to be taken up in 1987 include contingency protection (antidumping, countervailing, and import relief measures), investment, safeguards, and a dispute settlement mechanism.

The year 1986 ended with mutual recognition of the magnitude of the task to be completed in a limited time and the need to accelerate the pace of the negotiations, both at the working group and plenary levels, if the deadlines imposed by expiration of the U.S. fast track implementation authority on January 3, 1988, are to be met. Under the fast track provisions, the President is required to give the Congress 90-day advance notice of his intent to enter into a trade agreement and to publish such notice in the Federal Register. During the 90-day period, the President is to consult with the Congressional committees having jurisdiction. If Congress does not indicate otherwise during the 90 days, the President is authorized to enter into the trade agreement. At the same time, he is required to submit to Congress a copy of the agreement and a statement of the actions that are needed to implement the agreement. Congress then has 60 days to enact without amendment, or to reject the implementing legislation. The expiration of the fast track authority on January 3, 1988, thus imposes a deadline of October 3, 1987, at which time the complete package must be submitted to Congress for approval.

CHAPTER 2

THE GENERAL AGREEMENT ON TARIFFS AND TRADE AND THE TOKYO ROUND AGREEMENTS

INTRODUCTION

The General Agreement on Tariffs and Trade (GATT) was negotiated in 1947. Today, the term GATT refers to both a multilateral agreement and an organization.¹ Administration and governance of the GATT are conducted by the Contracting Parties² and the Council of Representatives (the Council). The Contracting Parties and the Council also oversee implementation of the Tokyo Round agreements.

The Contracting Parties meet annually to oversee the operation and direction of GATT. The annual sessions provide a forum for review of GATT activities pursued during the preceding year and for decisions on work for the following year. In the interim, the Council oversees virtually all GATT activities and acts on behalf of the Contracting Parties on both routine and urgent matters. Proposals that are particularly controversial, as well as those in the formative stage, are debated at Council meetings until consensus on a course of action is reached. Work is then parceled out to committees or specially created bodies. Figure 1 presents the organizational structure of the GATT.

The GATT has become both a comprehensive set of rules governing most aspects of international trade in goods (but not services) and a forum to sponsor multilateral trade negotiations (MTN) and resolve trade disputes among member countries. In 1986, the Contracting Parties agreed to embark on the eighth round of trade negotiations called the Uruguay Round. As in the Tokyo Round, the Uruguay Round negotiators will focus on reducing both tariff barriers and non-tariff measures (NTM's). The latter are considered by both the United States and its trading partners to be among the most significant remaining obstacles to trade expansion. Barriers to trade in the sectors of agriculture, tropical products, textiles, natural resource products, and services will be given special attention.³

¹ In this chapter, the acronym GATT, as commonly used, refers not only to the agreement but also to the secretariat and bodies administering it and to the whole of trade-related activities carried out under its auspices. The use of the term General Agreement refers solely to the actual legal document.

² In this report, the conventional practice is followed of using the term "Contracting Parties" (capitalized) to refer to the parties to the General Agreement acting formally as a body. References to individual contracting parties, or to several contracting parties, are lowercased.

³ See section of ch. 1 for a detailed report on the launching of the Uruguay Round.

This chapter reports on activities of the GATT Contracting Parties and Council in 1986, activities of the committees and working groups of the GATT, notification and actions taken under GATT articles, and implementation of the Tokyo Round agreements.

GATT ACTIVITIES DURING 1986

In September 1986, a special session of the GATT Contracting Parties met in Uruguay to launch a new round of MTN. Other notable events in 1986 include the accession of two new countries to the GATT—Hong Kong⁴ and Mexico—and the replacement of Deputy Director General of the GATT, William B. Kelly, with former U.S. textiles negotiator Charles Carlisle.⁵ Also during 1986, new procedures were proposed for future appointment of the GATT Director General.

Activities on the work program outlined in the 1982 Ministerial Declaration continued throughout 1986, and standing committees attended both to their regular agendas and to 1982 Ministerial-related assignments.⁶ With most aspects of the 1982 Ministerial work program folded into the Uruguay Round agenda, the assignments mandated in 1982 are now, in effect, superseded and the work undertaken will serve as background for the Uruguay Round negotiators.

Work of Committees and Working Groups

Standing committees of the GATT attended both to their regular responsibilities and to 1982 Ministerial-related assignments in 1986, as described below. The Consultative Group of 18 (CG-18), which operates like a steering committee of the GATT, did not meet in 1986 because of other high-level meetings that addressed major policy issues related to the Uruguay Round.⁷

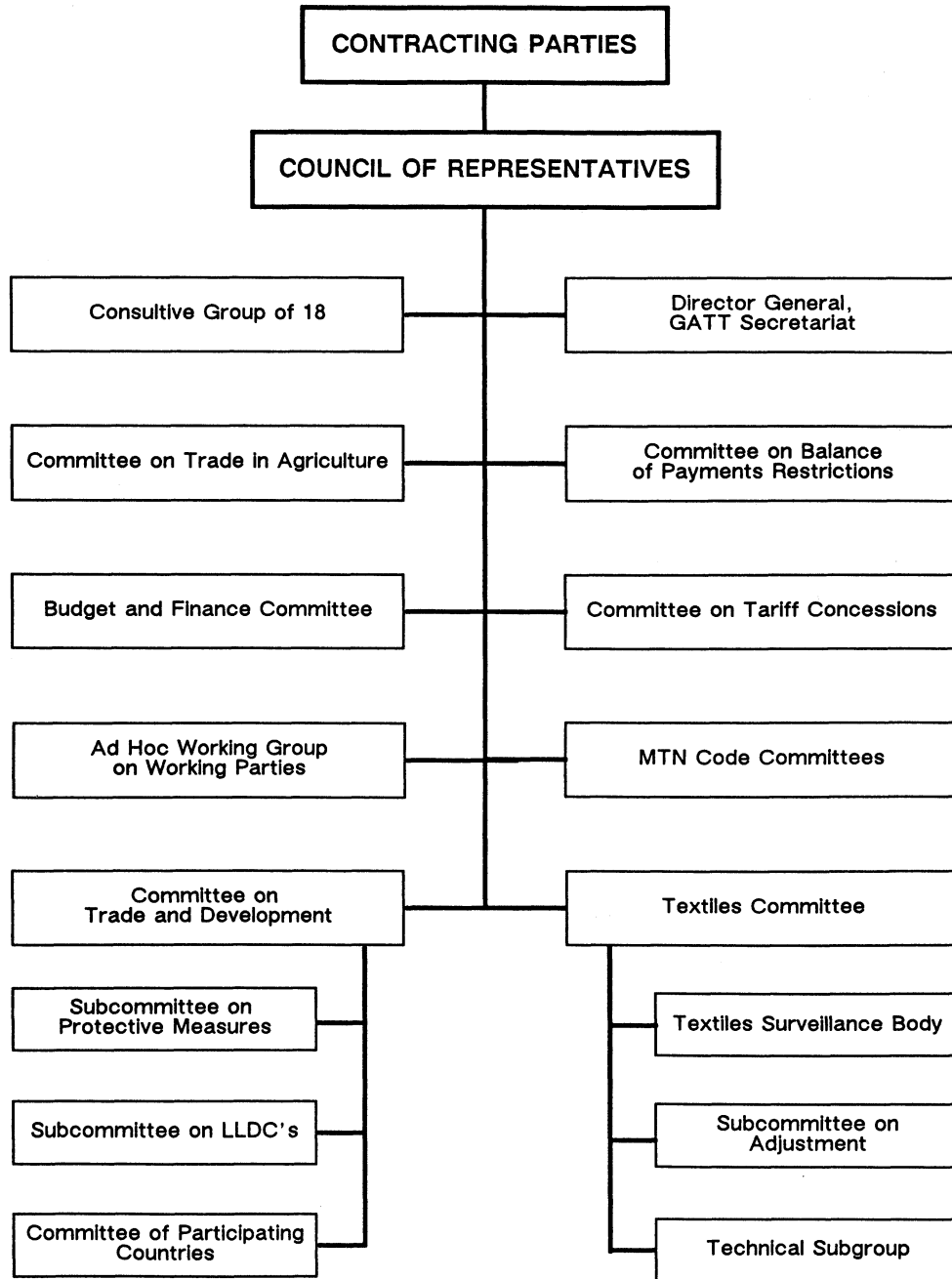
⁴ Hong Kong has been represented in the GATT by the United Kingdom since 1947, but acceded this year as a member in its own right.

⁵ GATT Press Release No. 1399, Nov. 5, 1986.

⁶ In November 1982, the Contracting Parties met in a Ministerial-level session and adopted decisions on a wide range of trade issues. Their decisions, issued in a Ministerial Declaration, mandated an ambitious program of work. For details on the 1982 Ministerial meeting, see the U.S. International Trade Commission, *Operation of the Trade Agreements Program, 34th Report, 1982*, USITC Publication 1414, August 1983, p. 14.

⁷ Normally covered in this section, the group discusses formative issues and assists the Contracting Parties in assessing formulation and implementation of GATT policies. The CG-18 was established on a temporary basis in 1975 and made permanent in 1979. Its membership, consisting of both developed and developing country members, rotates annually.

Figure 2-1. Organizational Structure of the GATT



Instead, a new round Preparatory Committee, formed in November 1985, met frequently in 1986 to discuss trade issues of concern to GATT members and formulate a draft declaration on the commencement of a new round of trade negotiations for submission to trade ministers in September.¹

Trade in agriculture

In 1986, the Committee on Trade in Agriculture continued work on its agenda developed in 1983.² The Committee on Trade in Agriculture, called for in the 1982 Ministerial Declaration, was set up to assess the effect of quantitative restrictions, subsidies, and other barriers to agricultural trade.³ This assessment was carried out through the review of GATT members' submissions describing their measures related to agriculture.⁴

In November 1984, the Contracting Parties adopted recommendations of the Committee calling for, among other things, an elaboration on a number of recommended approaches to future MTN on agricultural issues. The Committee's 1986 agenda included examining innovative approaches to future negotiations as outlined in the draft elaboration. At the April 1986 meeting, the Committee debated recommendations to liberalize agricultural trade in the revised draft elaboration. The recommendations focused primarily on measures affecting market access, subsidies, and health. The Committee plans to work on further revision of the draft elaboration.

Discussions on increasing market access included suggestions for the relaxation of quantitative restrictions (art. XI), except for those maintained for domestic or regional security considerations. Other recommendations called for a two-pronged approach to market liberalization by simultaneously strengthening the rules governing quotas in article XI and undertaking direct negotiation to reduce and eliminate quantitative restrictions. In November 1986, the members suggested that the Committee continue study of a tariffs-only approach to negotiations, particularly the potential effect on markets and production of using this approach, and also the study of the

need for a minimum access commitment (MAC).⁵ Recommendations for MAC guidelines for negotiations included establishing self-sufficiency-level negotiating baselines with allowance for market peculiarities, instead of setting fixed percentages.

The Committee also discussed the use of other barriers to agricultural trade, including voluntary restraint agreements (VRA's), variable levies, minimum import prices, and standards (sanitary or other technical barriers). Regarding VRA's, the Committee members discussed the treatment of VRA's as safeguards that are not in compliance with GATT article XIX. The Committee members agreed that such VRA's affecting agricultural trade should be gradually phased out or eliminated. During discussions on export subsidies, the Committee recommended two approaches for improving the system. The first approach called for a strengthening of article XVI, which prohibits the use of export subsidies to gain "more than an equitable share of world export trade" of a primary product; the second approach called for a gradual elimination of subsidies. The Committee also considered restrictive aspects of sanitary and health measures. Members expressed their views on the advantages and disadvantages of these measures and encouraged an even-handed approach to negotiations in this area.

Tariff concessions

The Committee on Tariff Concessions was formed after the Tokyo Round of Multilateral Trade Negotiations. Established in 1980, the Committee manages the gradual reduction of tariffs and oversees maintenance of GATT tariff schedules.⁶ It further provides a forum for discussion on any tariff-related concerns. In addition, the Committee oversees the GATT article XXVIII (amendment of tariff schedules) negotiations associated with preparations for implementation of the new tariff nomenclature known as the Harmonized Commodity Description and Coding System (the Harmonized System).⁷

Much of the Committee's 1986 agenda involved preparation for the introduction of the Harmonized System in 1988. Developed by the Customs Cooperation Council in Brussels, the Harmonized System will unify and standardize the nomenclature used in the classification of traded goods for duty and statistical purposes.

¹ See section on the Uruguay Round in ch. 1.

² Committee on Trade in Agriculture, Program of Work, in GATT, *Basic Instruments and Selected Documents*, Supp. 30, p. 102.

³ Ministerial Declaration adopted Nov. 29, 1982, in GATT, *Basic Instruments and Selected Documents*, Supp. 29, p. 16.

⁴ The Committee examined agricultural trade measures affecting market access and supplies, related subsidies and other forms of export assistance, and agricultural measures currently in force under exceptions or derogations to the General Agreement. Exceptions under arts. XI, XVI, and XVII, as well as derogations under waivers and "grandfather" clauses (legislation enacted prior to accession to the GATT), have been presented frequently by GATT members as GATT justification for agricultural restrictions.

⁵ MAC is a negotiating technique being explored with respect to the liberalization of quotas affecting agricultural products, which would entail a commitment by contracting parties to import at levels equivalent to a percentage of domestic production, or to a ratio of imports to domestic production.

⁶ *GATT Activities 1986*, Geneva, June 1986, pp. 23-24.

⁷ The Harmonized System is targeted for implementation on Jan. 1, 1988. For more details, see "Customs Cooperation Council" in ch. 3.

In adopting this new nomenclature structure, however, contracting parties will need to renegotiate tariff concessions under article XXVIII to reestablish the balance of concessions achieved in previous tariff rounds and agreements. The major trading countries are expected to complete this process by the end of 1987. Contracting Parties agreed in concept to the use of a comprehensive protocol in publishing results of the Harmonized System negotiations, and the Committee was asked to continue working on draft provisions.

The Committee began using a computer data base, developed under its auspices, to analyze tariff changes in the transposition of the Harmonized System. GATT members view the data base, in conjunction with the tariff study file, as an important asset in the forthcoming multilateral trade round.

The remainder of the Committee's 1986 work dealt with changes in countries' schedules of tariff concessions. The deadline for notification of such changes to be included in the Sixth Certification of Changes to Schedule was extended to Spring, 1987. The program to consolidate each country's schedules of GATT concessions into a single loose-leaf document continued. To date, 39 of the 63 existing GATT national schedules have been submitted to the contracting parties, but only 10 of the 39 have been approved and are ready for certification. In light of the lag in implementing the project, the completion date has been postponed until a later date to be determined by the Committee.

Trade and development

The Committee on Trade and Development (CTD) is responsible for examining issues of interest to developing countries in the area of international trade.¹ Under this mandate, the Committee monitors developments in international trade and reports on the effects of these developments on developing countries' economies. Also, the Committee oversees implementation of the provisions of part IV of GATT and monitoring the operation of the "enabling clause."² During 1986, members undertook a review of the Committee to determine the role it

¹ Kenneth Dam. *The GATT Law and International Economic Organization*. Chicago: The University of Chicago Press, 1970, pp. 242-43.

² Pt. IV, added in 1969, and the "enabling clause," negotiated during the 1979 Tokyo Round, allow special consideration of interests of developing countries. The enabling clause allows developing countries to receive differential and more favorable treatment from other GATT members with regard to the following (1) tariffs accorded under the Generalized System of Preferences; (2) nontariff measures (NTM's) governed by GATT codes; (3) tariffs and, under certain conditions, NTM's among developing countries under regional or global trade arrangements; and (4) measures applied to the Least Developed Countries in particular. The enabling

should play in the forthcoming MTN. General consensus emerged that the Committee, as authorized under its mandate, should play a role in the new round to ensure that the interests of developing countries are considered.

During the May 1986 meeting, the Committee discussed the prospects for increasing trade between developing countries and developed countries. This discussion also included the issue of trade in tropical products, a topic that has now been placed on the Uruguay Round agenda.³ The 1982 Ministerial Declaration assigned responsibility to the CTD to initiate consultations and negotiations designed to encourage liberalization of trade in tropical products. Consultations were held in 1983 and 1984. During 1985, the results of the consultations were assessed, and procedures for negotiations were explored.

At the November 1986 meeting, several major issues under the Committee's responsibility were reviewed. Discussions focused on finding better means to implement part IV of GATT and the enabling clause. Taking note of the declining terms of trade affecting developing countries and increased protectionism practiced by developed countries, the Committee stressed the need to design new policies to overcome the adverse effects of trade-distorting practices, interest rate and exchange rate volatility, and long-term capital inflow disincentives. Committee members recommended the forthcoming MTN negotiations as providing an opportunity to resolve these conflicts and to design new strategies to promote trade liberalization more effectively.

During 1986, the Committee also continued to sponsor consultations on implementation of part IV of the General Agreement—a measure designed to encourage governments to adopt more favorable nonreciprocal trading arrangements, such as the Generalized System of Preferences (GSP), with developing countries. The consultations are designed both to assess implementation and to encourage governments to consider part IV in forming overall trade policy. In May 1986, the Committee considered part IV submissions by Australia, Austria, Finland, Hungary, Japan, New Zealand, Switzerland, the United States, and the European Community (EC). Several committee members expressed concern about the effect of the U.S. preference arrangement as renewed.⁴ The arrangement was viewed by some committee members as undermining the "nonreciprocal" nature of the GSP. The United States, for its part, reiterated its commitment to uphold the principles of the GSP and

²—Continued. clause also provides for greater adherence by developing countries to the obligations of GATT membership, adherence that is commensurate with each country's level of economic development.

³ See discussion of the Uruguay Round in ch. 1. 2-4

⁴ Title V of Trade and Tariff Act of 1984, Public Law 98-573, Oct. 30, 1984, of the 98th Cong.

to continue expanding the benefits under the system. Other reporting countries outlined their new GSP schemes and also expressed a commitment to improve market access for products from developing countries.

The Committee's mandate regarding the activities of the Subcommittees on Trade of the Least Developed Countries¹ and on Protective Measures was also examined in November. The members agreed that the subcommittees will continue to function as needed by the full committee. The CTD Subcommittee on Protective Measures examines protective measures taken by developed countries that affect imports from developing countries. The subcommittee reviews protective actions brought to its attention by notifications from members, or from information gathered by the Secretariat. The Subcommittee on Trade of the Least Developed Countries concentrates primarily on the following three issues: (1) expansion and diversification of the trade of least developed countries, (2) strengthening of technical cooperation regarding trade, and (3) integration of these countries into the GATT trading system. The Subcommittee has also hosted a series of consultations between the interested least developed countries and their trading partners.

Balance-of-payments restrictions

Under certain articles of the General Agreement, countries may erect temporary import barriers when experiencing payments imbalances. Although quantitative restrictions are generally prohibited by GATT, exemptions under articles XII and XVIII² can be applied in conjunction with consultations with the Committee on Balance of Payments Import Restrictions. Countries invoking such restrictions must regularly consult with other contracting parties for the duration of the restrictions. The Committee monitors the restrictions and the country's progress in moving toward liberalization.³ Both full consultations

¹ The term "least developed countries" refers to those countries that are the least developed of the developing countries.

² Art. XII provides for the implementation of import restrictions by contracting parties in order to safeguard the balance-of-payments position. Such measures taken by them to "forestall. . . or to stop a serious decline in its monetary reserves" or in the case of low monetary reserves "to achieve a reasonable rate of increase in its reserves" are to be maintained only to the extent that the conditions justify their application and are to be progressively relaxed. In addition, unnecessary damage to the interest of other contracting parties is to be avoided. Art. XVIII provides for the terms under which developing countries may take these and other measures for the purposes of development in exception to normal obligations under the General Agreement.

³ *GATT Activities 1986*: Geneva, June 1986, p. 52. The Committee's work is based on the Declaration on Trade Measures Taken for Balance-of-Payments adopted by the Contracting Parties on

and consultations under simplified procedures, known as miniconsultations, are undertaken. In 1986, the Committee conducted full consultations with Argentina and Greece. Miniconsultations were held with Bangladesh, Peru, India, Korea, Nigeria, and Yugoslavia. All countries whose trade may be affected by import restrictions are permitted to participate in the consultations.

Argentina's full consultation, held May 12, 1986, focused not only on internal and external imbalances, but also on trade-restrictive practices by its major trading partners. Argentina's worsening situation is reflected in the rapid outflow of capital, decline in export volumes, and domestic inflation, among other things. Argentina reported that the adverse economic climate has led it to invoke import restrictions such as import licensing, import deposits, a ten percent ad valorem additional tariff, and measures relating to minimum financing terms for imports. Although Argentina is in the midst of an economic crisis, the Committee members were encouraged to believe that recent economic reforms would lead the country toward internal and external balance and an increased commitment to liberalization.

During its consultations, Greece requested permission to rescind recent liberalization measures by establishing a temporary import deposit scheme. On May 6, 1986, the Committee discussed Greece's deteriorating internal and external accounts and encouraged Greece to continue the consultations in 1987 and to adhere to fiscal restraints.

Miniconsultations were held in April with Bangladesh and Peru. The Committee reviewed the information submitted for the review, and recommended that full consultations be held with Peru in 1987. In October, the Committee met for miniconsultations with India, Korea, Nigeria, and Yugoslavia. Full consultations in 1987 with India and Korea were recommended in order to further review the liberalization measures that these countries are undertaking.

For 1987, full consultations were scheduled for Egypt, Greece, India, Israel, Korea, and Peru. Miniconsultations were recommended for Brazil, Colombia, Ghana, Pakistan, Sri Lanka, Tunisia, and Turkey in 1987. In addition, the Committee encouraged other countries invoking trade measures for balance-of-payments reasons to inform the Committee as soon as possible.

Quantitative restrictions and other NTM's

As directed under the 1982 Ministerial Declaration, the Group on Quantitative Restrictions (QR's) and other NTM's completed the final stages of its inventory.¹ At the November

¹—Continued. Nov. 28, 1979. *GATT, Basic Instruments and Selected Documents*, Supp. 26, p. 205.

annual session, the Contracting Parties dissolved the group and in its place established a technical group to oversee maintenance of the inventory.² The inventory consists of an extensive compilation of quantitative restrictions and NTM's drawn from submissions of GATT members describing the basis of these measures and an estimate of the trade effect of each measure. The technical group is empowered to ensure that the inventory is kept current and accurate and that it is made available to other GATT groups.

Before disbanding, the Group on Quantitative Restrictions and Other NTM's reemphasized the commitment to eliminating quantitative restrictions and NTM's and to identifying measures of interest to developing countries. During the 1986 proceedings, the group recommended that, in keeping with their commitment to continually update the inventory, all contracting parties should submit by January 31, 1987, detailed, accurate information on quantitative restrictions and notification of any changes in existing data. Furthermore, the group reiterated that members' notifications should describe the trade effects of the measures.

In October 1986, the group completed the multilateral review of progress, the first of a regular biannual process.³ The review underscored the importance of liberalizing quantitative restrictions and bringing existing ones into GATT conformity. Encouraged by the Contracting Parties' resolve to hold a new round of MTN, the group recommended multilateral oversight of future negotiations to eliminate or reduce nontariff barriers to trade.

Textiles

The Textiles Committee⁴ met five times in 1986; four times to discuss the future of the Mul-

tiber Arrangement (MFA), and once to conduct the annual review of the MFA. Negotiations in the Textiles Committee on extending the MFA continued up to the July 31, 1986, expiration date of the predecessor accord. At that time, participants agreed upon renewing the MFA for 5 years with several significant changes.⁵ The extension culminated over a year of negotiations on the MFA's future. The negotiations pitted the United States and some of its industrialized trading partners, which led the position that favored broader fiber coverage and import surge and fraud control mechanisms, against developing countries, which sought liberalization of trade in textiles, including the application of GATT principles.

The Subcommittee on Adjustment reported to the Textiles Committee in April 1986.⁶ At that time, the subcommittee reported on developments in production, employment, and investment of importing and exporting members. Trade-related issues covered by the report included industry responses to market forces, Government actions relevant to adjustment, and evolution of restrictions and market access for trade in textiles. The Committee chairman noted the reference in the report as to the need for increased emphasis on identifying results of Government programs and industrial measures related to adjustment. Article 19 of the extension of the protocol directs the Subcommittee on Adjustment to review adjustment processes in member countries.

At its December meeting, the Textiles Committee undertook the annual review of the MFA as required under article 10:4 of the arrangement. As part of the review, the Committee considered reports by the Textiles Surveillance Body (TSB) and the Subcommittee on Adjustment.⁷ The report by the TSB only extended through MFA III, without considering work undertaken during the first months of MFA IV.⁸ By so doing, the next annual review will cover work done since the inception of MFA IV.

During the annual review of the MFA in December 1986, a group of developing countries, headed by Malaysian Ambassador Darry Salim

¹ Quantitative Restrictions and Other Non-tariff measures, Ministerial Declaration, *Basic Instruments and Selected Documents*, Supp. 29, p. 17. The Ministerial mandate of the Group on QR's and other NTM's was divided into three stages: (1) compiling documentation from GATT members for an inventory of existing quantitative restrictions and NTM's, (2) conducting a detailed review of these measures, and (3) presenting its findings and recommendations to the annual session of the Contracting Parties. With the three stages completed by November 1985, the group was directed by the Contracting Parties to present proposals for further action to the 1986 annual session.

² Decision adopted by the Contracting Parties on Quantitative Restrictions and Other NTMs, 42nd session of the Contracting Parties, action taken on Nov. 26, 1986, GATT Doc. No. L/6100.

³ Among recommendations presented by the group in 1985 was a proposal that multilateral review of the documentation be held in October 1986 and once every 2 years thereafter in order to maintain an up-to-date data base and to examine the possibility of eliminating quantitative restrictions not in conformity with the GATT.

⁴ For a description of the Textiles Committee, see the *Operation of the Trade Agreements Program*,

⁴—*Continued. 36th Report, 1984*, USITC Publication 1725, July 1985, pp. 46-48.

⁵ For a discussion of the extension of the MFA, see ch. 1.

⁶ The Subcommittee on Adjustment is responsible for determining whether or not the provisions of art. 1:4 of the MFA are being implemented. Art. 1:4 states that "Actions taken under this Arrangement shall not interrupt or discourage the autonomous industrial adjustment processes of participating countries." Also, the article says that appropriate economic and social policies should be enacted to encourage structural adjustment in the textiles sector of each country.

⁷ The TSB's role is to supervise the implementation of the MFA.

⁸ The MFA, created in 1974, has been extended three times. MFA III and MFA IV refer to the successive recent versions of the accord.

criticized the "overall negative direction" of MFA IV because of increasing protection by major developed country markets. Ambassador Salim declared that the development of the MFA has meant that "negative elements are being strengthened or introduced at the cost of retaining the existing positive elements in the arrangement." The solution to the present "unsatisfactory situation" in textiles trade, Ambassador Salim stated, is to bring textiles back under the GATT, instead of subject to separate authority under the MFA.

A report completed by the GATT secretariat and presented to the December Textiles Committee meeting traced the consistent decline in textile production in all developed countries except Norway since 1982. For 1985, the data revealed negative annual growth in textile production for the United States, Japan, and Finland. U.S. production apparently picked up during January-June 1986. EC production declined or stagnated during 1984-85, the report indicated.

Actions Under Articles of the General Agreement

Emergency actions on imports (art. XIX)

Article XIX of the General Agreement, also known as the "escape clause," allows GATT members to escape temporarily from their negoti-

ated GATT commitments and impose emergency, restrictive trade measures when actual or threatened serious injury to a domestic industry is demonstrated.¹ A country exercising article XIX is required to notify the GATT and consult with affected exporting countries to arrange compensation. The incentive for the notifying country to negotiate compensation measures stems from the built-in right of affected countries to unilaterally suspend "substantially equivalent concessions or other obligations" if these negotiations fail.

A number of article XIX actions were notified or in effect as a result of previous notifications. These actions in effect at yearend 1986 are listed in table 2-1. During 1986, Chile modified its action regarding sugar; Australia terminated one of its existing article XIX restrictions on motor vehicles; and three new actions were notified, two by the EC on raspberries and sweet potatoes, and one by Finland on fiberboard.

New emergency actions notified in 1986

In January 1986, the EC notified the GATT of article XIX action on imports of provisionally

¹ Since art. XIX provides that a concession may be suspended, withdrawn, or modified only "to the extent and for such time as may be necessary to prevent or remedy" the injury, the suspensions are of a temporary nature.

Table 2-1
Article XIX actions in effect as of Dec. 31, 1986

<i>Implementing country</i>	<i>Type of product</i>	<i>Date notified¹</i>
Australia	Filament lamps	July 1983
Australia ²	Assembled passenger motor vehicles	July 1977
Canada	Leather footwear	July 1982
Canada	Nonleather footwear	Nov. 1981
Canada	Yellow onions	Oct. 1982
Canada	Beef and veal	Jan. 1985
Chile	Edible vegetable oils	Dec. 1985
Chile	Sugar	Aug. 1984
Chile	Wheat	Sept. 1985
Chile	Vegetable and oilseed oils	Dec. 1985
European Community	Preserved raspberries ³	Feb. 1986
European Community	Dried grapes	Nov. 1982
European Community	Morello cherries	July 1985
European Community	Sweet potatoes	May 1986
European Community	Digital quartz watches	May 1984
Finland ⁴	Porous fiberboard	Aug. 1986
United States	Heavyweight motorcycles	May 1983
United States	Specialty steel	July 1983

¹ Date of distribution of notification.

² Australia terminated this action effective Jan. 1, 1986, and notified the GATT that it had terminated the quantitative restrictions concerned.

³ Remained in effect until June 30, 1986.

⁴ Remained in effect until Nov. 14, 1986.

Source: The GATT.

preserved raspberries.¹ The measures remained in effect until June 30, 1986. Also, the duties imposed did not apply to raspberries imported at prices above a stated minimum price level.

In May 1986, the EC notified the GATT of article XIX action on imports of sweet potatoes.² The action consisted of a temporary suspension of the issue of import certificates for sweet potatoes. The EC reported to the GATT that the suppliers of the affected product that are members of the GATT account for only 5 percent of total EC imports.

Finland notified the GATT in August 1986 of article XIX action on porous fiberboard impregnated with bitumen. From June 2 through November 14, 1987, the Ministry of Finance imposed a basic price of US\$443 per ton and a surcharge, equal to the difference between the basic price and the import price on imports of the product.

Changes in existing emergency actions during 1986

In February 1986, Chile notified the GATT of modification of its article XIX action on imports of sugar. The measure was originally introduced in July 1984. The action, as modified in January 1986, is to remain in effect until March 31, 1987.³ The Chilean measure provides for specific duties on raw and refined sugar in addition to the rate of 20 percent ad valorem, or a reduction of the 20 percent customs duty, depending on the import price of sugar.⁴

In March 1986, the EC notified the GATT that it was revoking compensatory measures it had taken against the United States in response to U.S. article XIX action on specialty steel products. The revocation was made possible by a December 1985 arrangement entered into between the EC and the United States on U.S. imports of specialty steel from the EC. The December arrangement replaced an earlier arrangement concluded in 1982, and the EC measures that were revoked had been in effect since March 1984.

Dispute settlement (arts. XXII and XXIII)

When a member country fails to respect a tariff concession or other obligation, or engages in a trade practice inconsistent with GATT provisions, the General Agreement allows affected members to seek redress through the dispute settlement procedures of articles XXII and XXIII.

More general in nature, article XXII provides for bilateral consultations on any matter affecting the operation of the General Agreement. If article XXII discussions do not resolve an issue, use of article XXIII:1 elevates the dispute to a more advanced stage of consultations.⁵

If bilateral consultations fail to yield a mutually satisfactory solution, the matter may be referred to the GATT under article XXIII:2. At this point, the usual procedure is to refer the dispute to a panel.⁶ The panel reports its findings to the GATT Council where the decision is made, on behalf of the Contracting Parties, whether or not to adopt the report and its recommendations.⁷ If an adopted recommendation calling for elimination of a GATT-inconsistent practice is ignored, the complaining country may request the Contracting Parties to authorize it to suspend "appropriate" concessions vis-a-vis the offending country. However, such authorization is rarely requested.⁸

A determination to improve the dispute settlement process formed part of the 1982 Ministerial Declaration and now will be a subject of the Uruguay Round. Some progress on modifications has resulted from this initiative, because of observations that the process was cumbersome and time consuming.⁹ For example, a roster of non-governmental experts to serve on dispute settlement panels has been developed.¹⁰

Consultations

During 1986, GATT members held article XXII consultations, which are relatively informal, on a variety of issues. Article XXIII:1 consultations are the next and more formal step in the dispute settlement process. Article XXIII:1 consultations, which had not reached the panel

¹ EC Regulation No. 67/86, Jan. 15, 1986.

² EC Regulation No. 1146/86, Apr. 18, 1986.

³ Supreme Decree No. 1114, Jan. 8, 1986.

⁴ The specific duties apply from a price equal to or lower than \$249 per ton f.o.b. The specific duty ranges from \$1.26 to \$239.40 per ton imported if the international price falls to \$60 per ton f.o.b. The 20-percent customs duty is lowered progressively from an international price of equal to, or higher than, \$492 per ton f.o.b.

⁵ Under art. XXIII:1, the affected country makes "written representation or proposals to the other contracting party or parties" concerned. When thus approached, a GATT member is required to give "sympathetic consideration to the representations or proposals made to it."

⁶ The panel is composed of persons selected from the delegations of contracting parties not engaged in the dispute. The panel members are expected to act as disinterested mediators and not as representatives of their governments.

⁷ Panel reports normally contain suggested remedies that the Contracting Parties may choose to adopt as recommendations to the disputing parties. Bilateral settlement among parties to a dispute is possible at every phase of the process, up until final adoption of a panel report by the Council.

⁸ According to the final paragraph of art. XXIII, after such suspension by the complainant, the offending country also has the right (within 60 days) to withdraw from the GATT.

⁹ For further details on proposals to improve the dispute settlement process, see *Review of the Effectiveness of Trade Dispute Settlement Under the GATT and Tokyo Round Agreements*, (Investigation No. 332-212), USITC Publication 1793, December 1985.

¹⁰ The Contracting Parties adopted the roster proposal at the end of 1984. In November 1985, they approved a list of candidates for this roster.

(art. XXIII:2) stage by the end of 1986, are described below.

In an unusual move, the Council agreed in July to establish a working party under article XXII to examine a longstanding EC complaint. In May 1986, the EC requested the establishment of a working party under article XXII:2 to examine its longstanding complaint on Japanese measures affecting the world market for copper ores and concentrates. In its request for a working party, the EC asserted that Japan ensures itself a large share of world supply by maintaining Japanese market prices for copper that are 10 to 14 percent above the world price. This subject had been one of concern to the EC for several years.¹

At the July 15, 1986, meeting, the Council established a group of governmental experts, open to all interested parties, to study the problem. On October 23, the Intergovernmental Group of Experts on Copper met to set the agenda and consider the allegations against Japan. The group has scheduled meetings to undertake this matter and will examine the issue under the following guidelines: (1) production and consumption structures, (2) supply and demand situation, (3) pricing policies, and (4) trends in world trade, including protective measures.² A final report is expected by spring 1987.

Canada and the United States initiated consultations with one another in 1986 on the U.S. customs user fees and on Canadian export restrictions on uranium. In November, Canada requested article XXIII:1 consultations on U.S. customs user fees, which became effective on December 1, 1986, as part of the Omnibus Budget Reconciliation Act of 1986. Canada argued that the imposition of the fees on an ad valorem basis does not correspond to the cost of providing the service of processing the import of a product. In December 1986, the United States requested article XXIII:1 consultations with Canada on Canadian restrictions on exports of unprocessed uranium. The Canadian policy requires that all uranium concentrates be upgraded into uranium hexafluoride prior to export, unless a specific exception is granted. The United States argued that the policy, in effect, prohibits exports and that the restrictions are inconsistent with GATT article XI that sets out rules on the use of quotas.

The EC requested consultations on a number of issues in 1986. In October, the EC requested

¹ In response to previous EC requests for GATT consultations, the Council had indicated that the EC claims were vague and had asked the EC to report back with a more specific formulation of its complaint. The EC held consultations with Japan in 1982, and in 1984 also requested an art. XXII working party. Informal consultations were conducted by the Chairman of the Council in 1984, 1985, and in early 1986.

² U.S. Department of State unclassified cable, Geneva 2088, Oct. 28, 1986.

article XXII:1 consultations with Japan and the United States on the bilateral U.S./Japanese semiconductor agreement. The EC request for consultations was considered at the October Council meeting. In November 1986, the EC requested article XXII:1 consultations with the United States on internal taxes on petroleum, petroleum products, and chemical derivatives. The complaint concerned the "Superfund Reauthorization and Amendments Act of 1986," particularly the increased tax on petroleum with a differential between 8.2 cents per barrel for domestic oil and 11.7 cents per barrel on imported petroleum products. The EC argued that the tax differential discriminates against imported products and is therefore contrary to GATT article III. In November, Canada also requested article XXIII:1 consultations with the United States on the superfund measure and Mexico requested that copies of the legislation be supplied. In December 1986, the EC again requested article XXII:1 consultations with the United States on transitional rules for U.S. tax reform with respect to small passenger aircraft. The EC argued that the exemption for U.S.-manufactured aircraft from the general abolition of the investment tax credit and accelerated depreciation provisions gives U.S. producers an advantage over foreign suppliers.

During 1986, New Zealand consulted on trade matters with the EC and the United States. In March 1986, New Zealand requested article XXII consultations with the EC on import restrictions instituted by France with respect to a banning of lamb brains from New Zealand. New Zealand asked that the consultations be conducted to provide further information on the measure taken by France, and to discuss its possible conflict with EC obligations under the GATT. In July 1986, New Zealand reported that consultations had resolved the issue. In September, New Zealand requested consultations regarding U.S. countervailing duty (CVD) and antidumping orders on exports of low-fuming brazing copper rod and wire from New Zealand. New Zealand argued that the CVD assessment did not take into account the phaseout of its tax credit program, that the assessed dumping margin did not consider differences in quantities of the product sold in the domestic and U.S. markets, and that the evidence presented to the U.S. International Trade Commission did not justify a finding that New Zealand exports were causing material injury.

In May 1986, Brazil requested consultations with the United States under article XXIII:1 on increased U.S. duties (of 60 cents per gallon) affecting imports from Brazil of ethyl alcohol. Brazil further alleged that U.S. subsidies on the production of ethyl alcohol adversely affect Brazilian exports of the product.

Panels requested by the United States:

Japanese restrictions on imports of herring, pollock, and surimi.—In November 1986, the United States requested a panel to examine Japanese import restrictions on herring, pollock, and surimi. The Council considered the U.S. request at the meeting on November 5 and 6 and again on November 21, but agreed to revert to the matter and did not establish a panel.¹

Japanese restrictions on imports of certain agricultural products.—In October 1986 a panel was established at the request of the United States. The United States argued, among other things, that the Japanese restrictions, in effect since 1963 on 12 categories of agricultural products, are administered contrary to GATT article XI. The Chairman of the Council was authorized to draw up the terms of reference and designate the members of the panel in consultation with the United States and the EC. As of November 1986, the panel's terms of reference had not yet been agreed upon.

EC tariff preferences on citrus products.—In 1984, the report of the panel examining this U.S. complaint was completed.² The panel concluded that the EC preferences would be inconsistent with article I:1 of the General Agreement unless the preferences were otherwise permitted under provisions of the GATT or under a decision of the Contracting Parties. To redress the adverse effects the United States had suffered as a result of the preferences, the panel suggested that the EC reduce the most-favored-nation (MFN) tariff rates on fresh oranges and lemons, or extend the period of application of lower MFN tariff rates on fresh oranges and reduce the MFN tariff rates on fresh lemons.³ Following a final unsuccessful attempt at bilateral settlement, the report was considered by the Council in March 1985 and again at subsequent Council meetings, but its findings and recommendations could not gain full acceptance.⁴ The dispute was finally resolved in August 1986 with an agreement that the EC would reduce its duties on a range of U.S. citrus exports by up to 50 percent, and the United

¹ The dispute was settled on Mar. 20, 1987, as a result of bilateral discussions.

² The United States contended that EC tariff preferences on imports of citrus products from Mediterranean countries violated MFN obligations and thus nullified and impaired benefits to the United States of negotiated tariff concessions. For further background, see the *Operation of the Trade Agreements Program, 34th Report, 1982*, p. 44.

³ GATT, *GATT Activities 1984*, Geneva, June 1985, p. 37.

⁴ Frustrated with EC blockage of the Council's adoption of the panel report, the President made a determination under sec. 301 in June 1985 that the EC practices were unreasonable, discriminatory, and constituted a burden on U.S. commerce. In addition, the President used his authority under sec. 301 procedures to institute retaliatory measures against pasta products imported from the EC. See also "Enforcement of trade agreements and response to foreign practices" in ch. 5.

States agreed to cut tariffs on olives and some cheeses imported from the EC.⁵

Followup on Japanese import restrictions on leather.—In April 1983, the Council agreed to establish a panel to investigate a U.S. complaint about Japanese leather import restrictions. The panel report, adopted by the Council in May 1984, concluded that Japan's quantitative restrictions on imports of leather violated GATT rules on the elimination of quantitative restrictions (art. XI) and suggested that the Contracting Parties urge Japan to eliminate its quantitative restrictions.⁶ In July 1985, Japan announced that it would replace its leather import quota system with new tariff measures and would enter into article XXVIII:5 negotiations on the bound tariff items affected.⁷ On April 1, 1986, the Government of Japan fully eliminated the quantitative restrictions on leather imports, including the restrictions on leather footwear imports for unbound as well as bound items. The quantitative restrictions were replaced with a tariff-rate quota provision.

Panels examining U.S. measures:

Canadian complaint against U.S. restrictions on imports of products containing sugar.—At the request of Canada, the Council agreed to establish a panel in March 1985 to examine a U.S. action imposing quotas on certain articles containing sugar. Formation of the panel was deferred, however, because of bilateral discussions between the United States and Canada on the issue. No further progress on bilateral discussions was reported in 1986.

On May 19, 1985, the President modified the original proclamation that was the subject of Canada's complaint by deleting several products that contain only small amounts of sugar from the quota list. Quotas on the remaining products are to remain in effect until the President has acted on a report by the U.S. International Trade Commission on the matter.⁸ Canada postponed further action in the GATT to await the outcome of any further Presidential action.

*Nicaraguan complaint against the U.S. trade embargo.*⁹—In July 1985, Nicaragua requested the formation of a panel on the U.S. imposition

⁵ For more details, see ch. 4 section on the EC.

⁶ GATT, *Basic Instruments and Selected Documents*, 31st Supp., March 1985, p. 94.

⁷ Since The U.S. President did not consider this action wholly satisfactory, he announced in September 1985 that retaliatory action would be taken under sec. 301 authority of U.S. law, unless a mutually agreed solution was reached by Dec. 1, 1985. In December, the United States and Japan reached a compromise on a compensation package in which Japan would lower or bind certain tariffs and allow the United States to raise tariffs on imports of certain Japanese leather goods.

⁸ At this writing, the U.S. International Trade Commission report has not been publicly released by the President.

⁹ Effective May 7, 1985, the United States banned all trade with Nicaragua and justified this measure under art. XXI (national security exemption) of the GATT.

of a trade embargo against Nicaragua.¹ The Council agreed in October 1985 to establish a panel with the U.S. understanding that the role of the panel would not entail any judgment on the validity of the use of national security exceptions (art. XXI). In April 1986, the terms of reference and composition of the panel were agreed upon, and, in October, the panel report was completed. The panel report was considered at the Council meeting in early November and the Council chairman agreed to discuss the report with the parties. At the meeting on November 21, the chairman reported that the discussions yielded no positive results.

*Followup on EC complaint on the U.S. manufacturing clause.*²—In February 1986, the EC requested authorization from the GATT to suspend concessions with respect to the United States for its continued violation of the GATT ruling on the U.S. manufacturing clause.³ At that time, legislation had been proposed in the U.S. Congress to further extend the provision beyond its mid-1986 expiration date. Nevertheless, U.S. law was brought into conformity with the panel recommendations when the manufacturing clause expired on June 30, 1986.

*Followup on Nicaraguan complaint on U.S. sugar quotas.*⁴—A panel was established in July 1983, at the request of Nicaragua, to investigate U.S. reduction of quotas on sugar imported from Nicaragua. The report of the panel, adopted in March 1984, concluded that reduction of the sugar quota allocated to Nicaragua by the United States for fiscal year 1984 was inconsistent with the nondiscrimination clause of the GATT.⁵

¹ The United States had refused Nicaragua's request for consultations, arguing that the measure was taken for national security reasons and that the political aspects of the issue were beyond the competence of the GATT.

² A panel established in April 1983 examined an EC complaint regarding sec. 601 of the U.S. Copyright Act, known as the manufacturing clause. According to the EC, the manufacturing clause effectively prohibited imports of certain literary material by an American author into the United States. The report of the panel, concluding that the U.S. manufacturing clause was inconsistent with GATT provisions, was adopted by the Council in May 1984. (GATT, *Basic Instruments and Selected Documents*, 31st Supp., March 1985, p. 74.)

³ This provision prohibited imports into the United States of "nondramatic literary works" in the English language by American authors except for those printed in the United States and Canada. Some version of this clause has accompanied the U.S. Copyright Act since its enactment in 1891 to protect the nascent domestic printing industry. In 1982, legislation extending the expired manufacturing clause was passed by Congress. The clause lapsed on July 1, 1986. A Presidential veto of the legislation was overridden by Congress. For more information, see the *Study of the Economic Effects of Terminating the Manufacturing Clause of the Copyright Law*, USITC Publication 1402, July 1983.

⁴ For further details on this dispute, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 53.

⁵ GATT, *Basic Instruments and Selected Documents*, 31st Supp., March 1985, p. 67.

However, the United States has not carried out the panel recommendations adopted by the Contracting Parties, but recognized Nicaragua's right to take retaliatory measures. Nicaragua had not exercised this option by the end of 1986, stating that such action would be contrary to the spirit of the GATT and to its own national interests.⁶ Nevertheless, Nicaragua continued to raise the issue in GATT Council meetings in 1986, but no further action was taken.

Cases among other countries:

EC complaint on Japanese measures affecting imported wines and alcoholic beverages.—In July 1986, the EC requested consultations with Japan about the level of customs duties, structure of the liquor tax system, and labeling practices affecting wines and alcoholic beverages. Canada also joined in the consultations. In November meetings, the Council considered a request by the EC for a panel to examine the matter, but deferred action on the EC request to the next Council meeting.

EC complaint on certain practices of a Canadian Provincial (Quebec) liquor board.—In March 1985, the Council established a panel under article XXIII:2 at the request of the EC. The EC alleged certain practices of the Quebec liquor board, in particular a markup on the sale price of certain alcoholic beverages, as well as other forms of restriction and discrimination, are unfair under GATT.⁷ As a result, the EC claimed the Quebec liquor board actions resulted in imports receiving less favorable treatment than domestic products. Bilateral consultations continued on the substantive issues but did not resolve the matter. In February 1986, the panel's terms of reference were reported to the Council and by May the panel members were chosen.

Followup on South African complaint on Canadian (Ontario) sales tax.—The dispute between South Africa and Canada began in May 1983 when the Provincial Government of Ontario exempted the Canadian Maple Leaf gold coin from the 7 percent Ontario retail sales tax, but did not exempt imported gold coins from the tax.⁸ At the request of South Africa, the Council established a panel under art. XXIII:1 in November 1984. The panel report, considered by the Council in September and November 1985, concluded

⁶ GATT, *GATT Activities 1984*, June 1985, p. 39. On May 1, 1985, the President embargoed all trade with Nicaragua. The embargo has, in effect, preempted any retaliatory action that Nicaragua might have taken by rendering it meaningless in real terms.

⁷ The importation, distribution, and sale of alcoholic beverages in Canada is controlled by Provincial liquor boards.

⁸ South Africa claimed that sales of the Kruggerand gold coins declined steadily after introduction of this measure. Extended negotiations between Canada and South Africa failed to yield results. Consequently, in July 1984, South Africa formally requested art. XXIII(1) consultations.

that the Ontario retail sales tax was not consistent with the national treatment provisions of art. III:2 that require equal treatment of domestic and imported products and suggested that the Contracting Parties call on Canada to ensure that the actions of the Ontario Province conform to those obligations.¹

Canada reported to the Council, on February 12, 1986, that the Provincial tax measure had been rescinded although it still could not agree to adoption of the report. The panel report was considered again by the Council in May 1986 but was not adopted. The report has not been adopted yet because of objections by Canada and some other delegations to certain other rulings of the panel.²

Customs unions and free-trade areas (art. XXIV)

In February 1986, the GATT Council agreed to set up a working party under article XXIV:5 to examine the effect of accession of Spain and Portugal to the EC. The working party, whose membership consisted of all interested parties, also examined the information on the accession package with a view to determining whether or not tariff and other trade-related changes resulting from enlargement conformed to the GATT. Concurrent with working party activities, article XXIV:6 negotiations were undertaken between the EC and its trading partners. The aim of the negotiations was to determine any compensation due to trading partners as a result of changes in bound tariff levels. The main elements of article 24:6 negotiations were (1) to determine whether or not any GATT bound tariffs had been altered, (2) to examine whether or not and to what extent trade was affected by the changes, and (3) to negotiate compensation, when appropriate. During 1986, article XXIV:6 negotiations were a source of considerable tension in U.S.-EC trade relations, reaching a peak at which the United States threatened substantial trade retaliation if the compensation issue were not resolved.³

Negotiations on modification of schedules (art. XXVIII)

Article XXVIII provides the mechanism by which a contracting party may modify or withdraw

¹ GATT, *GATT FOCUS*, February-March 1986, pp. 1-2.

² For example, Canada agreed with the panel finding that the measure violated national treatment provisions of the GATT but not with the finding that the measure violated MFN principles since only the Canadian Maple Leaf, and no other gold coin, whether produced in Canada or any country abroad, were exempted from the tax. GATT, *GATT FOCUS*, February-March 1986, pp. 1-2.

³ Most issues related to enlargement were resolved between the United States and the EC in early 1987. For more information see ch. 4 section on EC enlargement.

tariff concessions. The contracting party wishing to take this action must enter into negotiations not only with contracting parties primarily concerned, but also with other contracting parties having a substantial interest in the concession. The article is based on the principle of compensatory adjustment in the tariffs on other products to maintain a balance of concessions.⁴ Its provisions are also used when a tariff rate is generally adjusted, or a product is reclassified for administrative or judicial reasons.

Contracting parties wishing to take recourse to the provisions of article XXVIII must notify the GATT and submit a request to the Council for authorization to enter into negotiations. In November 1985, Japan informed the Council of its plan to bring its leather import system into conformity with GATT rules by converting the leather import quotas to tariffs.⁵ As a result, Japan agreed to enter into negotiations under article XXVIII with interested parties on the new or increased tariff measures. In May 1986, Japan presented the Council with final information concerning its article XXVIII action on imports of leather and leather footwear.

Negotiations on the adjustments to GATT tariff schedules will be necessary upon adoption of the Harmonized System tariff nomenclature. Article XXVIII is the vehicle for negotiations on compensation due as a result of changes in GATT bound tariff rates affected by conversion to the Harmonized System. Extensive bilateral discussions were held during 1986 in preparation for formal article XXVIII negotiations that were expected to begin in 1987. During 1986, the United States held preliminary harmonized system discussions under article XXVIII with many of its trading partners.

Accessions to the GATT (arts. XXVI and XXXIII)⁶

The launching of the Uruguay Round negotiations sparked significant interest during 1986 in seeking accession to the GATT by nonmember countries. During 1986, the GATT gained two new members and agreed to consider other

⁴ Art. XXVIII states that "in such negotiations and agreement, which may include provision for compensatory adjustment with respect to other products, the contracting parties concerned shall endeavor to maintain a general level of reciprocal and mutually advantageous concessions not less favorable to trade than that provided for in this Agreement prior to such negotiations."

⁵ See also discussion of the panel case of Japanese leather restrictions in the section entitled "Dispute settlement" earlier in this chapter.

⁶ Art. XXXIII contains the normal procedures for accession under which the Contracting Parties may accept the accession of a new member by a two-thirds majority vote. Art. XXVI states that "if any of the customs territories . . . possesses or acquires full autonomy in the conduct of its external relations . . . such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the fact, be deemed a contracting party." Nations not in this category must accede under the procedures of art. XXXIII.

requests for membership. Hong Kong and Mexico acceded to the GATT in 1986. Working parties considering the accessions of Costa Rica, Morocco, and Tunisia continued their examinations in 1986 and requests for accession by Bulgaria and China were considered. The Soviet Union also reportedly explored the possibility of seeking GATT observer status, potentially leading to moves toward accession. Lacking a positive reception to the idea among GATT members, the

Soviet Union did not file a request.¹

The total number of Contracting Parties currently stands at 93. A full list of GATT members, as of December 31, 1986, is presented in the tabulation below.

¹ *International Trade Reporter*, vol. 3, Aug. 27, 1986, p. 1077. The Soviet Union did, however, formally request to participate in the Punta del Este Ministerial session but the request was denied.

Contracting Parties to the GATT (92, plus 1 Provisional accession)

Argentina	Dominican Republic	Kenya	Rwanda
Australia	Egypt	Korea, Republic of	Senegal
Austria	Finland	Kuwait	Sierra Leone
Bangladesh	France	Luxembourg	Singapore
Barbados	Gabon	Madagascar	South Africa
Belgium	Gambia	Malawi	Spain
Belize	Ghana	Malaysia	Sri Lanka
Benin	Germany, Federal Republic of	Maldives	Suriname
Brazil	Hungary	Malta	Sweden
Burkina Faso	India	Mauritania	Switzerland
Burma	Indonesia	Mauritius	Tanzania
Burundi	Ireland	Mexico ¹	Thailand
Cameroon	Israel	Netherlands	Togo
Canada	Italy	New Zealand	Trinidad and Tobago
Central African Republic	Ivory Coast	Nicaragua	Tunisia ²
Chad	Jamaica	Niger	Turkey
Chile	Japan	Nigeria	Uganda
Colombia		Norway	United Kingdom
Congo		Pakistan	United States of America
Cuba		Peru	Uruguay
Cyprus		Philippines	Yugoslavia
Czechoslovakia		Poland	Zaire
Denmark		Portugal	Zambia
		Romania	Zimbabwe

¹ New members in 1986.

² Provisional accession.

Countries to whose territories the GATT has been applied and that now, as independent states, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (31)

Algeria	Dominica	Papua New Guinea	Swaziland
Angola	Equatorial Guinea	Qatar	Tonga
Antigua and Barbuda	Fiji	St. Christopher and Nevis	Tuvalu
Bahamas	Grenada	St. Lucia	United Arab Emirates
Bahrain	Guinea-Bissau	St. Vincent	Yemen, People's Democratic Republic of
Botswana	Kampuchea	Sao Tome and Principe	
Brunel	Kiribati	Seychelles	
Cape Verde	Lesotho	Solomon Islands	
	Mali		
	Mozambique		

The process of accession under article XXXIII can be complex and time consuming. Application sets off a series of negotiations in which the applicant offers trade concessions to existing contracting parties as an "entry price" for joining the GATT. Normally, a working party is established to study the country's request and information on its trade patterns and the administration of its trade regime. Although unilateral tariff concessions have been the most traditional form of entry concessions, countries joining the GATT in recent years have frequently been asked to make nontariff concessions such as paring down export subsidies, or refraining from dumping practices. Once accepted, however, new members would be on equal footing with other members in negotiating new agreements and mutual tariff reductions in the new trade round.¹

Accessions granted

Hong Kong.—Hong Kong acceded to the GATT under the provisions of article XXVI that provide for a continuation of previous tariff commitments accepted by the state that previously represented the new entrant. The United Kingdom previously represented Hong Kong in the GATT. China will assume administrative authority for Hong Kong after July 1, 1997 and has agreed to an arrangement allowing Hong Kong autonomous status in GATT.

Mexico.—Mexico acceded under regular article XXXIII provisions that entailed examination of Mexico's trade regime by a working party and complex bilateral negotiations on entrance concessions to existing GATT members. The working party on Mexican accession, established in February 1986, had completed its work by July. During the same period, Mexico completed its bilateral negotiations in record time, becoming a full GATT member by the time of the Ministerial session that launched the Uruguay Round.²

Mexico offered a comprehensive package of concessions to GATT members upon its accession. Among the concessions were commitments to bind or lower many tariffs, to continue to phase out many quotas and import license requirements, and to administer NTM's and economic development programs in a GATT-consistent manner.³ Mexico also agreed to join the Tokyo Round agreements on licensing, customs valuation, antidumping, subsidies, and standards.

¹ U.S. International Trade Commission staff publication, *International Economic Review*, February 1986, p. 8.

² GATT Press Release, No. 1389, July 25, 1986.

³ U.S. International Trade Commission, *The Impact of Increased United States-Mexico Trade on Southwest Border Development*, USITC Publication No. 1915, (Nov. 1986), pp. 47-49.

Accessions pending

Costa Rica.—At its meeting in July 1985, the Council considered the application of Costa Rica for provisional accession to the GATT. Costa Rica has stated that its application is linked to a desire to participate in the Uruguay Round of trade negotiations.⁴ The Council established a working party to examine Costa Rica's trade regime. Negotiations continued in 1986 on Costa Rica's application for provisional accession, but the formal process has not yet been completed.

Morocco.—A Moroccan application for accession to the GATT was considered by the Council at its meeting on May 1, 1985. In February 1986, the working party report on the accession of Morocco was completed. The working party recommended that Morocco should be invited to accede and drafted a Decision and a Protocol to that effect.

Tunisia.—During 1986 Tunisia indicated that it was willing to speed up its request for full accession (Tunisia is currently a provisional member), partly because of its broad economic revitalization program that includes moves to liberalize its trade regime.⁵ Tunisia invited the contracting parties to begin consultations on trade concessions they would seek in exchange for accession. Meanwhile, Tunisia's provisional accession was reextended to December 1987.

Requests for accession

Bulgaria.—The Council Chairman reported in November that bilateral and multilateral consultations regarding Bulgaria's September request for GATT accession were positive.⁶ Accordingly, the Council agreed to establish a working party to examine the request. Once Bulgaria has submitted a memorandum on its trade system, the working party will begin its examination.

China.—China formally applied to resume its membership in the GATT on July 15, 1986.⁷ The timing of the request enabled China to attend the September Ministerial meeting launching the Uruguay Round and it will continue to participate fully in the multilateral negotiations. By yearend 1986, a working party was formed to examine the request, and in early 1987, China submitted a

⁴ GATT, *GATT Focus*, November-December 1986, p. 4.

⁵ *Ibid.*

⁶ *Ibid.*

⁷ Its request for "resumption" of membership is based on its earlier status as one of the original contracting parties in 1947, followed by its withdrawal in 1950 after the Communists came to power. In 1982, China was granted observer status at the Annual Session of the Contracting Parties and in 1984 acceded to the MFA (which functions under the auspices of GATT). U.S. International Trade Commission, *49th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1986*, Publication 1958, March 1987, p. 47. See also, Robert E. Herzstein, "China and the GATT," *Law and Policy in International Business*, Vol. 18, No. 2, 1986, pp. 371-417.

memorandum describing its trade regime. Bilateral negotiations will begin in 1987 but, in the case of China, the full accession process is expected to be lengthy.

IMPLEMENTATION OF THE TOKYO ROUND AGREEMENTS

The following section describes the implementation and operation of the nine Tokyo Round agreements and arrangements (informally referred to as the Tokyo Round codes) during 1986,¹ as carried out by their respective administrative committees or councils.² Six of these agreements establish rules of conduct governing the use of NTM's and three are sectorial agreements covering trade in civil aircraft, bovine meat, and dairy products. GATT members are not required to join the codes, and not all have chosen to do so. For this reason, code signatories have assessed the record of operation of the agreements since their entry into force and focused on ways to improve their operation and encourage more GATT members to accede. The current status of participation in each of the agreements, as of yearend, is shown in table 2-2.

Code on Subsidies and Countervailing Duties

The Code on Subsidies and Countervailing Duties, also referred to in short as the Subsidies Code, elaborates upon provisions of the General Agreement concerning the use of subsidies and CVD's. It sets guidelines for resort to these measures and establishes agreed upon rights and obligations to ensure that subsidy practices of one party to the agreement do not injure the trading interests of another party and that countervailing measures do not unjustifiably impede trade.³ During 1986, Hong Kong acceded to the code in its own right, replacing its code status under the auspices of the United Kingdom, bringing code membership to 27.⁴

¹ The Tokyo Round agreements, published in GATT, *Basic Instruments and Selected Documents*, Supp. 26, pp. 8-188, entered into force on Jan. 1, 1980, except for those on government procurement and on customs valuation, which entered into force 1 year later. The customs valuation agreement, however, was implemented earlier (July 1, 1980) by the United States and the EC.

² The committees or councils, composed of the signatories of each code, are charged with overseeing implementation of code provisions and meet two or more times a year on a regular basis. Meetings also may be convened in special sessions to address a particular problem raised by a member. The committees address questions on interpretation of code provisions and code-related disputes among signatories.

³ If one signatory's subsidized exports cause material injury to another signatory's domestic industry, the injured party may either impose CVD's to offset the margin of subsidy or request that the exporting country eliminate or limit the effect of the subsidy. The Code also allows a signatory to seek redress for cases in which another signatory's subsidized exports displace its exports in third-country markets.

⁴ See table 2-2 for a full listing of this Code's membership.

Each year, the Committee on Subsidies and Countervailing Measures reviews the national legislation, reports on CVD actions, and notifications on subsidy programs submitted by signatories. In 1986, the Committee also considered guidelines submitted by its expert group on the calculation of the amount of a subsidy, discussed draft procedures on commitments policy, and held special meetings to address certain disputes among signatories.

During 1986, the Committee examined some of the principal problems that have arisen with respect to the operation of the agreement. Summarizing the discussions, the Committee Chairman listed the following problem areas related to interpretation or application of subsidy rules: improvement of notification; disciplines to prevent serious prejudice; definition of terms such as "more than equitable share," "special factors," and "previous representative period"; export credits; and subsidies on primary components of processed products. On the CVD side, the Chairman mentioned, among other things, natural resource and indirect subsidies, the calculation of the amount of a subsidy, and refining definitions of injury and industry as presenting problems of interpretation and application.

Dispute settlement⁵

During 1986, the Committee undertook conciliation in three new disputes among signatories. In two of these cases, the Committee agreed to establish panels after conciliation efforts could not resolve the issues. None of the previously outstanding panel reports were adopted by the Committee this year.

The first of the new disputes concerned Canada and the United States. A special conciliation meeting was held in July 1986 at the request of Canada. Canada expressed concern about a U.S. CVD investigation on Canadian softwood lumber products. Conciliation did not resolve the issue, and the Committee agreed in August to establish a panel. The second dispute, concerning the EC and Canada, was raised in a Committee meeting in August 1986. The EC complained of a Canadian CVD investigation on imports of boneless manufactured or processed beef from the EC. In October, the Committee agreed to establish a panel.

⁵ A dispute may be brought for settlement under the Subsidies Code when the issues involved are covered by the Code and when parties to the dispute are Code signatories. Under Code dispute settlement procedures, a signatory whose exports are affected may request consultations with the exporting country. If consultations do not yield a mutually acceptable solution, conciliation by the Code Committee is available. If conciliation also fails, the Committee may set up a panel and draw on the panel's findings to make recommendations to the disputing parties. Finally, if the Committee determines that its recommendations have not been implemented within a reasonable period of time, it may authorize the injured party to take countermeasures.

Table 2-2

Signatories to the Tokyo Round agreements: Status as of Dec. 31, 1986

Countries	Standards	Gov't. Procurement	Subsidies	Bovine Meats	Dairy Products	Customs Valuation	Import Licensing	Civil Aircraft	Anti-dumping
<i>Contracting parties:</i>									
Argentina	A ¹			A	A	A ¹	S		
Australia			A ¹	A	A	A	A		A
Austria	A	A	A	A		A	A	A	A
Belgium	A							A	
Belize				Prov.					
Brazil	A		A	A		A ¹			A
Canada	A	A	A	A		A ¹	A	A	A
Chile	A		A				A		
Colombia				A					
Czechoslovakia	A ¹					A	A		A
Denmark	A ¹							A ¹	
Egypt	A		A	A	S		A	S	A
EC ²	A	A	A	A	A	A	A	A	A
Finland	A	A	A	A	A	A	A		A
France	A							A	
West Germany	A ¹							A ¹	
Greece	S							S	
Hong Kong ³	A*	A*	A*			A*	A*		A*
Hungary	A ¹			A	A	A	A		A
India	A		A			A ¹	A		A
Indonesia			A ¹						
Ireland	A							A	
Israel		A	A ¹						
Italy	A							A	
Japan	A	A	A	A	A	A	A	A	A
Korea	A		A			A ¹			A*
Luxembourg	A							A	
Malawi						A ¹			
Netherlands	A							A	
New Zealand	A		A ¹	A	A	A ¹	A		
Nigeria				A*			A*		
Norway	A	A	A	A	A	A	A	A	A
Pakistan	A		A				A		A
Philippines	A		A ¹				A ¹		
Poland				A	A		S*		A
Portugal	A		A ¹				A*	A*	
Romania	A			A	A	A	A	A	A
Rwanda	S								
Singapore	A	A					A		A
South Africa				A	A	A	A		
Spain	A		A			A	A*	A*	A
Sweden	A	A	A	A	A	A	A	A	A
Switzerland	A	A	A	A	A	A	A	A	A
Turkey			A			A ^{1*}			
Tunisia ⁴	A			A					
United Kingdom	A ¹	A ¹	A ¹	A ¹		A ¹	A ¹	A ¹	A ¹
United States	A	A	A	A		A	A	A	A
Uruguay			A	A	A				
Yugoslavia	A		S	A		A	A		A
<i>Noncontracting parties:</i>									
Botswana						A			
Bulgaria				A	A				
Guatemala				A ¹					
Lesotho						A*			
Paraguay				Prov.					
Total signatories	38	13	27	26	16	27	29	22	24

A: Accepted; S: Signed (acceptance pending); '*': new membership in 1986

¹ Reservation, condition, and/or declaration.² The EC is a signatory to all the agreements. Because the Standards agreement and the Civil Aircraft agreement cover matters that go beyond the authority of the EC, each of the EC member states is also a signatory to these agreements.³ Hong Kong, which had been applying several of the codes under the auspices of the United Kingdom, changed its status under the codes in 1986 and is now a signatory in its individual capacity.⁴ Provisional accession to the GATT.

Also in October, the Committee undertook conciliation of a complaint by the EC concerning a Canadian action. A Canadian CVD action against EC pasta products was discussed but the Committee urged the two parties to continue bilateral efforts to arrive at a solution.

Panel reports on EC export subsidies on wheat flour and EC export subsidies on pasta products were submitted to the Committee in 1983 but are still pending.¹ The panel report on the U.S. definition of industry concerning wine and grape products, completed in March 1986, also awaits adoption.²

Notification and review

Through Committee review of notifications, signatories can examine each others' subsidy programs and raise questions regarding consistency with the agreement. In December 1984, the Committee established an expert group to submit guidelines clarifying the procedures and requirements for notification of subsidies.³ In 1986, the group was discontinued, since the discussions had proved unconstructive. The Committee decided in April 1985 that annual sessions would be held on subsidies notifications, but that detailed examination of notifications would be held only once every 3 years. In 1986, countries were only required to update the triannual subsidies notification of 1984. In 1987, full notification will again be required and a special session will review the notifications in the autumn.⁴

Under the exercise in which signatories submit national CVD duty laws for examination by

¹ The United States indirectly addressed the issue of pasta subsidies by raising the tariffs on certain pasta products in retaliation for EC blockage of adoption of the panel report on citrus preferences in July 1985. See the discussion of the EC citrus preferences in *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 1871, June 1986 p. 243. For a detailed discussion of wheat flour and pasta disputes, see the *Operation of the Trade Agreements Program, 34th Report, 1982*, pp. 23-25.

² In February 1985, the Committee established a panel to investigate the dispute concerning an EC complaint that certain provisions of the U.S. Trade and Tariff Act of 1984 contravened the Code. The complaint questioned the U.S. definition of industry for wine and grape products under which grape growers are temporarily granted standing, as part of the wine-producing industry, to file petitions with the U.S. International Trade Commission alleging injury or threat of injury resulting from dumped or subsidized wine imports.

³ In 1984, disagreement surfaced as to precisely what subsidies have to be reported, whether or not only subsidies that do not conform to the Code should be notified, whether or not all subsidy programs should be notified, and what kinds of programs are considered subsidies under the Code. For further elaboration, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 59.

⁴ GATT art. XVI:1 requires all GATT members to respond once every 3 years to a questionnaire regarding the host country's subsidy programs and to update these notifications in the intervening years.

the Committee, 21 of the 26 members have thus far presented their legislation. During 1986, the Committee examined the legislation of Austria, Chile, India, Korea, Pakistan, the Philippines, and Sweden and discussed some points related to U.S. legislation. Signatories are also required to submit semiannual reports on all CVD actions. These reports were discussed by the Committee, and members exchanged information on cases of particular interest. In 1986, the Committee modified the form for submitting semiannual reports and suggested that the reviews of outstanding CVD measures be included in the reports. A summary of semiannual reports which cover CVD actions taken in 1986 appears in table B-1, except for the report of the United States. U.S. CVD actions are discussed and listed separately in chapter 5.

Group of Experts on the calculation of a subsidy

The Group of Experts is charged with resolving signatories' differing interpretations on the calculation of the amount of a subsidy. The Group of Experts examined several issues in 1986, including export restrictions, indirect subsidies, subsidies granted for research and development purposes, certain aspects of drawback systems, and the criteria for distinguishing between subsidies and other measures with trade-distorting effects. In 1986, however, the group was unable to reach agreement on any draft guidelines to submit to the Committee.⁵

Working party on obstacles to acceptance

In April 1986, the Committee established a working party to examine obstacles faced by contracting parties in accepting the Code. The request for the working party, first discussed at the November 1985 annual session of the Contracting Parties, grew out of the concern voiced by developing countries with the strict U.S. application of article 14:5 of the Code.⁶ Assigned to examine the extent to which such practices impede accession to the agreement, the working party met to exchange views in June 1986. The working party requested the GATT Secretariat to prepare background information on article 14:5 for consideration at its next meeting.

⁵ During 1985, the group submitted and the Committee adopted guidelines covering (1) amortization and depreciation, and (2) physical incorporation.

⁶ Art. 14:5 of the Code stipulates that developing countries "should endeavor to enter into a commitment to reduce or eliminate export subsidies" that are "inconsistent with its competitive and development needs." During 1984, a group of developing countries argued that strict application of art. 14:5 commitments ignores the Code provision for "special and differential treatment" of developing countries. Under its policy regarding this provision, the United States has declined an injury test in CVD cases if signatories do not make an acceptable commitment to discipline trade-distorting export subsidy practices. The Committee examined draft procedures for commitments under art. 14:5 in March and April 1985, but was unable to agree to adopt them.

Government Procurement Code

The Government Procurement Code entered its sixth year of operation in 1986.¹ The code requires governments to allow foreign firms to compete for Government contracts that meet specified criteria.² It also established common and more transparent procedures for providing information on proposed purchases, opening and awarding bids, and settling disputes.

The Committee on Government Procurement, which administers the code, met five times in 1986. The primary focus of the Committee's work concerned renegotiation of the agreement, as required in article IX:6(b). The Committee also discussed problems in implementation and administrative matters.

Renegotiations

Article IX:6(b) provides that no later than 3 years after the code enters into force, negotiations must be undertaken to broaden and improve the agreement. The renegotiations, formally launched at the Committee's November 1983 meeting, have three main aims: (1) improving the code's operation; (2) exploring the possibility of applying the agreement to service and leasing contracts; and (3) broadening the code, either by covering additional entities, or by lowering the threshold level.

An informal working group was established in February 1985 to redraft proposals for improvements in the code. This group met six times in 1986. During its first meeting, the Committee heard statements from delegates concerning the relationship between article IX:6(b) negotiations and the new round of MTN, agreeing that intensified efforts were required in order to conclude the negotiations by mid-1986. The panel also discussed various viewpoints regarding the three main objectives of the renegotiations. The working group continued negotiations throughout the next several months and by the October meeting of the full Committee, only three issues relating to textual improvement of the code remained unresolved. At this time, the full Committee agreed to aim for November 1986 as a deadline for resolving these remaining issues.

¹ The thirteen signatories of the agreement are listed in table 2-2.

² Most governments employ procurement practices that limit foreign competition. Art. III of the GATT specifically states that GATT rules restricting the use of internal regulations as barriers to trade do not apply to "procurements by governmental agencies of products purchased for government purposes." This exclusion allows GATT signatories to discriminate against foreign suppliers or products in buying products for their own use. Countries that sign the Agreement on Government Procurement agree not to discriminate against other signatories in procurements by specific government agencies (referred to as code-covered entities) under certain conditions. For further details, see the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 71.

On November 21, 1986, the Committee completed the first phase of the renegotiations. The Committee reached the following agreements relating to all three renegotiation objectives: (1) to continue negotiations aimed at increasing the number of agencies and procurements, particularly in the sectors of telecommunications and heavy electrical and transportation equipment; (2) to work towards code coverage of service contracts; and (3) to adopt a series of amendments to improve the functions of the code.

First, the agreement concerning entity expansion obligates code signatories to continue working in this area, including exchanging information on noncode covered entities and procurements and considering new approaches to the negotiations. Secondly, with regard to the inclusion of services under the code, the Committee expanded the original negotiating mandate that obligated signatories "to explore" the possibility of covering services contracts to "work toward coverage" of services contracts. According to the Committee's decision, signatories are required to undertake a detailed examination of the nature and scope of government service contracts to determine whether or not the current code provisions can be applied to services and to identify changes that may be needed. Signatories are obligated to take into account the importance of nondiscrimination and national treatment during this process.³

The most important decision reached during the first phase of the renegotiations was the adoption of several amendments designed to improve the operation of the code. The United States sponsored the majority of proposals contained in these amendments, which in effect will bring code provisions in closer conformity to U.S. practice. The amendments will take effect on January 1, 1988, allowing time for signatories to adjust their national laws.

One of the most important amendments extends code coverage to leasing contracts, an area previously excluded from the transparency provisions of the code. This amendment is expected to increase commercial opportunities in the computer sector, particularly since many governments choose to lease rather than purchase such equipment. Secondly, the minimum threshold for contract values was reduced by 13 percent from 150,000 SDR's (US\$171,000 in 1987) to 130,000 SDR's (US\$148,000 in 1987). The United States is expected to benefit from this amendment since a large portion of purchases by code signatories are valued at less than 150,000 SDR's.

³ The second phase of the renegotiations resumed in February 1987 and focused on expanding the code to entities and services. The Committee agreed to expedite this phase of the renegotiations, which is considered to be independent of the Uruguay Round negotiations.

Another amendment raises the time limit for bidding on contracts to make it easier for foreign suppliers to compete for bids. The minimum period for the receipt of tenders was increased from 30 to 40 days after the contract is advertised. This amendment is expected to assist bidders on high-technology contracts that often involve complex bidding requirements by giving suppliers more time to formulate competitive proposals. Under another amendment, member states will be required to publish notices within 60 days of a code-covered contract award, specifying such items as the value of the contract and the name and address of the supplier. An additional amendment tightens provisions relating to recurring contracts, or contracts spread over long periods of time, to ensure that such purchases do not escape code coverage. Other amendments adopted by the Committee include increasing the transparency of single tendering, extending the principles of national treatment to locally established suppliers, increasing discipline over the use of supplier qualifications, and clarifying the provision relating to "reasonable" delivery time.

Problems in implementation

The EC's practice of netting out value-added taxes (VAT) before determining whether or not the value of a contract falls below the code's threshold requirement has been a recurring implementation issue since 1982. A May 1984 panel report concluded that this practice was inconsistent with the code's requirements. At the Committee's meeting in October 1986, the United States reminded delegates that it had been 2-1/2 years since the adoption of the report and urged members to adopt a formal resolution calling for the EC to bring its practices into conformity with its code obligations. The Committee agreed that if the EC did not follow the panel report's findings by its next meeting in February 1987, other parties would be free to make compensatory withdrawals of benefits from the EC.¹

Administrative matters

At its December 1985 meeting, the Committee decided to refrain from applying the code to Spain and Portugal until acceptable entity lists² were negotiated. In June 1986, the EC submitted a list of proposed entities on behalf of Portugal, and the Committee agreed that unless the Secretariat was notified of objections by October 15, the list would be considered acceptable. Following a close review of the entity list, the United

¹ This long-standing issue was resolved at the Committee's February meeting when the EC offered to unilaterally reduce its threshold level of coverage by 13 percent. The justification for the 13-percent reduction was that this level represented the average incidence of the VAT for code-covered entities.

² List of specific government agencies whose purchases are covered under the code.

States notified the Secretariat that it was not prepared to apply code benefits to Portugal because it had not taken actions to bring its legislation and regulations relating to government procurement in line with code obligations. At its October meeting, the Committee decided to postpone application of the agreement to Portugal until conformity of its laws could be ensured.

Standards Code

The Standards Code, formally known as the Agreement on Technical Barriers to Trade, entered into force on January 1, 1980. Its aim is to ensure that technical regulations and product standards³ do not create unnecessary obstacles to trade.⁴ As of December 31, 1986, there were 38 signatories to the code. The Committee on Technical Barriers to Trade, which administers the code, met three times in 1986 to discuss proposed improvements to the code, possible expansion of its coverage, and problems in implementation.

During 1986, the Committee agreed to compile a list of code-related subjects to be addressed during the Uruguay Round of trade negotiations. The Committee also continued preliminary discussions of the following proposals: the negotiation of an agreement that would lead to increased acceptance of test data generated by other parties; transparency in bilateral agreements between parties on standards, testing, and certification; ensuring compliance by regional standards bodies with the transparency provisions of the agreement; and the establishment of a code of good practice for nongovernmental standardizing bodies. In addition, the Committee considered two proposals relating to the manner in which translations of documents regarding notifications could be exchanged.

The Committee continued discussions to revise article 5.2 of the code regarding the mutual acceptance of test results among parties. The Committee agreed to a proposal that any inspection and testing be conducted in accordance with the International Standards Organization's principles, but postponed further discussion regarding this issue until later meetings.

The United States reintroduced its proposal of October 1985 to improve transparency of bilateral standards-related agreements. The proposal

³ Standards are specific, written descriptions of special characteristics or parameters of products; they establish quality, performance, safety, measurement, or other characteristics of products. Mandatory standards are those that must legally be met in order to sell the product. Voluntary standards are those that are not legally required.

⁴ Signatory governments are required to ensure that technical regulations and standards are not prepared, adopted, or applied in such a way as to obstruct international trade. Whenever possible, standards are to be stated in terms of performance characteristics, rather than specific designs. The agreement also seeks to further open national standards setting procedures to foreigners by allowing interested foreign parties time to comment on proposed standards.

received support from several delegations, but the Committee did not reach a consensus. The issue of transparency of bilateral agreements will be brought up for discussion during Committee meetings in 1987.

During the second 3-year review of the operation of the agreement in 1985, the United States submitted a proposal to improve transparency of regional standards activities. During 1986, the United States reiterated its concerns regarding the lack of transparency in regional standards activities, noting that regional standards-making bodies are biased towards the technologies used by industries in their member countries. The closed nature of such organizations gives producers in member countries an advantage in adapting to new standards since they are given advance notice and information regarding standards development. The United States, for the first time, specifically cited the European Conference of Posts and Telecommunications (CEPT) as being an example of an organization in which outside parties have no opportunity to participate, observe, or comment on draft standards.

During its last meeting, the Committee agreed to prepare a nonexhaustive list of subjects to be addressed during the Uruguay Round. The United States submitted an initial list of items that included testing and type approval, transparency in bilateral standards-related agreements, transparency in regional standards activities, and processes and production methods. The EC's priorities for the new round of MTN include testing and inspection, extending code obligations to State and local governments and developing a code of good conduct for nongovernment standardizing bodies.

In June 1986, the United States and West Germany continued bilateral discussions that began in 1983 on standards trade issues. The discussions centered on five subjects: (1) general standards policy; (2) EC standards policy; (3) third-country issues; (4) standards code matters; and (5) specific product issues. West Germany agreed to seek resolution of six specific U.S. standards concerns, the most important being medical devices, but little progress was made during the June discussions. The issue of medical devices arose in January 1986 when West Germany implemented a new regulation for medical devices, but failed to notify the GATT until April, four months after it became law. The United States has informed West Germany that it is considering filing a violation case under the Standards Code.

In December 1985, the EC approved a directive providing for a total ban on the nontherapeutic use of growth hormones in animals used for food production. This action was taken as a result of concerns regarding the toxicity and possible harmful effects of such substances on

consumers. The directive is scheduled to be applied to third countries on January 1, 1988. The United States believes that there would be a large drop in U.S. exports of red meat to the EC if the directive is applied. During bilateral discussions with West Germany, the United States reiterated its opposition to the ban on growth hormones, claiming that the directive is not based on firm scientific data. The United States noted that the directive seems to violate the Standards Code principle that certification systems should not create "unnecessary" obstacles to trade.¹

Agreement on Import Licensing Procedures

In 1986, the Committee on Import Licensing held two meetings: one (its fifteenth) in March, and one (its sixteenth) in October.² The signatories also held several informal consultations during the year. Discussions on compliance with the Agreement on Import Licensing Procedures (the agreement) continued as signatories requested additional clarification concerning the practices of others, or responded to questions.³ For example, the United States questioned Japan about the number of import licenses it granted on leather and leather footwear over a recent time period, and on their compliance in making public their current import quotas for agricultural commodities as required in the agreement. The Committee also pursued the examination of its work program.

At the March meeting, the EC informed the Committee that Spain and Portugal will no longer be observers but that, as members of the EC, they will participate in the work of the Committee. The October meeting opened by welcoming Hong Kong, Nigeria, and Poland as new signatories to the agreement. As of October 16, 1986, the agreement had 29 signatories.⁴

Customs Valuation Code

The Customs Valuation Code, formally titled the Agreement on Implementation of Article VII, establishes a uniform system of rules to determine

¹ Late in January 1987, the United States initiated consultations with the EC under Art. 14.1 of the code's dispute settlement procedures, but the two sides failed to reach a compromise. At the next Committee meeting on Mar. 9, the United States will request that a dispute settlement panel investigate the case.

² The Agreement on Import Licensing Procedures entered into force on Jan. 1, 1980, committing signatory governments to simplify procedures importers must follow to obtain import licenses. Products traded internationally are sometimes subject to bureaucratic delays and additional costs as a result of cumbersome import-licensing systems. Such systems therefore act as barriers to international trade.

³ See also the *Operation of the Trade Agreements 2-20 Program, 37th Report, 1985*, p. 78.

⁴ For a full listing of the signatories, see table 2-2.

the customs value for imported goods.¹ The agreement provides detailed rules for determining the value of imported goods used as a basis for assessing ad valorem customs duties. The rules are designed to promote a fair, uniform, and neutral system of valuation and to preclude the use of arbitrary or fictitious values.² With greater uniformity of practices applied by signatories, exporters and importers are able to estimate more reliably how their goods will be valued by customs authorities. Turkey and Lesotho joined the code in 1986, bringing to 27 the total number of signatories.³

Certain changes in signatory status also occurred in 1986. Hong Kong, which had previously been applying the agreement under arrangement with the United Kingdom, became a member in its own right in April 1986. Having become members of the EC in 1986, Portugal and Spain reviewed their status under the code. Portugal notified withdrawal of membership in its individual capacity in June 1986. Spain indicated its intention to do so, but did not formally notify the code during 1986. In addition, three countries that had invoked the provisions for delayed implementation began applying the provisions of the code. These countries included Spain, the Republic of Korea, and Brazil.⁴

Committee activities

During 1986, the Committee on Customs Valuation discussed various topics relating to the code's operation. To promote transparency, the signatories must inform the Committee of changes

in customs laws and regulations and in their administration. Technical assistance, to aid developing countries as they join and prepare for application of the agreement, continues to be a priority activity. During 1986, the Committee examined the national implementing legislation of Brazil, Canada, Czechoslovakia, and the Republic of Korea.

In 1986, the Committee reviewed the status of the application of two decisions adopted in 1984—one on the treatment of interest charges and the other on the valuation of computer software.⁵ Both items are to remain on the agenda in 1987 while relevant material submitted by signatories is reviewed.

At its April meeting, the Committee discussed the activities of private inspection companies involved in the valuation of goods on behalf of governments. The issue, raised by the United States, also sparked the concern of other signatory countries.⁶ The Committee agreed to explore the implications of this matter for the operation and implementation of the agreement and the accession of additional countries. After further discussions in November, signatories were requested to make any relevant information available to the Committee. Detailed information on country experiences with these companies contracting with governments is to be prepared by delegations for the March 1987 meeting.

The Committee also continued consultations on possible accession with observer countries. Twenty-one GATT contracting parties have observer status at meetings of the Committee.⁷ Technical assistance aimed at assisting countries in their consideration of joining the code is being provided by the Customs Valuation Committee and its subsidiary, the Technical Committee.

Technical Committee

During 1986, the Technical Committee reported to the Customs Valuation Committee that it had adopted texts on several issues. Among the texts adopted were a list of examples that illustrate the meaning of the expression "sold for export to the country of importation," a study on treatment of rented or leased goods, a case study of leased goods, and an advisory opinion on the treatment of quantity discounts.

¹ The Customs Valuation agreement entered into force internationally on Jan. 1, 1981, although the United States and the EC agreed to implement the agreement on July 1, 1980.

² The agreement establishes a primary method of valuation and a series of alternative methods to be applied in a prescribed sequence. First, the transaction value method, is when the duty is levied on the price actually paid or payable for the goods with a limited number of adjustments. If the primary method is not feasible, the second alternative is to use the transaction value of an "identical" good sold to the same importing country. The third method uses the transaction value of a "similar" goods that's sold. If none of these methods are possible, other reasonable means consistent with the agreement may be used. A signatory to the agreement is permitted to determine customs value on either an f.o.b. (free on board) or c.i.f. (cost, insurance, and freight) basis. The United States uses f.o.b., and most other countries use c.i.f.

³ See table 2-2 for a full listing of this code's membership.

⁴ Of the code's 27 signatories, 21 (counting the EC member countries as one unit) are currently applying the agreement and the remainder have delayed application under the provisions of art. 21:1 of the agreement. Those now applying the agreement include Australia, Austria, Botswana, Brazil, Canada, Czechoslovakia, the EC, Finland, Hong Kong, Hungary, Japan, the Republic of Korea, New Zealand, Norway, Romania, South Africa, Spain, Sweden, Switzerland, the United States, and Yugoslavia.

⁵ See *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 80.

⁶ The United States raised the issue in the committee as a result of a sec. 301 petition filed by the Florida Exporters' Association. The petition was withdrawn as a result of a commitment made by the USTR to pursue the matter on several fronts, including the Code Committee.

⁷ These countries are Bangladesh, Chile, Colombia, Cuba, Egypt, Indonesia, Israel, Ivory Coast, Malaysia, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Poland, Singapore, Sri Lanka, Thailand, Trinidad and Tobago, Turkey, and Zaire.

Antidumping Code

The Antidumping Code¹ prescribes the proper conduct for antidumping investigations and the imposition of antidumping duties based on provisions of the General Agreement. It sets guidelines for the use of these measures and related practices such as retroactive application of antidumping duties and price undertakings.² The agreement also obligates developed countries to give special consideration to the developing countries before applying antidumping duties. Korea joined the Code in February 1986, bringing to 24 the total number of signatories.³

Committee activities

Regular activities of the Committee on Antidumping Practices include reviewing national antidumping legislation and antidumping actions reported by signatories. The Committee has charged an ad hoc group with drafting recommendations on the interpretation and implementation of various aspects of the Code. The results of the group's work are then reviewed by the Committee. The Committee is also responsible for conciliation of formal disputes among signatories.

Notification and review

The Committee discusses questions raised by members regarding the consistency of national legislation with the Code's provisions and complaints by parties regarding antidumping actions taken against their exports. During 1986, the Committee reviewed the antidumping legislation of Austria, Australia, Canada, India, Korea, Pakistan, Sweden, and the United States. The Committee also reviewed an amendment to Finland's antidumping law. Also during 1986, the Committee reviewed an inventory prepared by the Secretariat that compiled procedures for review and revocation of antidumping measures contained in national legislation and regulations of signatories.

Parties to the agreement report antidumping actions to the Committee on a semiannual basis. In October 1986, the Committee adopted a revised form for submitting semiannual reports. Antidumping actions reported by signatories in

¹ The agreement, formally called The Agreement on Implementation of Article VI of the GATT, was negotiated during the Tokyo Round in 1973-79 as a replacement to the original Antidumping Agreement. The renegotiation was conducted to bring certain provisions, especially those concerning determination of injury, price undertakings, and the collection of antidumping duties, into line with similar provisions in the Agreement on Subsidies and Countervailing Duties also concluded in the Tokyo Round.

² In price undertakings, the exporter volunteers ". . . to revise its prices or to cease . . . [dumping] . . . so that the authorities are satisfied that the injurious effect of the dumping is eliminated."

³ See table 2-2 for a full listing of this Code's membership.

1986, except those of the United States, are contained in table B-2. Actions undertaken by the United States are discussed and listed separately in chapter 5.

Ad hoc group on implementation of the Code

During 1986, the Committee considered a draft recommendation regarding the definition of input dumping⁴ that had been submitted in 1984 by the ad hoc group. The Committee remained unable to obtain agreement to adopt the recommendation. Meanwhile, the ad hoc group continued work on proposed recommendations on such issues as constructed value, cumulative injury assessment, the use of price undertakings in proceedings involving imports from developing countries, and revision and termination of undertakings.⁵ The group also continued its discussions on the issues of definition of sale throughout 1986 without reaching any conclusions. The matter of definition of sale has bearing on a conciliation request tabled by the EC in 1984.⁶

Agreement on Trade in Civil Aircraft

The Agreement on Trade in Civil Aircraft provides for duty-free treatment of identified civil aircraft, civil aircraft engines, and civil aircraft parts. These products are enumerated in three lists in the annex to the agreement: The Customs Cooperation Council Nomenclature (CCCN) list, the Tariff Schedules of the United States (TSUS) list, and the Canadian Tariff Schedule (CTS) list. The agreement also seeks to eliminate NTM's, such as the use of official export credits and certain government purchase policies. With the accession of Spain and Portugal to the EC in 1986, both countries joined the Code, bringing the total number of signatories to 22.⁷

The full Committee met in April and October to continue work on the conversion of the annex into the Harmonized System nomenclature as well as the methods of incorporating aircraft concessions expressed in the Harmonized System in GATT schedules and national tariffs. In early 1986, the Technical Subcommittee completed its

⁴ Input dumping refers to exports of a product, whether or not itself dumped, that contain inputs purchased internationally or domestically at dumped prices.

⁵ During 1984, the Committee adopted a paper, drawn up by the ad hoc group, entitled "Best Information Available in Terms of Article 6:8," that addressed the use of "best information available" during an investigation, and that recommended procedures signatories should follow prior to using such information.

⁶ In March 1984, the EC requested the Committee to conciliate a dispute with Canada over a Canadian antidumping investigation against sales of electric generators from Italy. Conciliation was postponed because the Committee sought the assistance of the ad hoc group, particularly in examining the Code's definition of a sale. Conciliation was not resumed in 1985 or 1986 in view of the continuing efforts by the ad hoc group.

⁷ For further details on membership of the agreement, see table 2-2.

mandate to transpose the lists of the annex into a single consolidated list in the Harmonized System nomenclature. At a special meeting held on December 2, the Committee finalized the transposition in a protocol amending the annex to the Code. The protocol is to enter into force for those signatories who have accepted it on January 1, 1988, or on the date of entry into force of the Harmonized System, whichever is later.

Informal discussions between the United States and the Airbus partner governments were also reported to the Committee. U.S. officials indicated that as far as the United States was concerned, the key issue to the United States was agreed interpretation of mutual obligations under the agreement, particularly on matters relating to aircraft procurement decisions and government support for civil aircraft programs.¹

Finally, Code delegations were requested to formulate specific proposals for improvement of the agreement. These proposals are scheduled to be examined by the Committee in April 1987.

International Dairy Arrangement

The primary objectives of the GATT International Dairy Arrangement (IDA) are to expand and liberalize world trade in dairy products by improving international cooperation.² Activities under the arrangement, which also includes protocols on certain milk powders, milk fat (including butter), and certain cheeses, are coordinated by the International Dairy Products Council.³ As of November 1, 1986, 16 signatories (including the EC representing its member states) constituted the total membership of the arrangement.⁴

During the 1986 review of prices, the International Dairy Products Council decided to raise minimum export prices for certain dairy products effective October 2, 1986. The new minimum prices per ton are as follows: certain cheeses were raised to US\$1,030 f.o.b. from the previous minimum of \$1,000; the minimum export price for whole milk powder was raised to US\$880 from \$830; and the minimum export prices for skimmed milk powder and buttermilk powder were raised to \$680 from \$600.⁵

During 1986, as is required annually, the Council evaluated world market conditions for dairy products and reviewed the functioning of the agreement. To accomplish this task, the Council normally considers such items as national poli-

cies, food aid, data regarding products, and reports of the Committees that oversee the three protocols. The Council expressed concern that world milk production had continued to expand in spite of measures implemented to limit milk production. Milk supplies were again excessive in 1986, and surplus stocks of certain dairy products, particular butter and milk fat, continued to increase having a depressive effect on the market.⁶ The signatories also expressed optimism that the Uruguay Round would reverse protectionism in the dairy sector, liberalize dairy trade, and provide scope for wider participation in the IDA.

Arrangement Regarding Bovine Meat

The Arrangement Regarding Bovine Meat (the arrangement) promotes international cooperation towards expansion, liberalization, and stabilization of trade in meat and livestock.⁷ In March 1986, Nigeria joined the arrangement, bringing its total membership to 26 signatories (representing 38 countries counting the individual EC members).⁸ The signatories include all major beef exporting and importing countries, except the Soviet Union. Under the arrangement, the signatories collect and distribute data on production and trade. They also consult on market conditions and discuss problems raised by members.

During 1986, the International Meat Council (IMC), which administers the arrangement, considered several proposals intended to improve its effectiveness. None of the proposals were ripe for final adoption in 1986. Two of the proposals suggested the use of objective criteria or indicators for determining the presence and extent of imbalances within meat markets.⁹

Other proposals considered by the IMC suggested the preparation by the Secretariat of documentation on support and intervention mechanisms in place in producer countries and the enlargement of the arrangement's data base to include data on nonparticipants in the arrangement. Concerning enlargement of the data base, the IMC agreed to survey all GATT members currently not signatories to the arrangement concerning their position on the proposal.

⁶ For a discussion of the controversy over reduced-price sales of surplus butter stocks that led to U.S. withdrawal from the arrangement, effective Feb. 14, 1985, see *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 72.

⁷ GATT, *Basic Instruments and Selected Documents*, Supp. 26, p. 84.

⁸ See table 2-2 for a full listing of Code members.

⁹ These proposals stem from discussions held over the past 3 years to consider complaints by members, such as Argentina, New Zealand, and Uruguay, about perceived imbalances in the international meat market. These members claimed that EC subsidies on bovine beef exports, contrary to art. I of the arrangement, had boosted the EC's market share, making it a major world supplier, and destabilized the world meat market. (See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 73.)

¹ For a full discussion of this issue, see ch. 4 section on the EC.

² GATT, *Basic Instruments and Selected Documents*, Supp. 26, p. 91.

³ The three protocols annexed to the Arrangement are the Protocol Regarding Certain Milk Powders, the Protocol Regarding Milk Fat, and the Protocol Regarding Certain Cheeses.

⁴ See table 2-2 for a full list of members.

⁵ GATT Press Release No. 1398, Oct. 6, 1986.

CHAPTER 3

TRADE ACTIVITIES OUTSIDE THE GATT

INTRODUCTION

Although the GATT provides the broad international framework for conducting international trade, several other organizations also deal with international trade issues, notably the OECD and the UNCTAD. The OECD and the UNCTAD provide forums for consultation and policy coordination on issues including, but not limited to, trade. They cover a wider range of subjects than the GATT, but they do not aim for the same degree of specific international obligation required of GATT members. Nevertheless, the work of these organizations often complements the work done in the GATT. Other bodies such as the Customs Cooperation Council (CCC) and the international commodity organizations cover a narrower purview than the GATT, but provide a basis for coordinating and regulating certain specific aspects of international trade.

This chapter discusses U.S. participation in the OECD, the UNCTAD, the CCC, and international commodity organizations. It also covers the U.S. bilateral investment treaty program, U.S.-Israel Free-Trade Area Agreement, the U.S.-Soviet grain supply agreement, and progress on trade agreements in the services sector.

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

The OECD is essentially a forum for consultation to facilitate policy coordination on a broad range of economic issues facing industrialized countries.¹ The objectives of the organization are to (1) promote financial stability and economic growth of members, (2) promote sound economic development of nonmembers, and (3) expand world trade on a multilateral, nondiscriminatory basis. Its decisions are not binding on individual members. This section is limited to the organization's trade-related activities.

OECD ministers held their annual Ministerial Council meeting on April 17 and 18. In a joint communique issued after the meeting, the ministers referred to an improving overall economic situation in OECD countries and voiced confidence in future growth, despite continuing concerns and difficulties. They noted favorable trends among OECD members in economic growth, inflation, employment, rectifying exchange-rate imbalances, interest rates, and oil prices. They added, however, that unemployment, especially among the young, remained a problem in many OECD countries.

The ministers outlined four specific levels of cooperative policy initiatives that could support stronger OECD growth trends. Policies identified were macroeconomic policies, structural policies, relations with developing countries, and trade policy. The ministers cited the importance of macroeconomic policies supporting economic growth and employment in the medium term by emphasizing low inflation and reducing domestic and international imbalances. For the longer term, specific macroeconomic policies cited to combat these imbalances were cutting the U.S. budget deficit and increasing domestic demand and imports in Japan. In reference to structural policies, the ministers called for "strenuous efforts" to revamp agricultural policies in order to encourage structural adjustment in this sector, reduce budget expenditures, rectify agricultural market imbalances, and lower international tensions. Concerning relations with developing countries, the ministers agreed to support policies improving economic cooperation with developing countries in finance, trade, investment, technology, and other areas, which would facilitate economic growth in developing countries. Regarding trade policy, ministers vowed to reinforce the multilateral trading system, strengthen its provisions and disciplines, and expand trade liberalization as widely as possible in a new round of trade negotiations.

In reviewing progress on reduction of trade barriers, the OECD ministers acknowledged that protectionist pressures and new trade restrictions have continued, but at a slower pace than previously. They also pointed to modest results in reduction and elimination of trade barriers that help to contribute to confidence for a new round of trade negotiations.

Turning to the subject of international trade in services, the ministers stated that multilateral negotiations on trade in services "would contribute importantly to trade liberalization." They urged active pursuit of related work in the OECD, especially application of general concepts to individual service sectors. The ministers also called for increasing the effectiveness of the Code of Liberalization of Current Invisible Operations and other OECD instruments relevant to trade in services to facilitate liberalization among OECD members in as many sectors as possible. The ministers requested the Secretary General to report on progress in this area at the 1987 Council meeting.

On the subject of investment policies, the ministers observed that expanded liberalization of

¹ Current members of the OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The Commission of the EC and Yugoslavia, under special status, also take part in activities of the organization.

investment policies in individual member countries would enhance prospects for such liberalization on a multilateral basis. To that end, the ministers welcomed the effort by member countries to strengthen the OECD Code of Liberalization of Capital Movements and the national treatment instrument.

Agricultural Trade

During 1986, continued surpluses of several agricultural products contributed to further international tension in agricultural trade. At the 1986 Ministerial Council meeting, members called for urgent efforts to reorient agricultural policies in order to facilitate structural adjustment in the sector, reduce budgetary imbalances, and diffuse international economic tensions.

In its annual outlook for agricultural policies and markets, the Committee on Agriculture noted the serious oversupply in principal world agricultural markets in 1986, and voiced little optimism for improvement in the short or medium term. In summing up the surplus in virtually all agricultural sectors of most OECD countries, the Committee concluded that these problems confirm that the agricultural market's disequilibrium is structural in nature. Declining farm incomes, increased agricultural budgetary expenditures, and desperation by many countries to export "at any price" were cited as symptoms of the disequilibrium by the Committee. To rectify the problems facing world agriculture, the Committee suggested that both immediate and long-term measures by member countries would be necessary to foster adjustment of the sector. In the short term, the Committee suggested that OECD governments could agree not to increase direct or indirect support policies affecting agricultural production and trade. In the long term, the Committee reported that policy modifications could take place in a multilateral context, to ensure fair distribution of the readjustment burden, and to provide for compatibility of those policies between countries. Such a coordinated, multilateral effort, the Committee reasoned, would contribute to the development of the upcoming GATT round, which is slated to include agricultural trade in its discussions.

Work on the three-part OECD agricultural trade mandate concluded in 1986. The program, mandated in 1982, was designed to boost progress on strengthening international cooperation on agricultural trade and to develop "practical multilateral and other solutions" to problems facing the sector. Part I of the program consists of a multi-product economic model examining possible methods and effects of "a balanced and gradual reduction of protection." Part II studies the effect of national policies on agricultural trade for

seven OECD members.¹ In late 1986, part III was completed. The third part synthesizes the findings of the first two parts and sets forth specific recommendations and guidelines for improving performance in world agricultural trade. The report, after consideration by the agricultural and trade committees, is expected to be approved and released by the Ministerial Council meeting in May 1987.

Export Credits Arrangement

The Arrangement on Guidelines for Officially Supported Export Credits (the arrangement) was designed to regulate government-supported subsidies on export credits. Every 6 months (in January and July) the OECD rates are subject to automatic revision to reflect changes in the market rates of interest among member countries.² Interest rates established on July 15, 1986, are presented in table 3-1. At that time, the rates were adjusted downward 1.4 percentage points from the January 1986 levels, the fourth movement since the automatic mechanism was agreed upon in October 1983.³

The arrangement also contains rules governing length of credit, downpayments, and mixed credits. During 1986, as in previous years, the United States argued at the OECD for changes in the guidelines governing mixed credits. Mixed credits are used by developed countries to lower the interest rate on a financing package for qualified developing country buyers by combining commercial credits with foreign assistance funds.

According to the Reagan administration, the increasing use of mixed credits by developed countries has caused U.S. firms to lose key export sales—particularly in the high-technology goods sector—and has diverted funds away from development assistance. In order to discourage the use of subsidized credits by OECD countries, the administration advocates raising the minimum allowable level of aid in a mixed-credit package from 25 percent of the total to at least 40 or 50 percent, thereby making them prohibitively expensive. As an additional U.S. tool to induce changes in the mixed credit rules, legislation was enacted in 1986 providing the U.S. Export-Import Bank with a \$300 million "war chest." The funds are earmarked for bidding on foreign contracts when other developed countries have used mixed credits the United States perceives as unfair. The funding is intended to force export

¹ The seven members studied are the United States, the EC, Austria, New Zealand, Japan, Canada, and Australia.

² For a more complete discussion of the automatic adjustment mechanism, see the *Operation of the Trade Agreements Program, 35th Report, 1983*, USITC Publication 1535, pp. 118-119.

³ Interest rates did not change on Jan. 15, 1987.

credit rule changes by making their continued use increasingly expensive.¹

Table 3-1

Minimum interest rate guidelines set on July 15, 1986, for officially supported export credits, by repayment periods¹

Country type ²	2 to 5 years		Over 5 years	
	Present	Former	Present	Former
Relatively rich . . .	9.55	10.95	9.80	11.20
Intermediate	8.25	9.65	8.75	10.15
Relatively poor ³ . .	7.40	8.80	7.40	8.80

¹ The rates adopted in January 1986 are shown in the "Former" column.

² Relatively rich countries are defined as having per capita Gross National Product (GNP) over \$4,000; intermediate, per capita GNP between \$681 and \$4,000; and relatively poor, per capita GNP below \$681.

³ Countries in this category are eligible for financing from the International Development Association, which provides interest-free loans to the least developed countries.

At the 1985 OECD Ministerial Council meeting, agreement was reached that work for revising transparency and discipline in mixed credits should continue. The Council also requested that the OECD Secretariat prepare a study of "New measures aiming at a further increase in discipline and transparency" for tied aid credits and associated export financing. The Secretariat completed the study in 1986. In the report the OECD concludes that, among other effects, substantially boosting the minimum grant element in export credits would strengthen the aid aspect and reduce the trade distortions of tied and partially untied aid financing. In addition, the Secretariat concluded that implementing differentiated discount rates in calculating the grant element of mixed credits would facilitate more equitable distribution of the increased burden caused by raising the grant element. Finally, the OECD Secretariat concluded that the differentiated interest rate system would eliminate most remaining subsidies in export credits denominated in high-interest-rate currencies.

A sectoral agreement on the use of export credits for civil aircraft sales entered into force on

¹ In early 1987, participants in the arrangement agreed upon a proposal to raise the grant element to 50 percent in July 1987 for the least developed developing countries, and to 30 percent for all other developing countries, with the latter figure slated to rise to 35 percent in July 1988. Final resolution of the issue may be reached by the 1987 Ministerial Council meeting. In addition, the participants agreed to revise the method for calculating the grant element of mixed credits by using a formula based on the commercial interest rate for each currency. In addition, the agreement abolishes interest rate subsidies by importing category I (relatively rich) countries on July 1, 1988. This issue is to be decided by late spring 1987.

March 10, 1986. The agreement applies to member country sales of new civil aircraft, from large commercial aircraft to business planes and helicopters. The agreement sets credit terms and conditions (varying between 5 and 12 years) and prohibits the use of mixed credits in aircraft financing.

High-Technology Trade

In 1986, the OECD continued to study problems related to high-technology trade. The high-technology trade initiative began in 1982, when OECD ministers agreed to identify specific problems that affect trade in high-technology products and examine possible solutions. The Committee for Scientific and Technological Policy (CSTP), and the Industry and Trade Committees jointly study problems related to high-technology trade and the international flow of technologies.² In 1985, the focus of the study on high technology was narrowed to an exchange of information on two sectors, biotechnology and telecommunications. The intention of narrowing the focus was to facilitate substantive discussions and to define more clearly a future work program.

Of the two sectors, indepth work has progressed on biotechnology. In 1985, a study reviewing application of patent laws to biotechnology with recommendations for international patent law harmonization was completed. This was the first of four proposed studies on biotechnology for the OECD. In 1986, safety and regulatory guidelines for biotechnology were the main subject of review.³ A set of recommendations to coordinate the regulation of biotechnology was adopted by the OECD Council in 1986. The recommendations deal with safety considerations in the application of recombinant DNA (deoxyribonucleic acid is the substance present in the cells of living organisms that stores all genetic information) organisms in industry, agriculture, and the environment. The guidelines are intended for use by member countries promulgating safety regulations related to recombinant DNA. By preventing creation of significantly different regulatory standards among countries, development and market costs can be minimized, and the opportunity for blocking trade through differing regulatory policies will be reduced. The guidelines are expected to encourage U.S. exports of pharmaceuticals and chemicals.

The High Technology Trade Committee met once in 1986 and considered two studies done by the OECD Secretariat on various aspects of high-technology trade—intellectual property rights and standards. However, neither the United States

² For a more detailed discussion of the high-technology trade initiative see *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, p. 79.

³ The other two reports will examine government policies and priorities in biotechnology R&D, and long-term economic implications of biotechnology.

nor several other countries would approve the contents of the reports and no further work was mandated.¹

A new approach to the consideration of issues related to high-technology trade may emerge while the Uruguay Round is in progress. Several countries, including the United States, plan to address high-technology trade-related issues in the various negotiating groups of the Uruguay Round, consequently diminishing the importance and usage of the OECD Committee. In the U.S. view, addressing the general issue of intellectual property rights (IPR), for example, in some depth before undertaking a narrower consideration in the context of high-technology trade would be appropriate. Such an approach would extend to the entire range of industries and sectors for which IPR protection is important including, but not limited to, high-technology trade activities. The United States view is that analyzing IPR issues should extend not only to patents and trademarks, but also to copyrights, trade secrets, and other forms developed to provide adequate protection of new and evolving technologies.

Investment

The OECD Trade Committee's work related to investment has mainly focused on trade-related investment measures (TRIM's). In general, TRIM's are considered investment measures most likely to affect trade and/or are motivated by trade policy considerations. In 1986, the OECD Secretariat undertook research on the topic of possible future directions for the Trade Committee on TRIM's in light of the inclusion of the topic on the agenda of the Uruguay Round.² As the OECD points out, inclusion of TRIM's in the trade talks is significant considering that TRIM's may distort trade flows, yet "not readily fall under the scope of existing multilateral trade disciplines."³

In outlining possible future directions for the trade- and investment-related work in the OECD, the Secretariat proposed four possibilities. First, the OECD could focus on the relevance of existing GATT rules for TRIM's. Although investment-related issues are not specifically addressed in the GATT, several GATT articles or provisions could be considered relevant, such as national treatment or provisions of the Government Procurement Code. Second, future OECD work could include examining intergovernmental investment agreements. For example, the OECD could periodically examine developments growing out of bilateral investment treaties, or expand on

the work undertaken by the Committee on International Investment and Multinational Enterprises on intergovernmental agreements related to investment in developing countries by examining the form and substance of such agreements. Third, trade measures appearing to have investment effects could be reviewed by the OECD. Investment effects of trade measures have not been as closely examined as trade effects of investment measures, although the former may be more severe than the latter. Finally, use of TRIM's by developing countries and their possible trade implications could be studied.

The Secretariat also prepared a report in 1986 for the Trade Committee related to investment and trade issues. The first part probes the linkages between trade and investment issues and their possible significance to current trade policies of member countries. The second part reviews work on investment in various parts of the OECD, focusing on the aspects particularly relevant from a trade policy perspective.

Protectionism and Structural Adjustment

At the OECD Ministerial meeting in 1985, ministers asked member countries to submit proposals on all trade measures that could be phased out over a fixed period. The ministers asked that the results be presented at the 1986 Ministerial Council meeting. A report prepared by the Trade Committee for the 1986 Ministerial meeting details and assesses results achieved in reversing protectionist trends among member countries, including an appendix of trade liberalizing measures recently taken by members. The study also suggests strategies for future action to resist protectionism and facilitate structural adjustment in member countries and in the OECD.

In a report by the OECD Secretariat prepared for the September meeting of the Trade Committee working party, it was noted that there has been little recent liberalization of either tariff or nontariff barriers. Recent liberalization moves that have taken place, the Secretariat pointed out, have been done on a bilateral or regional basis, such as further liberalization within the EC, or bilateral arrangements between the EC and other European countries.

The importance of implementing effective structural adjustment policies as a means of turning back protectionism and promoting further opening of markets was emphasized by the OECD ministers in the conclusion to their joint communique issued at the close of the 1986 Ministerial Council meeting. Also stressed by the ministers was the importance of international cooperation "including industrial cooperation through direct investment, technology exchanges, and joint research and development." Such cooperation, the ministers concluded, promotes global structural adjustment and "facilitates the formation of a 3-4

¹ Report from U.S. Department of State, Washington, June 18, 1986 (No. 192911).

² For a discussion of the Uruguay Round of Trade Negotiations, see ch. 1.

³ "Trade-related investment issues." A note by the OECD Secretariat reproduced in report from U.S. Embassy, Paris, Sept. 11, 1986 (No. 41210).

harmonious division of labor, thereby contributing to deterrence of protectionism.”¹

In its semiannual assessment of member economies, the OECD reported that there is much that structural adjustment policies can do to boost economic growth. With specific reference to trade policies, the OECD pointed to the rising pattern of trade intervention in recent years that has raised costs and prices, slowed adjustment, and protected the sectors with the most successful lobbying efforts. Against this backdrop, the OECD notes world markets have been made narrower and more unstable. Modest dismantling of some protectionist barriers is mentioned by the OECD. However, a reaffirmation of certain basic principles of the trading system through the new round, such as nondiscrimination, is advised by the report.

CUSTOMS COOPERATION COUNCIL

During 1986, the CCC's various committees, including the Harmonized System Committee and the Valuation Committee, continued to meet in their regular working sessions. The classification for tariff purposes of many goods under the Harmonized Commodity Description and Coding System (known as the Harmonized System or HS) was determined and the revised version of the HS Explanatory Notes, completed in 1985, was published. The CCC is again coordinating the eventual implementation of the HS by interested countries engaged in its preparation, with a view toward such implementation as of January 1, 1988.

The work of the CCC was complicated by a serious shortage of funds, attributable at least in part to the United States' nonpayment of its assessed contribution. It continued to operate by borrowing money from its pension fund, as some of the U.S. payments made during the year went to cover arrearages. The United States ordinarily contributes about one-fourth of the CCC's budget. This funding problem has persisted into 1987 and threatens both the existence of the CCC and the future of the HS.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD was created as an organ of the United Nations General Assembly in 1964 for the purpose of promoting international trade, especially with a view to accelerating economic devel-

opment of developing countries. Since its inception, UNCTAD's role has been largely limited to exchanges of views on trade and aid problems among countries that are at different stages of economic development and have different economic systems.² The Trade and Development Board (TDB), UNCTAD's governing body, is headquartered in Geneva and oversees UNCTAD's functions when the conference is not in session.³ The TDB holds two or more regular sessions per year and an occasional special session. In 1986, the TDB held its 32d session in March, reconvened in June, and held the first part of its 33d session in September.⁴ UNCTAD's conferences, generally attended by all members, are held every 3 or 4 years, and define the ongoing work program for the organization. The most recent conference, UNCTAD VI, was held in Belgrade in June 1983. UNCTAD VII will be held in Geneva in July 1987. The following sections discuss both the trade-related topics that have been the focus of ongoing work since UNCTAD VI and the provisional agenda for UNCTAD VII.

The Integrated Program for Commodities and the Common Fund

The integrated commodity program proposed by developing countries and unanimously adopted at UNCTAD's fourth session in 1976 calls for a series of commodity-pricing agreements within a general framework and a common fund to be used primarily for buffer stock financing.⁵ The purpose of the Integrated Program for Commodities (IPC) is to “expand and diversify the trade of developing countries, improve and diversify their productive capacity, and improve their productivity and increase their export earnings. . . .”⁶ Eighteen commodities were initially identified for IPC action. To date, agreements covering natural

² UNCTAD's membership is open to all countries that are members of the United Nations or of any of the agencies related to the organization.

³ The TDB implements conference decisions, initiates research studies on trade and related development problems, and carries out preparatory work for the conferences. Seven committees aid the TDB with its work: the Committees on (1) Commodities, (2) Manufactures, (3) Invisibles and Financing Related to Trade, (4) Shipping, (5) Preferences, (6) Transfer of Technology, and (7) Economic Cooperation Among Developing Countries. These committees meet every 2 years.

⁴ The 33d session reconvened in March 1987.

⁵ Most international commodity agreements use buffer stocks as their price-controlling mechanism. As commodity prices fall to a predetermined floor, the buffer stock manager begins buying to halt the price decline and build up stocks. Conversely, when prices rise to a predetermined ceiling, the manager begins selling to restrain increases in market prices.

⁶ *Proceedings of the United Nations Conference on Trade and Development*, vol. 1, Report and Annexes, p. 7.

¹ Communiqué of the OECD Ministerial meeting held in Paris on Apr. 17 and 18, 1986, OECD Press Release, Apr. 18, 1986.

rubber, jute, and tropical timber have been concluded within the framework of the IPC.¹

In 1980, the Common Fund for Commodities (CFC) was conceived by developing countries as a mechanism with one account to finance international buffer stock operations and another to provide concessional loans or grants to developing country producers for such activities as productivity improvements, research, market promotion, and vertical diversification. A third account within the Fund was proposed in 1985 by the Group of Experts on Compensatory Financing of Export Earnings Shortfalls. The purpose of this compensatory financing facility would be to even out the earnings developing countries obtain from their export commodities.

For the Fund to enter into force, 90 countries must ratify it and they must account for at least two-thirds of the Fund's directly contributed capital of US\$470 million. By February 1987, 92 nations had ratified the agreement, but the Fund has not entered into force since these nations account for only about 59 percent of the directly contributed capital of the Fund. The United States has declined to participate in the Fund because of doubts about the Fund's ability to fulfill its envisaged role.

The intergovernmental Group of Experts on Compensatory Financing of Export Earnings Shortfalls met in July 1986. In a report prepared for the meeting, the UNCTAD Secretariat reviewed the importance of supply factors in commodity-related export earnings instability. Supply factors, the Secretariat pointed out, appear most significant for countries with Gross Domestic Product (GDP) per capita of \$1000 or less. In addition, most developing countries derive 50 percent or more of their export earnings from commodity exports, in many cases, from one or two products.

The report noted limitations of present means of compensatory financing of export earnings, through the STABEX mechanism of the Lome Convention, and the IMF's Compensatory Financing Facility. The group of Experts recommended establishing a new compensatory financing arrangement with reduction of supply instability in specific commodity sectors as its goal. The Group suggested that the facility could be financed out of the third account of the CFC if that account becomes operational. The group, which convened for its first session in 1984, agreed to hold a 2d session in the second quarter

¹ In addition to the agreements on natural rubber, jute, and tropical timber negotiated within the IPC framework, there is provision for international commodity agreements covering coffee, sugar, wheat, cocoa, and tin. For a detailed discussion of U.S. participation in all international commodity agreements, see the section that follows, entitled "Negotiation and Operation of International Commodity Agreements."

of 1987 to allow further consideration of export earnings instability and means to rectify the problem.

Protectionism and Structural Adjustment

Resolution 159(VI), adopted at UNCTAD's sixth conference in 1983, called upon the TDB to undertake an annual review of the problems of protectionism and structural adjustment; to formulate appropriate recommendations concerning protectionism; to review and monitor trade developments; and, when appropriate, make general policy recommendations concerning structural adjustment. In addition, a new work program mandated by the 28th TDB session in March 1984, invited governments to provide information on factors relevant to the issues of protectionism and structural adjustment in the course of its annual review.²

At the 32d session of the Trade and Development Board, the annual review of protectionism and structural adjustment concluded with the members unable to reach agreement on further action on the subject. The developed countries and the other members were at odds with the developing countries over a proposal by the latter group to intensify the Board's annual review of protectionism and structural adjustment. The developed countries maintained that the last review before the UNCTAD VII conference was not the appropriate time for the organization to embark in new directions. The Chairman of the session, expressing particular disappointment at the failure, noted that most countries entered the session believing it was "high time to advance from words to deeds and translate agreed declarations and recommendations into concrete action" in combating protectionism.

The UNCTAD Secretariat prepared three documents for the annual review of protectionism and structural adjustment that analyzed the world trade environment.³ In reviewing trade protection, the first document "Restrictions on Trade and Structural Adjustment," observed that although many countries undertook liberalizing efforts, trade friction characterized by lack of discipline on safeguard measures persisted in the period examined (1985). The review of restrictions on trade also presented information from the UNCTAD Data Base on Trade Measures, which stores data on product-specific nontariff measures (NTM's) applied at the border by 51 countries. The report stated that for 1985, about 19 percent of the value of imports into developed countries were affected by at least one NTM, largely what it called "volume control measures."

² See the *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, p. 85, for a discussion of this work program.

³ UNCTAD Secretariat, "Restrictions on Trade and Structural Adjustment," TD/B/1081-pt. I.

In addition, the review of trade protection observed that between 1981 and 1984, no generalized effort on standstill and rollback of protectionist measures by developed countries was detected.

The report also presented several trade policy simulations that estimated the potential benefits for developing countries of reductions or elimination by developed countries of all existing tariffs and nontariff barriers. The report found that a zero level tariff on an Most-Favored-Nation (MFN) basis after implementation of Tokyo Round cuts would cause a net loss of trade in some sectors, because of the elimination of existing preferential trading arrangements. Cutting tariffs to the levels of preference-receiving countries, however, would allow developing countries a \$19.3 billion (or 7.2 percent) boost in exports to developed countries over those in 1983. When elimination of nontariff barriers were figured into the simulation, the boost in exports by developing countries to developed countries would climb to an estimated \$37.6 billion, according to the simulation. It is estimated that the largest share of gains would occur in raw and processed primary goods, plus textiles and clothing, products highly protected in developed countries.

The second report prepared by the UNCTAD Secretariat for the 32d TDB was "Trends in World Production and Trade in all Sectors."¹ The report outlined conditions in the agricultural, manufacturing, and service industries in recent years. In the agricultural sector, the long-term decline in importance of the sector from 1965-83 in terms of GDP, employment, and share of merchandise trade was manifest in developed and centrally planned economies alike. In the manufacturing sector, the report showed that the share of developing countries in world manufacturing output rose from 8 percent in 1963 to 12 percent in 1984. Regarding the service sector, the report pointed out that the sector accounted for the largest share of GDP in most countries, and provided the highest proportion of jobs in developed and to a lesser extent developing countries. The report estimates that the share of the workforce in the service sector is about the same for developed and developing countries, except in the least developed, largely agricultural countries.

The third report prepared for the 32d TDB, "Protectionism of agro-industrial production and trade," detailed issues in agricultural production and trade for developing countries.² The report made several observations about the characteristics of production and trade in developing countries and the relationship between the two factors.

¹ UNCTAD Secretariat, "Trends in Production and Trade in all Sectors," TD/B/1081-pt. II.

² UNCTAD Secretariat, "Protectionism of agro-industrial production and trade and their underlying factors." TD/B/1086, Dec. 23, 1985.

The report noted that export production is often the only agricultural production option for developing countries with small domestic markets. Many developed country agricultural policies, however, translate into reduced export opportunities for developing countries, the report pointed out.

In reference to agricultural trade issues, the Secretariat noted that market barriers faced by developing country agricultural exports range from tariffs to sophisticated nontariff barriers. The report noted that developed country protection escalates for higher stages of processed agricultural products. In addition to restricting market access in developed countries, the Secretariat stated, such protection has the effect of slowing industrialization and development of higher value-added products in developing countries. Other factors of agricultural trade that present difficulties to developing countries include access to marketing and distribution channels. Namely, the report identified oligopolistic and restrictive business practices and the vertical integration of multinational corporations as impediments to market access by agricultural exports of developing countries, particularly new exporters. Furthermore, policies of developed countries encouraging development and use of synthetic or substitute products, particularly in the area of fiber products, are identified as displacing developing country agricultural trade.

Trade Relations Among Countries Having Different Economic and Social Systems

At its 31st session in September 1985, the TDB requested the Secretariat to submit a report 1 year later with "proposals for further promotion of trade and economic co-operation among countries having different economic and social systems, with particular consideration given to the interests of developing countries." At the 33d TDB, the secretariat's work examining the subject was presented. In addition, the Secretariat developed a program aimed at further promotion of trade and economic cooperation among countries with different economic and social systems.³ Several approaches were advanced by the Secretariat as possible means to effectively promote such trade and cooperation. Among other proposals, the Secretariat advocated adherence by all states to the basic principles and rules of the international trading system. The report also called for the "reduction and progressive elimination of obstacles to trade" and cited the importance of a new GATT round of trade negotiations in this regard. In its conclusions, the Secretariat noted the

³ UNCTAD Secretariat, "Promotion of trade and economic co-operation among countries having different economic and social systems, with particular consideration given to the interest of developing countries." TD/B/1104, June 25, 1986.

important effect of the world political climate on economic and trade relations between countries with different economic and social systems, particularly on East-West trade.

The TDB committee charged with the issue reported the emergence of a broad understanding that the process of debating and exchange of views on the subject should be continued. Hence, the committee agreed to convene an ad hoc group of experts in January 1987 to deliberate "result-oriented measures" for boosting trade and economic cooperation among countries with different economic and social systems. The committee is to report to the 2d session of the 33d TDB in spring 1987. The Secretariat was also charged with continuing work on the subject of economic and trade relations among countries with different economic and social systems and with considering comments presented at the first session of the 33d TDB on the Secretariat's proposals.

Trade Preference Schemes

The Generalized System of Preferences

The GSP is a framework under which developed countries provide preferential tariff treatment to certain goods exported by developing countries.¹ The UNCTAD Special Committee on Preferences is responsible for overseeing the GSP.

In its 1986 annual review, the Committee noted that modest gains at best had been made in improving preferences for beneficiary countries in the past year. The review pointed to a tendency to restrict preferences on some product categories by certain major developed country participants. The Committee reported that total preferential imports into the OECD countries in 1984 topped \$32 billion. Limitations of preferences on key developing country exports continue to preclude full realization of GSP benefits, the review found. Additionally, since GSP benefits apply largely to industrial products and only to selected agricultural products, the Committee pointed out that developing countries with a diversified industrial base benefit more from the schemes than agricultural exporters.

In 1985, the Secretariat launched empirical studies of the ability of GSP schemes to reach their objectives. The study program sought to (a) analyze the initial impact of preferences on exports; (b) research industrialization and economic growth in beneficiary countries; and (c) reach conclusions about the GSP and about future trade policy initiatives. The scheme of the United

¹ For a discussion of the operation of the U.S. GSP system in 1986, see ch. 5. See the *Operation of the Trade Agreements Program, 35th Report, 1983*, USITC Publication 1535, pp. 15-25, for a detailed discussion of the renewal of the U.S. GSP program.

States was studied in 1986.² The effects of the competitive-need limitations—which restrict benefits for certain imports from particular beneficiary countries—under the U.S. program were examined by the study. Exclusions cut the market share of affected beneficiary countries, the report noted, whether or not they were major GSP beneficiaries. In addition, the market share position of least developed countries did not improve as a result of the competitive-need exclusion. The review concluded that the competitive-need exclusions have not distributed benefits to lesser beneficiaries, that even major beneficiaries need preferential treatment to retain or boost their market share, and that certainty of preferences is necessary to ensure benefits of the scheme.

The Global System of Trade Preferences

Negotiations for the establishment of a Global System of Trade Preferences (GSTP) began in 1986. The GSTP is envisioned as a mechanism to boost significantly the trade among developing countries. Increased trade is envisioned through creation of a preferential trading system that would reduce both tariff and nontariff barriers between developing countries. The GSTP would supplement existing regional or interregional trade arrangements, and would cover both manufactures and primary products. Developed countries, which do not participate in GSTP meetings, stress the importance of observing the principles of transparency and universality in the implementation of the program.

The GSTP, as currently conceived, has several aspects and objectives: (1) an initial round of tariff cuts; (2) handling nontariff barriers and direct measures to promote trade; (3) reinforcing and complementing existing regional and sub-regional groupings; (4) specially favored treatment for least developed countries; (5) a flexible negotiating approach to encompass bilateral and multilateral methods and cut tariffs in a linear, product-by-product, sector-specific method, or through some combination thereof; (6) a commitment to the long-term nature of the negotiations, which may not necessarily produce immediate or significant results; and (7) preservation and enhancement of existing trade preferential arrangements and also integration of their secretariats into preparations and negotiations of the scheme.

The Negotiating Committee on the GSTP convened in Brasilia in May 1986 to launch the first round of negotiations on trade concessions. The initial meeting included 50 members of the Group of 77, plus observers from 20 other member states. In reference to the effort by developing countries to negotiate mutual reductions in trade barriers, Mr. Kenneth Dadzie, Secretary

² UNCTAD Secretariat, "Effect of competitive need exclusions and redesignations under the United States scheme of general preferences." UNCTAD/ST/MD/29, Feb. 13, 1986.

General of UNCTAD said that "developing countries could not rely exclusively on the willingness of developed countries to take trade liberalization measures." The first round of negotiations are scheduled for conclusion by the time the Negotiating Committee meets in Yugoslavia in September 1987.

UNCTAD VII

The 32d TDB was divided into two sessions in 1986; the second session, held June 16-17, was devoted to drawing up an agenda and deciding on a venue for UNCTAD VII. It was not until October 1986, however, that a provisional agenda for the seventh UNCTAD conference was adopted, and a site, Geneva, was selected. The conference will be held during July 9-31, 1987. UNCTAD conferences are typically the largest international forum for consideration of North-South economic issues. The agenda advances issues of interest to developed and developing countries alike.

The agenda calls for "revitalizing development, growth, and international trade, in a more predictable and supportive environment through multilateral cooperation; assessment of relevant economic trends and of global structural change; and appropriate formulation of policies and measures, addressing key issues." The issues the conference will address encompass the following four main themes: (a) resources for development, including financial and monetary questions; (b) commodities; (c) international trade; and (d) problems of the least developed countries. Four understandings were attached to the provisional agenda. The four dealt with (a) recommending that "due attention should be paid to the role of the private sector in development"; (b) noting that the agenda reference to "a more predictable and supportive environment" subsumes the need for security, dependability, and confidence building in the world economic environment, as well as for equity and justice in international economic relations; (c) stating that "monetary questions will be considered in the context of the mandate of UNCTAD and without prejudice to the competence of the International Monetary Fund Inc. (IMF) and other international financial institutions; and (d) pointing out that the reference to international trade "includes issues arising in trade relations among countries having different economic and social systems."

Each UNCTAD conference is typically held on a different continent. With Latin America due to hold one soon, the Government of Cuba offered to host the Conference in Havana. When the United States said that it would refuse to attend the UNCTAD VII in Havana, the alternative site of Geneva was chosen. The TDB decision that set the agenda and chose Geneva as the location notes the desire of the Latin American group

to host UNCTAD VIII, with the particular interest of Cuba to serve as host.

NEGOTIATION AND OPERATION OF INTERNATIONAL COMMODITY AGREEMENTS

The negotiation of international commodity agreements grew out of the concern of both producing and consuming nations over the disruptive effects of wide fluctuations in commodity prices. During the mid-1970's, international commodity agreements became an issue of particular interest, reflecting the importance of commodities trade to the developing countries. Since then, commodities policy has been in the forefront of North-South dialogue. UNCTAD is the forum most actively involved in this issue.

The following sections summarize the operation in 1986 of international commodity agreements covering coffee, sugar, wheat, cocoa, and tin, as well as the IPC agreements on natural rubber, jute, and tropical timber. Five of these agreements (coffee, sugar, natural rubber, tin, and cocoa) contain specific price-stabilization mechanisms designed to reduce fluctuations in prices; improve longrun producer earnings; and deliver a steady, adequate, and reasonably priced supply of the commodity to consumers. These agreements provide for market intervention by a variety of means. Buying and selling of buffer stocks to moderate price swings is one prominent method. Assigning production and export quotas is another. In price-stabilization arrangements, the proposed price range must be compatible with the long-term market trend. In addition, the price-affecting mechanism must be sufficiently flexible to cause prices to move in both upward and downward directions. In contrast, the agreements covering wheat, jute, and tropical timber were not specifically designed to minimize price fluctuations. Instead, they seek to promote research and market development.

At the end of 1986, the United States was participating in the agreements covering coffee, sugar, wheat, jute, natural rubber, and tropical timber. The United States may enter into international commodity agreements through executive agreements, treaties requiring ratification by a two-thirds majority of the Senate, or by specifically enacted legislation. A treaty is the customary route. In general, the U.S. Government has reservations concerning international price-stabilization schemes on the grounds that they might create long-term market distortions. In the U.S. view, world markets should be allowed to operate freely and without government interference. U.S. policy is generally to promote research and development (R&D) funding rather than market intervention. The United States is willing, however, to consider participating in commodity agreements if the market demonstrates a need for the agreements, if they are determined to be economically

sound and market oriented, and if they offer a balance between producer and consumer interests.¹

In 1986, renegotiated wheat and cocoa agreements were agreed upon by member countries, replacing expired predecessor accords. The tin agreement, which suspended trading in 1985 because of lack of funds, virtually collapsed in 1986 as attempts at price stabilization proved unsuccessful. In an organizational step, the tropical timber organization, which came into force in 1985, chose Yokohama, Japan, as its headquarters site, and appointed a Malaysian representative as its executive director.

Oversupply and weak demand continued to plague the markets of many primary commodities in 1986. The IMF index of nonoil commodity prices fell for the third consecutive year in 1986. The index of wholesale prices fell nearly 3 percentage points to 73.1.

Coffee

The current International Coffee Agreement (ICA) entered into force provisionally in October 1983 and definitively on September 11, 1985. The United States participates in the ICA along with 74 other nations, including 50 producing countries that account for more than 99 percent of the coffee entering world trade. The agreement covers a 6-year period that may be extended for an additional 2 years under the present terms. The International Coffee Organization (ICO) administers the ICA under rules and regulations established by the International Coffee Council (ICC).

In 1986, the terms of the ICA remained essentially unchanged from those of the previous year. The agreement has no provision for a buffer stock, but does provide for export quotas to stabilize prices. The ICC agreed to establish a global quota of 61.0 million 60-kilogram bags (a bag is equivalent to about 132 pounds) for crop year 1985/86. The quota consisted of a base quota of 59 million bags plus an additional quota of 2 million bags. The additional quota was authorized because the composite price was at the high end of the ICO's desired price range. In January 1986, the quota was further raised to 63 million bags. The annual export quotas were to be distributed over the four quarters of crop year 1985/86 in equal amounts. However, in February 1986, as coffee prices continued to soar above the ceiling specified in the agreement, the ICO suspended all coffee export quotas.

In 1986, the trigger prices for upward and downward quota movement remained unchanged from those in 1985. The trigger prices operate so

¹ U.S. Department of State, "International Commodity Agreements," *GIST*, Aug. 1985.

that if the 15-day moving average of the composite indicator price is at or below \$1.20 per pound, the export quotas are reduced on a pro rata basis by an amount of 1.0 million bags. If the indicator price is at \$1.15 or below, the quotas are adjusted downward an additional 1.5 million bags. Likewise, if the 15-day moving average of the composite indicator price is at or above \$1.40 per pound, the export quotas are increased by 1 million bags, and are increased an additional 1.5 million bags if the 15-day composite price is at or above \$1.45 per pound. The export quotas are suspended when the 15-day composite price is at or above \$1.50 per pound. The export quotas may be increased or decreased further, depending on additional changes in the 15-day moving average of the composite indicator price. The ICO suspended quotas on February 19, 1986, when the 15-day moving average had remained above \$1.45 per pound for 45 market days.

Table 3-2 indicates that during 1982-86, the yearly average of the ICO's composite indicator price (1976 basis) ranged from \$1.16 to \$2.04 per pound.

Table 3-2

Green coffee: International Coffee Organization monthly average composite indicator prices,¹ on the basis of the 1976 agreement, 1982-86

Period	(Per pound)				
	1982	1983	1984	1985	1986
January	\$1.24	\$1.27	\$1.39	\$1.37	\$2.04
February	1.34	1.24	1.41	1.34	1.95
March	1.29	1.22	1.44	1.33	2.04
April	1.24	1.22	1.44	1.32	1.91
May	1.21	1.25	1.48	1.32	1.76
June	1.21	1.23	1.45	1.31	1.50
July	1.16	1.24	1.41	1.21	1.49
August	1.17	1.25	1.43	1.20	1.54
September . . .	1.23	1.27	1.42	1.19	1.81
October	1.29	1.36	1.36	1.26	1.62
November . . .	1.30	1.38	1.38	1.41	1.43
December . . .	1.31	1.40	1.35	1.76	1.26
Average	1.25	1.28	1.41	1.33	1.70

¹ The indicator price is a composite of the ex-dock New York and Hamburg-Bremen prices of "Other Mild Arabica" and ex-dock New York and Marseilles-Le Havre prices of Robusta-type green coffee. The ex-dock price of a commodity includes the costs of making the goods available at dockside of the port named.

Source: Compiled from ICO data reported by the U.S. Department of Agriculture and the U.S. Department of Commerce.

In 1986, the monthly average composite indicator price ranged from a low of \$1.26 per pound in December to a high of \$2.04 per pound in January and March. The relatively high composite prices during the first half of 1986 were due to the prospect of a substantially reduced harvest in Brazil resulting from a drought in the producing regions.

In 1986, sales by producers to nonmembers of the ICA continued to be a source of dispute¹⁰

between producers and consumers. Some producers are willing to sell to nonmembers at a lower price once their export quotas to members have been exhausted. As a result, a two-tier market has developed and coffee has been illegally shipped from quota to nonquota markets. At the 45th Council session (April 28-May 2, 1986), resolutions were adopted that impose penalties for sales to nonmembers.

Council meetings to decide on the reintroduction of quotas, setting the global quota for crop year 1986/87, and quota distribution among producer members were scheduled to be held in the early part of 1987.¹ U.S. Department of Agriculture (USDA) officials report that the allocation of the global quota could be based on both a "fixed" and "variable" component during crop year 1986/87. Consumer members are pressuring for quotas based on "objective" criteria, such as exportable production and anticipated demand for the four main categories of coffee needed by roasters to meet blend requirements. Export shares have been based on modification of a fixed component since quotas were reintroduced in 1980. The inclusion of a variable portion based on stocks might reduce the tendency of some countries to dump their excess stocks at low prices on the nonmember market.

Sugar

The 1984 International Sugar Agreement (ISA) entered into force on January 1, 1985, following expiration of the 1977 ISA. The United States has participated in both the 1984 ISA and its predecessor agreements. The International Sugar Organization, located in London, administers the agreement. The 1984 ISA is an administrative agreement that contains no market stabilization mechanisms. It was scheduled to be in existence through 1986 to gather statistics and sponsor the negotiation of a new agreement. In late 1986, the agreement was extended through 1987. The market stabilization mechanism of the 1977 ISA functioned through a system of buffer stocks and export quotas that were manipulated to dampen fluctuations in the free-market price of sugar.

Under the auspices of 1984 ISA, negotiations are underway to work out a new agreement, more effective than the 1977 ISA. The 1977 ISA was generally ineffective in controlling the free-market price of sugar. The target price range in the ISA during 1982-84 was 13 to 23 cents per pound. The price has been below that range since February 1982 (see table 3-3). The ineffectiveness of the 1977 ISA in regulating sugar prices was in large part the result of sugar's unique characteristics. Sugar is one of the most widely grown

crops in the world, owing to the fact that identical refined sugar is obtained from tropically grown sugarcane and from temperately grown sugar beets. Individual countries also heavily regulate their production and trade in sugar. Relatively little sugar is traded on the so-called free market.

Table 3-3

Raw sugar: Monthly world market prices, on the basis of the 1977 ISA,¹ 1981-86

(In cents per pound)						
Period	1981	1982	1983	1984	1985	1986
January . . .	27.78	12.90	6.03	6.97	3.62	4.86
February ..	24.09	13.07	6.43	6.64	3.70	5.57
March	21.81	11.26	6.20	6.42	3.83	6.95
April	21.25	17.83	9.58	5.99	3.42	8.33
May	15.06	8.11	9.45	5.61	2.82	7.63
June	16.38	6.84	10.74	5.53	2.78	6.33
July	16.34	7.80	10.53	4.54	3.18	5.55
August ...	14.76	6.77	10.56	4.05	4.39	5.57
September	11.65	5.76	9.43	4.10	5.12	4.68
October ..	12.04	5.03	9.69	4.64	5.01	5.39
November	11.97	6.52	8.33	4.36	5.48	5.95
December	12.98	6.31	7.67	3.55	5.32	5.73
Average	17.18	9.02	8.72	5.20	4.06	6.04

¹ International Sugar Agreement, monthly average prices (f.o.b., Caribbean ports, bulk basis) calculated in accordance with art. 61 of the 1977 agreement.

Source: Compiled from data reported by the United Nations Conference on Trade and Development.

The free market thus bears a disproportionate share of sugar shortages and surpluses, with price instability being the result. When crop failures reduce supplies, producing countries supply their domestic needs first, preferential arrangements second, and free-market demand last. The free-market world price often soars as a result. Similarly, when there are bumper harvests, the free market becomes a distress market and prices plummet. Furthermore, since sugarcane is a perennial crop that requires about 20 months from planting to reach full production (which then is continued for several years), the price swings are usually extended (especially those on the down side). Table 3-3 presents the world market prices for 1981-86.

After more than a year of talks, efforts to renegotiate the ISA in 1986 failed to produce a new agreement. The 1984 ISA was extended for 1 year to allow parties more time to negotiate a new accord. The main issue under consideration in the negotiations involves proposals to broaden the ISA from a purely administrative organization to include some price stabilization mechanism. The four major sugar exporters—Brazil, Cuba, Australia, and the European Community (EC)—were unable to agree on market shares for each exporter under a new agreement.

The ISA may be renewed on a yearly basis indefinitely. Further talks are planned for 1987.

¹ Quotas had not been reintroduced as of Mar. 1, 1987.

Wheat

The International Wheat Agreement (IWA), unlike most intergovernmental commodity agreements, has had no provisions for buffer stocks, intervention price ranges, or export quotas. The IWA consists of a Wheat Trade Convention and a Food Aid Convention. As part of its responsibilities, the IWA has provided for technical studies, food aid pledges by exporters and richer importers to needy developing countries, and information collection. The various functions of the IWA are administered by the International Wheat Council, the only commodity organization in which the United States has had membership as an exporting nation.¹

The original agreement for the IWA, negotiated in 1971, was extended eight times; the last extension expired June 30, 1986. A new IWA was negotiated in 1986, with signatures affixed in June 1986. The renegotiated IWA expires June 30, 1989. By continuing the functions and organizational structure of the old agreement, the new IWA expands the scope of research and reporting to include information on other grains. The present IWA also increases pledges under the Food Aid Convention. Like the predecessor agreement, the renewed IWA has no power to intervene in the market to regulate prices. The principal difference between the old IWA and the new accord is that the new arrangement now downplays the language of the preceding IWA's concerning eventual price intervention.

In marketing year 1986/87,² world consumption of wheat rose to 517.3 million metric tons (mmt), from 487.5 mmt the previous year. Total world production in 1986/87 was 529.2 mmt, up from 499.0 mmt the previous year. During the same period, world wheat exports rose slightly from 84.9 mmt to 88.3 mmt. The world wheat market has been characterized by production exceeding consumption for the past several years. Global stocks in the beginning of the marketing year 1986/87 were 137.1 mmt. Ending stocks are projected by the USDA to reach 149 million tons.

U.S. exports of wheat in marketing year 1986/87 increased by 12 percent over those in the previous period, rising from 24.9 mmt to an estimated 28 million tons, according to the USDA. Record foreign wheat production and the largest Soviet wheat crop since 1978/79 are constraining the growth of the world wheat trade. In the immediate future, world wheat trade is expected to remain comparatively low and strongly competitive, with exportable surpluses in many countries that are not traditional exporters.

¹ For further details about the IWA, see the *Operation of the Trade Agreements Program, 33rd Report, 1981*, USITC Publication 1308, pp. 89-90.

² July 1986 to June 1987, using USDA projections as published in *World Grain Situation and Outlook*, FG-3-87, Foreign Agricultural Service, Apr. 1987.

Export prices for U.S. wheat³ have declined over the past several years, from an average high of \$176 dollars per metric ton in 1980 down to \$123 per metric ton in 1986. In January 1987 the price was \$108 per metric ton.

The USDA projects that imports of wheat by the U.S.S.R. will decline from 15.7 mmt in 1985/86 to 12 mmt in 1986/87 because of record Soviet harvests.⁴ Over the same period, wheat imports by the People's Republic of China are projected to decline from 6.6 mmt to 6.5 mmt. Between 1985/86 and 1986/87 wheat exports by the EC declined slightly from 15.5 mmt to 15.0 million tons, and imports remained unchanged at 2.6 million tons.

Global wheat feeding (the use of wheat as animal feed) has increased in recent years because of the large increases in supplies of feed-quality wheat available at low prices. Many foreign wheat exporters have vast surpluses of wheat available for export. Canada, Australia, and the EC have large surpluses of feed wheat. Feeding for 1986/87 is projected by the USDA at over 94.0 mmt, up from 89.5 mmt in 1985/86.

Cocoa

Agreement on the 1986 International Cocoa Agreement (ICCA)⁵ was reached in July 1986; the 1986 Agreement replaces the 1980 agreement, which expired on September 30, 1986. The 1980 ICCA replaced the ICCA of 1975, and its predecessor, the ICCA of 1972. The United States has not been a member of any of the ICCA's for a variety of reasons. Most notably the U.S. Government believes that buffer stock agreements generally do not work, that the agreements have been inadequately funded, and that unrealistic price ranges are specified in the agreements.⁶

In January 1987, the 1986 ICCA went into effect as the requisite number of cocoa producing and consuming member countries provisionally ratified the accord.⁷ Unlike the previous agreement, the world's largest producer of cocoa—the Ivory Coast—is a member of the ICCA. The renewed agreement is scheduled to be in effect for 3 years after that time it can be extended for an additional 3 years if a new agreement has not been developed.

³ No. 2 hard winter wheat, ordinary protein, f.o.b. Gulf ports.

⁴ For a discussion of the status of the U.S.-Soviet grain supply agreement, see the separate section in this chapter.

⁵ The two C's in the initials for the International Cocoa Agreement (ICCA) are used to distinguish it from the International Coffee Agreement (ICA).

⁶ U.S. Department of State, "International Commodity Agreements," *GIST*, Aug. 1985.

⁷ Ratifications by countries accounting for 80 percent of world exports and 65 percent of world imports are needed for the agreement to enter into force.

Tin

The basic mechanism of the 1986 ICCA is the same as that of the 1980 ICCA: a 250,000-ton buffer stock (of which 100,000 tons of cocoa is to be carried over from the 1980 ICCA). Additionally, there is provision for a Withholding Scheme in case the buffer stock is unable to maintain prices within the designated range. The buffer stock is to be financed by a 2-cent per pound levy on member exports and on member imports from nonmembers. The 1986 ICCA provides for semiautomatic adjustment mechanisms and price reviews.

Prices in the new ICCA are to be based on Special Drawing Rights (SDR's) to moderate currency fluctuations.¹ The price ranges of the 1986 ICCA are as follows:

	SDR's/ton	Approx. cents/lb.
Upper intervention price (must sell)	2,270	121
May sell price	2,215	118
Median price	1,935	103
May buy price	1,655	88
Lower intervention price (must buy)	1,600	85

Prices will be adjusted automatically by 115 SDR's/ton, up or down, if they are not within the mandatory intervention levels and if the buffer stock manager has bought or sold 75,000 tons of cocoa within a 6-month period.

Cocoa prices under the agreement are determined by reference to a daily price and an indicator price expressed in SDR's per ton. The daily price is the daily average quote for cocoa beans of the nearest three active futures trading months on the London Cocoa Terminal Market and on the New York Coffee, Sugar, and Cocoa Exchange at the time of the London daily close. The indicator price is the average of the daily prices over 10 consecutive market days.

The Withholding Scheme is a second line of defense for price stabilization. Under the supervision of the buffer stock manager, the scheme provides for the withholding of a maximum of 120,000 tons of cocoa from the market by producers if the indicator price is at or below the lower intervention price for 5 or more consecutive days, or when either 80 percent of the maximum capacity of the buffer stock has been filled, or when the net financial resources of the buffer stock are only sufficient to purchase 30,000 tons of cocoa. The release of cocoa from the Withholding Scheme would begin when the indicator price has been at or above the median price for 10 consecutive market days. Buffer stock sales cannot begin until all cocoa has been released from the Withholding Scheme.

¹ For 1986, the average SDR exchange rate was 0.85 SDR/U.S. dollar.

The Sixth International Tin Agreement (ITA) currently operates on a provisional basis.² The ITA covers a 5-year period that began in July 1982 and may be extended for an additional 2 years under the present terms. The United States, the world's largest tin-consuming nation, was a member of the Fifth ITA, but has not joined the Sixth ITA. The International Tin Council (ITC) administers the agreement.

For all practical purposes, the Sixth ITA ceased to exist in 1986 as a result of the ITC announcement on October 24, 1985, that it could no longer support tin prices at the ITA floor level of \$5.65 per pound. As a result, tin trading on the London Metal Exchange (LME) and on the Kuala Lumpur Tin Market (KLTM) was suspended and tin prices on secondary markets plummeted below the ITA floor level. Both the Sixth ITA and the ITC expired in June 1987, and there are no plans at present to renew the ITC, or to begin negotiations for a Seventh ITA given the current crises in the tin market.

Efforts to stabilize tin prices were attempted in January 1986 when a proposal was made to establish a new company (TinCo) to assume the ITC's 85,000 metric ton inventory and to resell the tin over a period of years in order not to disrupt the market. Under the proposal, TinCo would attempt to stabilize prices at approximately \$4.75 per pound and sales could be suspended if prices fell below this level. The TinCo proposal collapsed in early March when the EC insisted that TinCo sell the ITC's entire inventory over a 3-year period. Many producers felt that such a move would force TinCo to dump immediately more than 28,000 metric tons of excess tin into an already over-supplied market. TinCo was also doomed by the unwillingness of some ITC producers to agree to additional export restrictions unless larger non-ITC producers, such as Brazil and China, also agreed to limit exports.

With the collapse of the TinCo proposal, the LME decided to suspend tin trading permanently and to establish a fixed settlement price of approximately \$4.30 per pound to be paid by LME member firms for the 45,000 metric tons of tin held as collateral by the 16 LME creditor banks. The TinCo collapse also triggered a further break in tin prices, that fell to 10-year lows as creditor banks began to unload some of their tin. The U.S. spot tin price fell to \$2.40 per pound in March compared with a price of \$4.60 per pound before the TinCo collapse. Also contributing to the downward spiral in tin prices was the failure of ITC producers to renew export quotas, that expired on March 31, 1986.

² The Sixth ITA has been operating on a provisional basis because it is ratified by only a 65 percent majority of tin-consuming nations.

The collapse of the TinCo proposal prepared the way for a number of lawsuits brought by banks holding tin contracts against the ITC and its 22 member countries. In December 1986, four ITC-creditor banks filed a suit against ITC member countries, arguing that the ITC had been negligent and had misrepresented the ITC's financial problems, leading the banks to view the ITC as a credit-worthy client. Member countries of the ITC have, thus far, refused any individual responsibility for ITC debts and have insisted that even if the ITC is forced into liquidation, the individual member's liability is limited only to the money already contributed to the council.

Tin prices remained weak through the summer of 1986 as creditor banks continued to unload tin in the face of weak consumer demand. At the same time, certain leading tin-producing nations continued to maintain high production levels rather than take the politically risky step of idling capacity and raising unemployment. Indonesia, the third largest tin-producing nation, raised its tin production by 5,000 metric tons in 1986 to 27,000 metric tons; Bolivia and the United Kingdom maintained high production levels despite falling prices.

During the final quarter of 1986, tin prices rose above their summer lows. By the end of the year, spot tin prices in the U.S. market had risen to \$2.96 per pound. Most industry analysts attributed the rise to more selective selling by ITC creditor banks and to renewed buying by European steel producers taking advantage of low prices.

Tin trading on the KLTM resumed in February 1986 after a 3-month suspension. However, volume on the exchange was light throughout the year as traders preferred to trade on the secondary markets. The light volume on the KLTM stemmed partly from efforts by Malaysia to keep prices on the KLTM above world price levels by refusing to trade non-Malaysian tin. Malaysia felt that the trading of such tin would further depress the price Malaysia received for tin. However, diminishing volume throughout the year finally forced Malaysia to add Indonesian and Thai tin to the exchange in January 1987. Although the KLTM was considered to be a major market for tin before October 1985, it was not considered to be a representative market in 1986 because of above average prices and infrequent trading.

Declining tin prices through most of 1986 prompted the Association of Tin Producing Countries (ATPC), a group of tin producers that formed in September 1983 to obtain higher prices for tin, to attempt to bolster prices.¹ The ATPC sought to persuade Brazil to join the organization,

or to agree to export quotas. Brazil produced approximately 28,000 metric tons of tin in 1986, or 21 percent of total world primary tin mine production, compared with 4 percent of such production in 1980. Industry experts believe that Brazil, the world's lowest cost producer, could soon overtake Malaysia, whose production fell by approximately 10,000 metric tons to 30,000 metric tons in 1986, as the world's leading tin producer and that further efforts to support tin prices are doomed to fail while Brazil continues unrestricted production. At the September meeting of the ATPC, Brazil declined to join or to commit itself to any quotas. Brazilian producers rejected the ATPC overtures, fearing that any price support plan or quota would penalize Brazilian miners. As a result of its failure to restrict Brazil's tin production, the ATPC had virtually no effect on tin prices in 1986.

The sale of surplus tin from the U.S. Government stockpile by the General Services Administration (GSA) continued as a controversial issue within the world tin community in 1986 as such sales can contribute to price declines. By yearend 1986, GSA had disposed of 5,490 metric tons of tin.² The Memorandum of Understanding (MOU), a nonbinding agreement between the United States and the tin-producing members of the Association of Southeast Asian Nations (ASEAN) that informally limits GSA tin disposals in order not to depress tin prices, was extended into 1987. The ASEAN has long urged the GSA to abide by the 3,000 metric ton per annum informal sales limit established by the MOU. However, the GSA has insisted that the terms of the MOU allow sales above the 3,000 metric ton limit if the United States consults with the ASEAN prior to such sales. Following a December meeting with ASEAN tin-producing members, the U.S. Government committed itself to an informal tin sales ceiling of 5,000 metric tons for 1987.

Natural Rubber

Developing countries account for the preponderance of the world's production and exports of natural rubber. The significance of natural rubber in international trade between developed and developing countries led UNCTAD to convene a negotiating conference in 1976 for the purpose of formulating an international agreement on natural rubber and several other commodities. The resulting agreement on rubber is called the International Natural Rubber Agreement (INRA), the first commodity agreement concluded under UNCTAD's Integrated Program for Commodities.³

¹ *Continued.* was formed by producers which felt that tin prices established by the ITC were too low.

² The entire U.S. strategic tin stockpile as of Dec. 31, 1986, equaled 180,889 metric tons.

³ For more details about the INRA and its operations, see *Operation of the Trade Agreements Program, 33rd Report, 1981*, USITC Publication 1308, pp. 91-94.

¹ The ATPC consists of Malaysia, Indonesia, Thailand, Australia, Bolivia, Zaire, and Nigeria, and acts independently of the ITC. The ATPC

INRA was finalized and signed on October 6, 1979, and came into force provisionally on October 23, 1980. The purpose of INRA is to stabilize world natural rubber prices without disrupting long-term market trends and to ensure an adequate supply of natural rubber. The United States joined INRA in May 1981. The current agreement expired in 1985, but was extended for a 2-year period, through October 23, 1987, by the International Natural Rubber Organization (INRO), which administers the provisions and supervises the operation of the agreement.

Negotiations to renew the INRA commenced in 1985, but producing and consuming countries could not reach agreement on the buffer stock price range. Producers insisted that the new pact stabilize prices at higher levels to cover production costs, whereas consumers called for a market-determined, or lower, price range. In October 1986, negotiations continued in Geneva but the talks ended in deadlock without agreement to extend the INRO arrangements beyond October 1987. However, on March 20, 1987, producing and consuming member countries reached a new accord on natural rubber (INRA II) and decided to allow the current INRO arrangements to lapse after October 1987. INRA II allows the intervention prices to move automatically with changes in world rubber market prices. In addition, the agreement prohibits borrowing of funds by the buffer stock manager, and provides for more frequent formal reviews of price levels by consumer nations than did the previous INRO (every 15 months instead of every 18 months).

The buffer stock established in the INRA provides the sole mechanism for market intervention to stabilize prices. During recent months, INRO, which manages the buffer stock, has not intervened in the market to stabilize natural rubber prices.¹ According to one source, the price of natural rubber has been maintained above the "may buy" level of 36.4 to 38.5 U.S. cents per pound and, therefore, no intervention has been required by INRO.² It is further presumed that because of the past deadlock in the renegotiation of the INRA, the buffer stock manager of the INRO felt it prudent to stay out of the market until the outcome of negotiations was known.³

Worldwide consumption of natural rubber reached 4.365 million metric tons in 1986, representing a 0.2-percent increase over the 4.355 million metric tons consumed in 1985. Worldwide production of natural rubber in 1986 is estimated

to be 4.405 million metric tons, representing an increase of 1.5 percent over the 1985 production level of 4.340 million metric tons.⁴ The small rise in production has been less than anticipated. However, production rose faster than demand. As a result, natural rubber stocks increased in 1986 by approximately 40,000 metric tons. The total world stock of natural rubber reached 1.625 million metric tons in June of 1986, the last month for which data are available.⁵

Jute

The International Jute Agreement (IJA)⁶ completed its third full year of operation in 1986 after beginning provisionally in January 1984. Its main objectives are to enhance the competitiveness of jute and jute products and to maintain and increase existing markets as well as to develop new markets. This is to be accomplished primarily by research and development (R&D) projects, market promotion, and cost reduction. However, unlike most intergovernmental commodity agreements, the IJA does not include provisions for buffer stocks, price stabilization measures, or export quotas.

The International Jute Organization (IJO), which administers the IJA with the assistance of the International Jute Council (IJC), conducted the fifth session of the IJA in Dacca, Bangladesh, during March 12-15, 1986. Discussions were held on the European jute marketing project as well as possible operation of an international buffer stock program. The European jute marketing project involves the promotion of jute and jute products primarily in the Western European market and will consist mostly of advertising campaigns and participation in trade shows.

The sixth session of the IJA was held in Dacca, Bangladesh, during October 6-10, 1986. In addition to administrative and budgetary matters, further discussions were held on the European jute marketing project, plus new discussions on the R&D project for improvement of jute seeds and pesticides and the U.S. jute marketing project.

World production of jute fiber increased sharply during crop year 1985/86. This rise reflects a combination of two factors—favorable weather conditions in major supplier countries and increased harvests from increased acreage allocated to jute production (in response to optimistic export expectations when jute prices peaked in 1984). World production, after averaging 4.0 million metric tons during 1982-86, increased to 6.1 million metric tons during the 1985/86 crop year. However, it is expected to

¹ For more details on operation of the buffer stock arrangement, see *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 1871, pp. 104-105.

² For a detailed explanation of "may-buy" and similar terms, see *Operation of the Trade Agreements Program, 33rd Report, 1981*, USITC Publication 1308, pp. 92-94.

³ The Economist Intelligence Unit, *Rubber Trends*, London, England, No. 112, Dec. 1986, p. 10.

⁴ *Ibid.*, p. 17.

⁵ *Ibid.*, p. 9.

⁶ The IJA membership consist of four producing/exporting countries, which include Bangladesh, India, Nepal, and Thailand, and 24 importing countries, which include the United States, EC members, and other developing countries.

decrease to 3.7 million metric tons in crop year 1986/87.¹ India, the largest producer, provided 36 percent (2.2 million metric tons) of the total world jute output of 6.1 million metric tons in crop year 1985/86. China and Bangladesh were the second and third largest producers, accounting for 28 and 26 percent, respectively, of the world output.

World exports of jute fiber in crop year 1985/86 increased from that in the previous crop year, amounting to 519,700 metric tons, or 14 percent more than the 1982-86 annual average of 455,650 metric tons. Developing countries accounted for virtually all exports. Bangladesh, the largest exporter, accounted for 80 percent (414,200 metric tons) of the total in crop year 1985/86, up from 74 percent in 1984/85. The demand for jute by overseas consumers increased after a bumper crop season in 1985. Because of the large stock of jute available, manufacturers of jute goods were confident that they would be able to purchase all the jute needed without a disruption in supply.

World exports of jute products (including yarn, sacking, bags, carpetbacking, and fabrics) amounted to 1.1 million metric tons in crop year 1985/86, slightly less than the 1981-85 and 1978-81 averages of 1.2 million metric tons and slightly more—13,000 metric tons—than the previous year. As with jute fiber, developing countries also represented the largest share of total world exports of jute products, accounting for 87 percent of the total in crop year 1985/86. Bangladesh, the largest exporter of jute products, provided 45 percent, with India, the second major exporter, providing 24 percent of the total in crop year 1985/86. The small increase in exports during crop year 1985/86 was due to a small increase in demand by consumers of jute goods. The increased demand was a result of export prices of jute goods declining because of falling jute fiber prices.

World imports of jute fiber were estimated at 515,000 metric tons in calendar year 1986. This amount was 52 percent more than that of the previous year and 6 percent more than the average annual imports of 487,350 metric tons in 1981-85. Developing countries accounted for 65 percent of such imports in 1985. Pakistan accounted for the largest share (39 percent) of developing country imports, with China and Indonesia accounting for 12 percent and 7 percent, respectively. The United Kingdom, the largest developed country importer, received about 11 percent of the developed countries' imports, and the United States accounted for about 10 percent.

¹ Food and Agriculture Organization of the United Nations, *Jute, Kenaf and Allied Fibres*, Dec. 1986, p. 19.

World imports of jute products declined slightly in calendar year 1985² from those in the previous year, amounting to approximately 1.1 million metric tons. However, imports in 1985 were 5 percent less than the average annual level of 1.2 million metric tons in 1982-85. The developed countries accounted for 60 percent of total imports in 1985. The Soviet Union was the largest single importer of jute products in 1985, accounting for 14 percent of total world imports and 23 percent of total developed countries' imports. The United States, the second largest importer of jute products, accounted for 12 percent of total world imports and 20 percent of total developed countries' imports. Iran was the largest importer of jute products among the developing countries in 1985 and was responsible for 5 percent of total world imports and 12 percent of total developing countries' imports.

The competitive position of jute versus synthetics (primarily polypropylene) is an important concern of IJO members. The demand for jute, traditionally less expensive than synthetics, is based mostly on price and also on its availability in sufficient quantities. The availability of jute corresponds largely with the size of the crop planted each season and weather conditions, which affect the amount of jute harvested. Synthetics, which are derivatives of oil, are affected largely by prices of crude oil, feedstocks, and base chemicals. The rise or fall in prices of crude oil can result in synthetics becoming more or less competitive with jute. Table 3-4 compares recent polypropylene and jute fiber prices.

Table 3-4
Prices of polypropylene and jute fiber by quarters, 1985-86

Period	Polypropylene	Jute ¹	
		Type 1	Type 2
1985:			
1st quarter ..	\$734	\$842	\$857
2d quarter ..	738	758	783
3d quarter ..	736	408	440
4th quarter ..	736	323	373
1986:			
1st quarter ..	742	310	343
2d quarter ..	712	(²)	326

¹ Representative export prices from Bangladesh.

² Not available.

Source: Compiled from data reported by the Food and Agriculture Organization of the United Nations.

The decline in jute prices was the result of a large bumper crop of jute in the 1985/86 season, which provided an excessive amount of jute for the export market. This was a reversal from the small 1984/85 crop year, when there was a

² Data for 1986 are not yet available.

shortage of jute. In early 1985, jute prices peaked, but began to drop rapidly about midyear, when the large size of the 1985/86 crop season became apparent. This price reduction returned the price of jute to the level that prevailed during the early 1980's. As a result, jute prices fell to less than one half of polypropylene prices, which greatly strengthened jute's competitive position.

The cost of jute fiber is equivalent to approximately one-half of the total price of a finished jute product. Therefore, price fluctuations of jute fiber can result in a change in the demand for jute goods. As shown in table 3-5, jute carpetbacking began to decline in price in the second quarter of 1985 and regained its price competitiveness with polypropylene in the third quarter of 1985. Jute carpetbacking prices followed a downward trend during this period except for a small increase in the fourth quarter of 1986.

Table 3-5
Prices of jute and polypropylene carpetbacking by quarters, 1985-86

Period	(In cents per linear yard)			
	Type 1		Type 2	
	6 oz jute	16X8 sheet Polypropylene	5.5 oz jute	16X6 sheet Polypropylene
1985:				
1st quarter ..	106	88	96	80
2nd quarter ..	90	88	80	80
3rd quarter ..	71	84	66	76
4th quarter ..	71	84	66	76
1986:				
1st quarter ..	72	81	64	73
2nd quarter ..	74	78	64	70
3rd quarter ..	72	78	64	70
4th quarter ..	73.5	80.5	65.5	72.5

Source: Compiled from data reported by the Food and Agriculture Organization of the United Nations.

Tropical Timber

Last minute action by both producing and consuming countries brought the International Tropical Timber Agreement (ITTA) into force on April 1, 1985, following 8 years of preparatory work and negotiations carried out under the aegis of UNCTAD and the Food and Agriculture Organization (FAO). For the ITTA to enter into force, the appropriate instruments (of ratification, acceptance, provisional application, etc.) had to be deposited by March 31, 1985, by a minimum of 10 countries, accounting for at least 500 of the 1,000 votes assigned to producing countries and a minimum of 14 consuming countries, representing at least 650 of the 1,000 votes allocated to consuming countries. Entry into force of the ITTA, which was adopted in November 1983,

was in doubt until the last moment when the necessary minimum number of countries was reached. By December 31, 1985, the number of producing and consuming countries that had deposited appropriate instruments had grown substantially. Sixteen producing countries with 1,000 votes and 20 consuming nations with 1,000 votes had taken the necessary action to join the ITTA by the end of 1985. By December 31, 1986, the number of producing countries having joined had risen to 18 (with the addition of India and Trinidad and Tobago) and the number of consuming countries had risen to 23 with the addition of Austria, Canada, and China. The total number of votes allocated to each member country was revised by the International Tropical Timber Council in July 1986 to reflect the new membership.¹

Under terms of the ITTA, the Secretary General of the United Nations convened the first session of the Council on June 17, 1985, which consisted of three separate meetings (June 17-28, 1985; Nov. 25-29, 1985; and July 28-Aug. 1, 1986). The key accomplishments of the first session included the selection of Yokohama, Japan, as the permanent Council headquarters site and the appointment of the Malaysian representative as the Council Executive Director.

The ITTA is the third commodity agreement to be negotiated under the framework of UNCTAD's Integrated Program for Commodities. Its objectives are to provide an effective framework for cooperation and consultation between tropical timber-producing and timber-consuming countries with a view to promoting the expansion and diversification of international trade in tropical timber and improving structural conditions in the tropical timber market. To these ends, the ITTA seeks to promote R&D aimed at improving forest management and wood utilization; to improve market intelligence; to encourage increased and further processing of tropical timber in member producing countries; to encourage reforestation and forest management activities; to improve marketing and distribution of tropical timber exports of producing members; and to encourage national policies aimed at sustainable utilization and conservation of tropical forests and their genetic resources and at maintaining the

¹ The 18 producing nations that had joined by Dec. 31, 1986, in order of magnitude of their votes were Brazil (191), Malaysia (166), Indonesia (122), the Philippines (52), Peru (45), India (42), Bolivia (38), Papua New Guinea (34), Ivory Coast (35), Cameroon (35), Gabon (35), Congo (35), Ghana (34), Liberia (34), Ecuador (29), Thailand (25), Honduras (26), and Trinidad and Tobago (22). The 23 consuming countries were Japan, which alone has 371 votes, the United States (87), Korea (73), France (61), the United Kingdom (56), West Germany (47), Italy (43), the Netherlands (38), China (28), Spain (25), Belgium/Luxembourg (21—however, they may vote independently), Egypt (19), U.S.S.R. (17), Canada (16), Greece (14), Ireland (14), Denmark (13), Norway (12), Austria (12), Switzerland (12), Sweden (11), and Finland (10).

ecological balance in the regions concerned. It is envisaged that projects in these areas will be financed from the Second Account of the Common Fund for Commodities when it becomes operational, from regional and international financial institutions and from voluntary contributions.

For the purpose of the ITTA, "tropical timber" is defined as nonconiferous tropical wood for industrial uses, which grows or is produced in the countries situated between the Tropic of Cancer and the Tropic of Capricorn. The term covers logs, sawn wood, veneer, and plywood.

The objectives of the ITTA reflect a recognition by the governments concerned that tropical timber is a commodity unlike all others. Harvested from mostly virgin forests, it is a product of highly fragile ecosystems and is renewable, under certain conditions, only over a long timespan. Broadleaved hardwood forests need at least 30 to 50 years, and, in many cases up to 100 years, to produce harvestable logs, making management of this resource very different from that of agricultural resources. Another unique feature of this commodity is that tropical forests not only yield valuable timber for export but also play an important role in the protection of the planetary environment and serve as a support system for the people who live in or near these forests. For these reasons, the ITTA seeks to ensure that the economic use of tropical timber is kept in balance with conservation of the resource and with environmental needs. It is the only international commodity agreement to include such objectives.

OTHER TRADE AGREEMENTS ACTIVITIES

The Bilateral Investment Treaty Program

The U.S. Bilateral Investment Treaty (BIT) program was launched in late 1981 for the purpose of encouraging U.S. direct investment abroad.¹ Through the negotiation of BIT's with interested countries (usually low- and middle-income developing countries), U.S. investors abroad are guaranteed certain rights and protections. When some of the risks and restrictions associated with overseas investment, particularly those in developing countries, are thus eliminated, U.S. international investment flows should increase.

The U.S. Government negotiates BIT's using a prototype treaty that has the following four main objectives: (1) national and MFN treatment, (2) freedom to transfer profits and other funds across

¹ For a complete discussion of the BIT program, see the *Operation of the Trade Agreements Program, 35th Report, 1983*, USITC Publication 1535, pp. 36-43.

borders, (3) prompt and fair compensation in the event of expropriation, and (4) procedures for dispute settlement. The first treaty model was released in January 1982. The current model, which is a streamlined version of the original and should facilitate the negotiating process, dates from February 1984.

Since the beginning of the program, the United States has held preliminary discussions with over 40 countries. In 1986, 10 BIT's were submitted to the Senate for ratification: Morocco, Turkey, Panama, Egypt, Senegal, Haiti, Zaire, Cameroon, Bangladesh, and Grenada. Negotiations are currently underway with China, Malaysia, Indonesia, Liberia, Ivory Coast, Sri Lanka, Burundi, Honduras, Somalia, Uruguay, Gabon, and Costa Rica.

U.S.-Israel Free-Trade Area Agreement

The U.S.-Israel Free-Trade Area Agreement,² the first such free-trade agreement (FTA) by the United States, became effective on September 1, 1985, with the first of a series of tariff reductions and eliminations.³ Over a 10-year period, the agreement will eliminate tariffs on all trade between the two countries. The FTA covers not only manufactured goods and agricultural products, but also areas that are not incorporated into the GATT, such as trade in services, intellectual property rights, and trade-related performance requirements.⁴ For a list of the leading articles of trade between the United States and Israel, see tables B-3 and B-4.

The phasing out of customs duties on four categories of products will be accomplished by January 1, 1995. Each of the categories will follow a different staging pattern based on its sensitivity to imports. Duties on the most import-sensitive products, which fall into category 4, will remain unchanged until January 1, 1990. On September 1, 1985, duties on products in the first and least sensitive category were completely eliminated, and duties on products falling in categories two and three were reduced.

The first full year of operation of the FTA was during 1986. In terms of total dollar value of trade, the effect of the FTA on U.S. exports to

² An FTA is an agreement in which participating countries remove substantially all trade barriers with respect to each other. Under art. XXIV of the GATT, signatories may establish an FTA if the agreement eliminates duties and other trade restrictions on "substantially all trade" and does so in a "reasonable" length of time. An FTA deviates only from the GATT MFN obligations but not from the other provisions of the agreement.

³ For a complete discussion of the U.S.-Israel Free-Trade Area Agreement, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, pp. 26-33.

⁴ The United States has retained its rights under the MFA to restrain disruptive imports of textiles and apparel from Israel.

Israel has been minimal. Since the inception of the FTA, however, the bilateral trade balance has turned in favor of Israel. In 1986, Israel exported \$2.41 billion dollars worth of goods to the United States, representing a boost of 14 percent over that in 1985. U.S. exports to Israel in 1986 stood at \$1.75 billion, slightly below the 1985 level of \$1.81 billion.

One of the apparent effects of the FTA has been the sharp rise in Israeli textile and apparel exports¹ to the United States. According to official U.S. statistics, textile imports (SITC 65) rose from \$5.7 million in 1985 to \$18.4 million in 1986, the first full year of operation for the agreement. Apparel (SITC 84) imports from Israel under the FTA rose from \$9.2 million in 1985 to \$52.1 million in 1986.²

Before the FTA was established, 95 percent of U.S. imports from Israel entered the United States free of duty under the GSP. U.S. exports to Israel, however, were at a disadvantage compared with EC exports to Israel, which enter under a preferential agreement between Israel and the EC.

U.S.-Soviet Grain Supply Agreement

Under the current U.S.-Soviet grain supply agreement, the Soviet Union is committed to import from the United States at least 4 million metric tons (mmt) of wheat and the same amount of corn during each agreement year from October 1, 1983, through September 30, 1988. The agreement specifies 9 mmt as the minimum Soviet purchase obligation, allowing for the substitution of 1 ton of soybeans for 2 tons of wheat or corn over the combined 8 mmt minimum purchase obligation for wheat and corn.

At 153,000 metric tons, Soviet purchases of U.S. wheat during the third year (October 1985-September 1986) covered by the long-term agreement (LTA) were far below the required minimum of 4 mmt. During the agreement year, the Soviet Union also bought 6.8 mmt of U.S. corn, which exceeded its minimum purchase commitment of 4 mmt, and 1.5 mmt of soybeans. Soviet purchases of U.S. grain for the agreement year totaled 8.5 mmt, short of the LTA's overall minimum requirement of 9 mmt.

This was the second consecutive year in which the Soviet Union did not meet the mini-

¹ Textile and apparel trade data discussed in this section are in terms of the Standard International Trade Classification (SITC) system of the United Nations, which the organization uses to publish international trade data. Textiles are classified under SITC 65 (Textile yarn, fabrics, made-up articles, not elsewhere specified, and related products) and apparel, is under SITC 84 (articles of apparel and clothing accessories).

² Trade data compiled from official statistics of the U.S. Department of Commerce.

um requirement for wheat purchases.³ The Soviet wheat purchases were made early in the agreement year, and the Soviet Union did not purchase any wheat on U.S. markets after November 1985. As they had during the previous agreement year, Soviet officials argued that U.S. wheat prices were higher than world prices.⁴ In addition, they continued to maintain that the grain agreement requires sales to be made at world prices rather than U.S. prices. U.S. officials reject this interpretation of the agreement, holding that the agreement requires sales at U.S. prices. On August 1, 1986, the administration announced that sales of wheat to the Soviet Union would be eligible for discounts under the Export Enhancement Program. The discount, which was in effect until the end of the agreement year, was originally set at \$13 per ton and was later raised to \$15 per ton. Despite the discount, the Soviet Union did not purchase any additional wheat.

Soviet officials subsequently maintained that the Soviet Union had met its commitments under the agreement. During the press conference held at the end of the U.S.-U.S.S.R. Joint Commercial Commission (JCC) meeting in December, Soviet Foreign Trade Minister Aristov told reporters that U.S. wheat prices were higher than world prices despite the discount and argued that the Soviet Union made up for the shortfall in wheat purchases during the third agreement year by purchasing more corn, soybeans, and other agricultural commodities than required.⁵ Commerce Secretary Baldrige disagreed, stating that the agreement refers to U.S., not world, prices; that U.S. wheat is competitive internationally; and that there is no provision for the substitution of grains. Secretary of Agriculture Richard E. Lyng, who also met with Aristov when the Soviet official was in Washington to attend the JCC meeting, reportedly told farm-state editors that the Foreign Trade Minister had "virtually disavowed that agreement by saying that they—in total over the years—had purchased more than the minimum agreement."⁶

³ During the previous agreement year (October 1984-September 1985), the Soviet Union purchased 2.9 MMT of wheat and 15.8 MMT of corn from the United States. For additional information on Soviet purchases of U.S. grain during the second agreement year, see *45th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1985*, USITC Publication 1827, March 1986, pp. 44-46, (hereafter referred to as the *45th Quarterly Report . . .*).

⁴ *47th Quarterly Report . . .*, USITC Publication 1893, Sept. 1986, p. 36.

⁵ *International Trade Reporter*, Dec. 10, 1986, p. 1482.

⁶ *Washington Post*, Jan. 16, 1987, p. 26. At that time, the Soviets had made no purchasing commitments for the fourth agreement year (October 1986-September 1987). In late February, however, a senior Soviet official announced that the Soviet Union had contracted to buy 1 mmt of U.S. corn.

The shortfall in Soviet purchases of U.S. wheat during the third year of the agreement is generally attributed to reduced demand for grain and sharp competition for sales on glutted grain markets.¹ Soviet imports of grain from all sources fell sharply from 55.5 mmt during July 1984-June 1985 to 29.5 during July 1985-June 1986. The reduction in Soviet demand for imported grain is believed to be a consequence of the shortfall in hard-currency earnings on sales of oil and natural gas and better-than-average grain production in 1985 and 1986. After reaching the relatively high level of 191.7 mmt of grain in 1985, Soviet grain production rose to 210 mmt during 1986, according to USDA estimates. In addition, the higher protein content of wheat harvested in 1986 and the reduced use of grain in animal feed may also have contributed to a reduction in Soviet demand for wheat.

Progress on Services Trade Agreements in 1986

Global trade in services has been estimated at a minimum of \$700 billion annually.² For several years, the United States has been advocating liberalizing services trade. In 1986, the United States moved ahead in advocating inclusion of trade in services on multilateral and bilateral negotiating agendas. In September, GATT members agreed to include services trade on the agenda of the Uruguay Round of trade negotiations. In addition, U.S.-Canadian negotiations for establishment of a free-trade area, including services, entered a critical phase. Also during 1986, negotiations for free trade in several services sectors between the United States and Israel continued.

As interest in services trade agreements grows, the discussion of insufficient services trade data also intensifies. In a recent analysis conducted by the Office of Technology Assessment (OTA),³ U.S. balance of payments data were estimated to "significantly understate" exports and imports of services. The OTA estimated that the U.S. trade surplus in services exports was understated by \$11 billion in 1982 and 1983, and \$12 billion in 1984. The OTA speculated that up to one-half of services exports are omitted from the national balance-of-payments statistics. Reasons cited by the OTA for the poor coverage were inadequate responses to voluntary data collection questionnaires and outdated or flawed accounting categories.

¹ For additional information, see *48th Quarterly Report* . . . , USITC Publication 1932, Dec. 1986, pp. 36-37.

² Ronald K. Shelp, "Trade in Services," *Foreign Policy*, Fall/Winter 1986-87, p. 70.

³ Office of Technology Assessment, *Trade in Services, Exports and Foreign Revenues*, Sept. 1986, pp. 3-5.

Services activities in multilateral forums

The following sections outline the ongoing work programs on services trade issues in the GATT, OECD, and UNCTAD. Trade agreements activities in four major services industries (insurance, telecommunications, construction/engineering/architecture, and maritime services) will then be discussed. Each of these industries was significant in terms of international developments in 1986.

General Agreement on Tariffs and Trade

At the September 1986 GATT Ministerial meeting in Punta del Este, agreement was reached to include trade in services in the Uruguay Round.⁴ The move was strongly supported by the United States, and adamantly opposed by a group of 10 developing countries led by Brazil and India. The group expressed concern that their expanded access to developed country export markets in goods could be held hostage to negotiating concessions on services. They also voiced fear that foreign access to their service sectors would cause both domestic service firms and external payments balances to suffer. The group argued that liberalizing trade in services would most likely benefit countries with developed service sectors, such as the United States.⁵

Compromise on the final declaration of the Ministerial meeting addressed some of these concerns. For example, a final negotiated agreement on services shall take consideration of national policies and laws applying to services. Also, the services negotiations will be conducted simultaneously with the talks on goods trade, albeit in a separate negotiating group. Like other negotiating groups, the services group will report to the Trade Negotiations Committee (TNC). As part of the final compromise, the ministers launched the goods negotiations in their capacity as contracting parties to the GATT, and the services negotiations in their capacity as ministers representing sovereign states. The United States considers this distinction presentational only, since, for all intents and purposes, the ministers and contracting parties are the same people. More significant to the United States is the establishment of a forum for services talks under the auspices of the TNC.⁶

The structure and plans for the Uruguay Round negotiations were agreed upon by the participants at a meeting in late January 1987. The January 1987 meeting of the services negotiating group created a structure for the initial phase of

⁴ For a general discussion of the launching of the Uruguay Round, see ch. 1.

⁵ Diane C. Yu and Charles H. Blum, "The new GATT round preliminary developments and future plans: A report from the administration." In *U.S. Trade Law and Policy*, Harvey M. Applebaum and Gilbert B. Kaplan, cochairmen. Practising Law Institute: 1986, pp. 405-426.

⁶ *Ibid*, p. 417.

negotiations. In addition, several specific elements to be addressed by the group during 1987 were identified. The specific elements identified were (1) definitional and statistical issues; (2) broad concepts on which principles and rules for trade in services, including possible disciplines for individual sectors might be based; (3) coverage of the multilateral framework for trade in services; (4) existing international disciplines and arrangements; and (5) measures and practices contributing to or limiting the expansion of trade in services, including specifically any barriers perceived by individual participants, to which the conditions of transparency and progressive liberalization might be applicable. Initial work by the negotiating group on services may concentrate on creation of a general framework agreement, before talks enter into sector specific discussions.

In discussion of a liberalized environment for services, national policies regarding foreign investment and the right of establishment are often raised. International sale of some important services—telecommunications and financial services, for example—requires establishment in order to serve a market. In such cases, conformance to local investment regulations is necessary. In addition to meeting investment regulations, some sectors, such as banking and insurance, require local laws granting the right of establishment to foreign firms.

The negotiating plan for trade-related investment measures was also agreed upon at the January 1987 GATT meeting. The negotiating process outlined two phases of negotiations on trade-related investment measures. In the first phase, identification and examination of the operation of GATT articles related to trade restrictive and distorting effects of investment measures will be considered on the basis of submissions by participants and work by the secretariat. The second phase will involve definition of areas in which negotiations may be required to elaborate, as appropriate, further provisions that may be necessary to avoid restrictive and distorting effects of investment measures on trade, on the basis of proposals by participants.

The Uruguay Round negotiations are expected to continue for at least 4 years. A possible outcome of the services negotiations could be a GATT code, open for member countries to ascribe to if they choose.

After nearly 2 years of negotiations, members of the Committee on Government Procurement reached agreement in late 1986 on extending coverage of the Government Procurement Code. They also agreed to study extending the code to cover service contracts procured by governments. This agreement was the first part of a three-phase renegotiation of the code. Beginning in 1987, code members will discuss expansion of the code's coverage to government

procurement of service contracts. The changes are expected to take effect in 1988 after member countries have had the opportunity to modify their national laws to conform to the code's changes.¹

Organization for Economic Cooperation and Development

In 1982, the OECD Ministerial Council launched a work program to "examine ways of removing unjustified impediments to international trade in services and to improve international cooperation in this area."² The work program has taken a two-part approach. Committees with sectoral expertise are identifying and evaluating obstacles to trade in specific service industries.³ In 1986, work was completed on the audiovisual services sector. The Trade Committee and its working party, on the other hand, are establishing a general framework for considering service trade issues.

In September 1986, the OECD's Committee on Capital Movements and Invisible Transactions (CMIT) along with a group of audiovisual experts, completed a study on trade in audiovisual works.⁴ The report provides a review of recent technological change in audiovisual services, and surveys policies and measures affecting international trade in audiovisual services. The OECD report notes that the Group of Experts of the CMIT defines audiovisual works as any animated sequence of pictures accompanied by sound. Such works may be recorded (film, tape, etc.), transmitted or broadcast, used by individuals or corporations for private or commercial purposes, or may have cultural, educational, scientific, advertising, or entertainment content.

Technological changes in recent years in this field have opened up a broad range of communications media. In step with those changes, international trade in audiovisual services has also developed. The OECD noted that most member countries have tried to retain some control over trade in audiovisual services. Technological changes, however, have advanced faster than regulatory controls. Official reasons advanced by OECD governments for affording protection to the audiovisual services sector include cultural as well as economic rationales. Preservation of cultural identity, plus a desire to support the domestic industry and boost its international competitiveness, are frequent reasons underlying protection in audiovisual services.

¹ For a further discussion of the GATT Government Procurement Code, see ch. 2.

² OECD, "OECD Council Meeting at Ministerial Level Communique," *The OECD Observer*, May 1982, p. 6.

³ For further details on the sectoral studies published, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, pp. 101 and 102. Work is in progress on the financial services (securities markets), telecommunications services, and the computer services sector.

⁴ *International Trade in Services: Audiovisual Works*, OECD, Sept. 1986.

Using 1984 data collected by the United Nations, the report found that the total value of audiovisual services sold in the OECD economies was \$26 billion, about \$1 billion of which was exported. U.S. firms earned about one-half the total OECD figure. In 1984, among all member countries, the report states that television networks accounted for \$18 billion; cinema \$6 billion; and new distributive media (pay television, videocassettes, and videodiscs), \$2 billion of total turnover.

International tourism is one of the services that has been the subject of study and agreement by the OECD. In November 1985, the OECD Council approved a three-part Decision-Recommendation for eliminating government barriers to tourism. The Decision-Recommendation has three basic elements.¹ First, general objectives include avoiding measures that distort competition and disrupt movement of people, goods, services, and capital. Other objectives are equal treatment of foreign-controlled and domestic tourism enterprises plus reduction of administrative requirements and formalities. Second, member countries are obligated to encourage progress on reducing duties on personal goods of tourists, including temporarily imported vehicles. This objective also promotes easing regulations on importation of tourism publicity materials. Finally, a set of guidelines designed to indicate how the objectives may be met are set forth. To sustain pressure for implementation of the Decision-Recommendation, a regular progress review plus a general review of the objectives with a view to further liberalization at least every 3 years is prescribed. The Decision-Recommendation also incorporates the updated OECD Code of Liberalization of Current Invisible Operations which facilitates financial operations for tourists.²

Also on the subject of trade in tourism, in its annual report on tourism released in December 1986, the Tourism Committee noted that growth in tourism among member countries continued a recovery in 1985 that had begun in 1983. The growth rate in tourism, the committee pointed out, reflects moderate economic development among member countries. During 1985, arrivals at frontiers grew by 5 percent, and nights spent in the various forms of accommodation rose by 2 percent over that in 1984. Tourism receipts and expenditures in real terms rose by 5 percent in 1985 over those in the previous year among OECD countries. According to the OECD, receipts and expenditures each were nearly \$75 billion in 1985.

In 1986, the OECD released a report detailing the market and trade prospects in the space

industry.³ The report found that despite the large role played by governments in space operations, there exists an expanding international market for civilian space products and services, especially in the areas of telecommunications satellites, launchers, and ground terminals. The report pointed out the dominance of the United States in the supply of satellites, but noted that foreign entities, private and governmental, are entering the field. In addition, launch capacity exists in Europe, Japan, and the United States, the report says. The OECD projected a doubling of capacity in telecommunications every 4 years and predicted an average launch of 23 geostationary satellites by non-Eastern bloc countries every year until 1990.

The OECD identified four barriers to market entry in the space industry. The barriers are (1) high cost of initial investment; (2) high cost of parts for constructing a space project; (3) prevalence of financial offers to competitors, which are not easily matched by new entrants; and (4) the substantial learning process necessary to gain expertise for mastering the technologies involved.

In a report published by the OECD Maritime Transport Committee in 1986, several characteristics of international shipping and trade were presented. The OECD, citing slower economic growth as a chief reason, noted an increase of only 1 percent in dry cargo trades in 1985. Additionally, oil trade fell in both volume and transportation distance in 1985. Overcapacity in liners was estimated at between 20 and 40 percent. Continued protectionist measures by some countries, effecting liner trade were also mentioned by the OECD as characteristics of the industry.

United Nations Conference on Trade and Development

Issues related to trade in services have long been part of UNCTAD's work program. Studies have been conducted on specific service industries (notably shipping, insurance, and financing related to trade) and on service issues related to technology transfer and the control of restrictive business practices. Within the United Nations, many organizations deal with service-sector concerns. Whereas some bodies focus their attention on a particular subsector (e.g., the International Civil Aviation Organization), others deal with issues applicable to services in general (e.g., the World Intellectual Property Organization).

In 1986, the UNCTAD Secretariat continued work on services and the development process that it started in 1984.⁴ In a report published in July 1986, three major aspects relevant to services and economic development raised in the

¹ "Tourism: An Economic Activity in its own Right," *OECD Observer*, No. 138, Jan. 1986, p. 20.

² For more information on the OECD code and tourism, see *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 1871, p. 117.

³ *The Space Industry-Trade Related Issues*, OECD, 1986.

⁴ UNCTAD, "Services and the Development Process," 3-22 August 1984, TD/B/1008.

first report, are probed in detail.¹ The report was reviewed by the 33d TDB in September 1986 and was favorably reviewed by the organization's major country groupings.²

The report is divided into three main sections. In the first section, the Secretariat reviews services, growth, and development. The report cited the rise of "externalization" of producer services, which have increasingly been contracted to outside firms, creating a highly specialized division of labor in the service sector.³ The rise of producer services has been particularly pronounced in European countries and the United States, making increasingly important contributions to employment growth and the Gross Domestic Product (GDP). Information technology is cited as another catalyst to the growth of services, producer services in particular. Information technology also facilitates externalization by allowing small consulting companies to do work that could formerly be done only by in-house operations of large companies.

The Secretariat's report found that producer services are not well established in developing countries. A possible explanation cited is the overall lack of externalization by large firms in developing countries. The report noted that both national and foreign-owned firms in developing countries tend to rely heavily on in-house producer services. The report speculated that provision of producer services, either through state entities or incentives, would facilitate development of a competitive private producers service sector. Establishment of such services, in addition to serving existing elements of the economy, may also attract foreign investment in manufacturing and export industries, the report noted. The UNCTAD Secretariat report recommended that developing countries strengthen their producer service sectors to help achieve that goal.

In its second part, the report detailed transnationalization of the service sector. The report noted that a minimum investment may only be needed to provide certain services when an adequate information and communications infrastructure is available. Sectors most adept at linking capital and information technology—banking, for example—have been most successful in transnationalization, the report noted. Information technology may have allowed greater ability

to penetrate foreign markets, the report stated. The report pointed out that developing countries face the challenge of incorporating technical change to improve their comparative advantage. Redeployment of human capital and other economic resources presently in place in other sectors, communications, and information technologies affect developing country competitiveness by facilitating the export of certain services. In addition, the report stated that international competitiveness in goods is enhanced, and potential for productive foreign investment increases when services are also available, particularly producer services.

Finally, the UNCTAD Secretariat's report explored a possible framework for international cooperation to strengthen the service sector in developing countries. The report outlined numerous possible areas for boosting the contribution of services to development. Areas identified were (a) support for further studies of the role of services in development, including an intensification of the national assessments program; (b) improving statistics and related conceptual framework for trade and production of services; (c) funding a common telecommunication and informatics infrastructure on interregional, regional, and sub-regional levels; (d) strengthening the position of developing countries in negotiations with transnational corporations (TCs); (e) investment programs in developing countries to stimulate the producer service sector; (f) training programs aimed at improving producer services in developing countries; (g) reciprocal negotiations in selected sectors; (h) interchange of experience between governments, research institutes, and small- and medium-size enterprises both in developed and developing countries and among developing countries; (i) establishment of "service centers" in developing countries; and (j) sector studies, including studies of producer services, and of the links between manufacturing and service sectors.

The report concluded by noting that some proposals for services negotiations, including those within the GATT, may involve non-GATT concepts, such as right of establishment. Other negotiating proposals may include concepts that have different implications for services, such as national treatment. Such confusion, the report noted, is symptomatic of the problem that no international consensus regarding the appropriate mechanisms for protecting domestic service industries exists that is comparable to the customs tariff or quota on goods. The report stated, however, that there appears to be a broad range of possible areas for mutual cooperation on services trade between developed and developing countries.

In October 1986, the Intergovernmental Group of Experts on Restrictive Business Practices held their fifth annual session³ to consider

¹ UNCTAD, "Services and the Development Process: further studies pursuant to Conference resolution 159(V) and Board decision 309 (XXX)," July 2, 1986, TD/B/1100.

² The major member country groupings in UNCTAD are the developing countries, the developed industrial countries, and those countries with centrally planned economies.

³ Producer services are those services used by firms in the manufacturing or service sector to produce a final good or service. For example, the software supplied by one company and used by a second in the delivery of data processing services would constitute a producer service.

implementation of technical assistance, and advisory and training programs as called for in UNCTAD's code on restrictive business practices.¹ The code was designed to control restrictive business practices, including those of multinational corporations, which adversely affect international trade and, in turn, the economic development of developing countries. Among the items reviewed by the Group of experts was the Regional Seminar on Restrictive Business Practices held in Kenya in May 1986.

The seminar was the first such regional seminar held since the inception of the code in 1980. At the seminar, official representatives from 13 African countries were brought together with experts from the Federal Republic of Germany, Norway, and Sweden. The subject of the seminar was major restrictive business practices limiting international trade, with particular emphasis on the trade and development of African countries. National, regional, and international efforts to control restrictive business practices, the role of such restrictive practices in industrialization, and ways to control them effectively were also considered.

Work on an international code of conduct on the transfer of technology has been underway in UNCTAD since 1978. Such a code would most likely set international standards for the sale of technical information across national borders. A code on transfer of technology could affect international service transactions that rely heavily on international transmission of information as a principle method of trading. A resolution of the United Nations General Assembly in 1986 called for conclusion of the negotiations in 1987 and raised the possibility of reconvening the U.N. Conference on an International Code of Conduct on the Transfer of Technology, preferably in 1988. In December 1986, the UNCTAD Secretariat proposed the continuation of consultations on the draft code in 1987 to deal with all outstanding issues.

Research undertaken by another United Nations organization in 1986, the U.N. Center on Transnational Corporations, suggests that exports of services are facilitated by the rise of international data flows. Growth of services exports, the report pointed out, is hindered without sufficient national infrastructure and trained personnel. Engineering, legal, and insurance services were cited as examples of traded services likely to blossom as international data flows increase the tradeability of services. The findings are based on a case study of Austria, a relatively small economy open to international competition, and also contain specific examples of Austrian international data flows and trade in services.

¹ The formal title of the code is the UNCTAD Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.

Trade developments in selected service industries

Insurance services

Trade.—Although comprehensive data measuring imports and exports of insurance services are not maintained by the U.S. Government, the Commerce Department's Bureau of Economic Analysis (BEA) conducts a survey of the reinsurance industry.² In 1985, net exports of reinsurance amounted to \$1.3 billion, and net imports were about \$2.9 billion, both representing a 10-percent increase over that in 1984. Whereas exports and imports increased in 1985, the United States still imported more than twice as much reinsurance as it exported.³ The loss ratio (losses paid as a percentage of premiums received) for reinsurance exports was 80 percent in 1985, down 3 percentage points from the loss ratio of 1984. In the same period, the loss ratio for imported reinsurance services was 83 percent, up 1 percentage point from that in 1984.

The combination of premium receipts and losses for reinsurance indicates a negative current account for trade in reinsurance. Industry sources suggest that the negative flows are a result of several factors. First, the United States is the largest and most open insurance market in the world, and U.S. firms have traditionally relied heavily upon the domestic market for their business while tending to ignore foreign markets. Second, because the U.S. market is open, foreign insurance firms have been able to operate here and repatriate substantial premiums. Finally, many other insurance markets are relatively closed, thereof hindering U.S. exports.

Overall, premium receipts from non-U.S. customers were estimated to be between \$12 billion and \$14 billion⁴ in 1985, which reflects an increasing trend compared with that in 1982.

Trade-related activities in 1986.—Trade barriers within the insurance industry persist. International agreements are being pursued, which, by removing or minimizing operating restrictions, would reduce costs and increase the availability of insurance in many countries. The United States

² Reinsurance is insurance that one firm buys from another in order to write an amount of insurance on a single risk greater than its capital assets would permit.

³ Export and import data supplied by U.S. Department of Commerce, Bureau of Economic Analysis, from the International Transactions in Private Miscellaneous Services Between Unaffiliated Persons. Exports include premiums received, less losses paid. Imports include premiums paid, less losses recovered. These transactions are neither a measure of profitability of international reinsurance transactions of U.S. companies, nor are they an indication of their international competitive position, because risks transferred to, and assumed from, foreign insurers are usually only a small part of the total risks insured by U.S. companies.

⁴ Estimated by the staff of the U.S. International Trade Commission, based on a model designed by the Office of Technology Assessment.

continues to focus attention on barriers that restrict market access in services.¹ The insurance sector, among others, has specifically benefited from these efforts.

A 301 case alleging unfair trade practices by Korean authorities was self-initiated by the United States Trade Representative (USTR) in September 1985. An agreement was concluded in August 1986, which has resulted in access for at least one U.S. insurance firm and initiation of a licensing process for all qualified U.S. firms in the future. Further bilateral consultations are expected to expand U.S. market access for life insurance, non-life insurance and reinsurance in Korea. If sufficient progress is not made, the case could revert back to the USTR for recommendations on possible retaliation in goods sectors, in accordance with provisions of section 301 of the Trade Act of 1974.²

Taiwan does not provide national treatment to U.S. insurance companies. However, Taiwan's large market and projected rapid demand for insurance make it a market with great potential.³ In connection with the USTR's Annual GSP Review, and in view of its discretionary authority to consider a country's effort to reduce services barriers in determining eligibility for GSP status,⁴ Taiwan began opening its markets. At this point, three U.S. insurers have been licensed to market property/casualty insurance, health insurance, and life insurance in Taiwan. Two other insurers are expected to enter Taiwan in 1987. U.S. officials are continuing their efforts with a trade mission scheduled for March 1987, which is anticipated to reach agreement on a timetable for full national treatment for U.S. insurance firms operating in Taiwan.

France, Spain, the Federal Republic of Germany, and the Netherlands were visited by a U.S. trade mission in June 1986. During the mission, the possibility of opening those markets to U.S. insurance companies through joint ventures and subsidiaries were discussed. Operating licenses

for some of the companies represented on the mission were promised. Such an opening could have a favorable impact on the U.S. trade balance, since Western European firms operate quite freely in the U.S. market.

Trade in insurance is also of interest in current bilateral and multilateral trade negotiations. A sectoral understanding on insurance is still in the negotiating stage in the U.S.-Israel Free-Trade Area Agreement. Insurance may also be included in the current negotiations for a U.S.-Canadian free-trade arrangement. Industry sources indicate concern over Canadian licensing and deposit requirements that are felt to inhibit insurance trade, as well as regulations restricting insurance companies' diversification into other financial services. Some companies advocate a U.S.-Canadian agreement guaranteeing national treatment of insurance companies, and others would like the USTR to negotiate the right of reciprocal treatment for U.S. insurance firms operating abroad. Insurance is also under consideration for possible inclusion in the Uruguay Round of Trade Negotiations.

Architectural, engineering, and construction services

Trade.—The value of exports of architectural, engineering, and construction services is partially covered in (BEA's) international transactions data. For 1985, BEA estimated exports for this industry at \$1.6 billion compared with \$1.9 billion in 1984.⁵ The value of new contracts won by U.S. contractors overseas declined from \$30.9 billion in 1984 to \$29.0 billion in 1985, or by 6 percent. Foreign billings by U.S. design firms increased slightly from \$1.1 billion in 1984 to \$1.3 billion in 1985.⁶ The worldwide market for both contractors and design firms has been shrinking since 1983 because of cash-flow problems in the oil-producing nations, slower economic growth in industrialized nations, and high debts in developing countries. All of these factors have contributed to a reduction in the level of spending on capital investment projects and a decline in the demand for construction and engineering services. The Mideast market exhibited the largest decrease in construction activity during 1983-85 and, in comparison, North America, Asia, and Latin America offered more opportunities for contract and design firms during this period.

Trade-related activities in 1986.—During 1986, the United States held bilateral discussions with Japan regarding U.S. participation on the \$8 billion Kansai International Airport project. U.S.

¹ The Trade and Tariff Act of 1984 (Public Law 98-573, Oct. 30, 1984) called for identification of trade barriers to U.S. trade and investment that tend to restrict international trade in services. Trade practices that restrict market access in services are now subject to possible action under sec. 301 of the 1974 Trade Act. The 1984 Act also gives the President authority to negotiate bilateral free-trade agreements. The U.S.-Israel Free-Trade Area Agreement (Public Law 99-47, June 11, 1985) contains an article committing each party to free trade in services across the board.

² For a discussion of the 301 case against Korean insurance practices, see the ch. 4 section on trade relations with the Republic of Korea.

³ Office of the United States Trade Representative, *National Trade Estimate: 1986 Report on Foreign Trade Barriers*, Washington, DC, Oct. 1986, p. 249.

⁴ Under the Trade and Tariff Act of 1984, the President now has discretionary authority to consider the extent to which a country reduces barriers to investment and trade in services in determining a country's eligibility for GSP benefits.

⁵ Export data includes net receipts of U.S. firms for total engineering and design, general construction, technical assistance, and consulting services. Import data is not available for this industry.

⁶ *Engineering News-Record*, May 15, 1986 and April 17, 1986.

companies are interested in supplying general design and construction services, electronic equipment, and communications systems for the project. Despite U.S. insistence that Japan open its bidding process to foreign companies on this and other construction projects, the issue remained unresolved at yearend.¹

The United Kingdom's preferential treatment for British-based engineering firms has been cited by the USTR as a barrier to U.S. firms' participation in the North Sea offshore oil market. Under a 1985 law, the British Government restricts procurement of design services for oil drilling platforms to firms with majority British ownership. The U.S. estimates that approximately \$300 million in potential contracts have been lost as a result of this policy. The United States held bilateral consultations in 1985 and continued to monitor this policy in 1986. According to U.S. industry representatives, the British have demonstrated some flexibility in administering this regulation by awarding a few contracts to U.S. firms.²

Currently, there are no multilateral trade agreements covering architectural, engineering, and construction services. However, services will be included during negotiations on both the U.S.-Canadian Free Trade Agreement and the Uruguay Round of Trade Negotiations.³ During 1986, neither of these forums engaged in substantive negotiations or reached agreement on this service sector.

The U.S. industry has delineated its priorities in preparation for both the U.S.-Canadian free-trade discussions and the Uruguay Round negotiations. The most significant barrier affecting U.S. trade with Canada in this sector is a prohibitive Canadian tariff on architectural drawings that effectively prevents U.S. architects from providing services in Canada. Canadian tariff valuation procedures combined with a Federal sales tax of 12 percent often result in assessments totaling hundreds of thousands of dollars on U.S. architectural drawings. The U.S. industry views the elimination of the Canadian tariff as a top priority during upcoming bilateral negotiations. In addition, inconsistent application of customs procedures, immigration restrictions, professional licensing restrictions and financial export assistance are other barriers to trade with Canada.

There are several tariff and nontariff barriers affecting trade in construction and engineering services worldwide, including government export financing, national preference policies, immigration regulations, restrictions on currency repatriation, discriminatory professional licensing and

registration requirements, discriminatory taxes on profits or on imports of goods, and arbitrary enforcement of customs procedures. The U.S. industry would like to see these issues addressed in the Uruguay Round.

Government financial assistance for feasibility studies and bid proposals is the most important disadvantage facing U.S. architectural, engineering, and construction firms operating abroad. U.S. firms have access to far less direct and indirect assistance compared with their European, Japanese, and Canadian counterparts.⁴ Foreign governments also frequently provide insurance against commercial and political risks, in addition to corporate tax exemptions for equipment and materials used on foreign construction projects.

Discriminatory taxes on profits or imported goods such as architectural drawings can adversely affect the competitiveness of foreign firms vis-a-vis local firms. In addition, arbitrary enforcement of customs procedures can lead to delays in transferring necessary equipment and tools to complete a project. Most developed and developing countries have difficult and time-consuming licensing and registration requirements for architects and engineers that can inhibit the ability of firms to provide services.

An increasingly frequent barrier encountered by construction and engineering companies are barter and countertrade requirements by countries experiencing foreign-exchange shortages. Such practices may cause distortions in the multilateral trade and payments system and force individual firms either to develop expertise on such practices or to forfeit contract awards.

Maritime transportation services

Trade.—Maritime transportation services are classified in U.S. international transactions accounts under "other transportation." In 1985, the trade deficit in maritime transportation services rose to \$1.7 billion from \$1.0 billion in 1984. In 1983, the sector recorded a trade surplus of \$123 million. The shift in the trade balance was attributed to decreased earnings of U.S. flag carriers, combined with an increase in imports transported to the United States by foreign carriers. Exports of maritime transportation services as a proportion of total U.S. international transportation exports decreased from 63 percent in 1984 to 62 percent in 1985; in imports, the share fell from 66 percent in 1984 to 65 percent in 1985.⁵

Total U.S. exports of maritime transportation services, consisting of ocean freight and port service receipts, remained at \$8.7 billion in 1984 and 1985, with port service receipts accounting for

¹ For a complete discussion of this issue, see ch. 4 under U.S.-Japanese bilateral issues.

² Office of the United States Trade Representative, *National Trade Estimate: 1986 Report on Foreign Trade Barriers*, Washington, DC, Oct. 1986, p. 263.

³ For a detailed discussion of the Uruguay Round of Trade Negotiations, see ch. 1.

⁴ The EC and Japan offer an estimated \$120 million and \$80 million to \$90 million respectively, for feasibility studies; the U.S. industry has access to slightly over \$20 million for such purposes.

⁵ U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1986.

over 61 percent of exports in 1985. Total U.S. imports of ocean freight and port service payments rose to \$10.4 billion in 1985, 7 percent over the level of such imports in 1984. Ocean freight payments constituted 80 percent of imports of maritime transportation services in 1985.¹

Trade-related activities in 1986.—One of the most significant recent developments affecting the U.S. maritime transportation services industry was the passage of the Food Security Act of 1985, which amended Public Law 664 covering government-sponsored cargo. The act increased the degree of preference for U.S. flag carriers in strictly concessional agricultural export programs. Prior to the act's passage, only 50 percent of the gross tonnage of the agricultural commodities transported under the export programs of the Commodity Credit Corp. or the USDA were required to be carried on U.S. bottoms. The Food Security Act raised the percentage to 60 percent in 1986, 70 percent in 1987, and 75 percent in 1988.²

The U.S. maritime transportation services industry continued to adjust to the effects of the Shipping Act of 1984 during 1986.³ This legislation amended the Shipping Act of 1916 by reducing Government regulation of the industry and broadening antitrust immunity for cooperative actions by carriers. It overhauled the regulatory structure concerning liner shipping into and out of the United States and helped pave the way for realignment of the trans-Atlantic and trans-Pacific ocean carrier conferences. These actions allowed U.S. carriers to be more competitive with foreign firms. Industry sources indicate, however, that by intensifying U.S. participation in the global market, the law contributed to worldwide overcapacity and low freight rates during 1986.

The United Kingdom, France, Denmark, Norway, Sweden, Finland, and Saudi Arabia accepted the UNCTAD Liner Code in 1985.⁴ Even though several important maritime nations have ratified this agreement, the United States remains opposed to the code since certain provisions encourage the continuation of "closed" conferences that would effectively exclude U.S. participation. Many developing countries adhering to the code continued to seek the phasing out of the open registries or "flags of convenience" in 1986. The elimination of open registries would adversely affect shipowners, particularly in the United States and other countries with high labor costs, who register their vessels abroad to benefit from lower

crew costs and in some cases political and tax advantages.⁵

The Consultative Shipping Group (CSG), an ad hoc group consisting of the government representatives of the principal European maritime nations and Japan, met several times in 1986 in an attempt to develop an agreement to preserve competition in liner trades once the UN Liner Code comes widely into use. The United States is not a formal member of this group, but has participated in some of its meetings. In April 1986, the CSG and representatives of the United States and the EC issued several conclusions jointly reached, pertaining to promotion of competition and resistance of restrictive or protectionist measures in ocean shipping.⁶

Restrictive measures impeding foreign service operations of the U.S. maritime industry, such as market access, cargo preference schemes, minimum rate structures, restrictions on the use of certain equipment, and discriminatory port fees, continue to exist. Most recently U.S. industry sources indicate that some foreign governments have hindered efforts by shippers to integrate warehousing and inland transportation services with ocean shipping. Section 13(b)5 of the Shipping Act of 1984 allows the Federal Maritime Commission to take action against any foreign country that impedes U.S. access to ocean trade between foreign ports.⁷ However, the issue as to whether or not this act covers intermodal transportation of cargo has not yet been resolved.

In December 1985, the United States and Brazil restructured and extended their bilateral maritime agreement for a period of 3 years. The agreement affords national flag vessels of both countries equal access to government-controlled cargo of the other country, excluding agricultural exports and defense equipment. Additionally, it clearly states that nongovernment cargo is available to all carriers, regardless of nationality, and that national flag vessels of both countries are to have access to third-country cross trade. The agreement also prohibits adoption of measures interfering with the development of intermodal systems, as well as exempted inland transportation charges from the Brazilian merchant marine tax.

Trade tensions with Japan regarding the usage of high cube containers and the seaborne

¹ U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, Sept. 1986.

² Food Security Act of 1985, Public Law 99-189, enacted on Dec. 23, 1985.

³ Public Law 98-237, enacted on Mar. 20, 1984.

⁴ According to the U.S. Maritime Administration, 68 countries were signatories to the UNCTAD Liner Code as of Dec. 31, 1986.

⁵ As of Jan. 1, 1986, 55 percent of the total U.S.-owned fleet (in gross tonnage) was registered abroad.

⁶ US/CSG joint statement, Apr. 30, 1986, p. 1.

⁷ Such action may include (1) the suspension of any or all tariffs of the common carrier, or that common carrier's right to use any or all tariffs of conferences of which it is a member, and (2) steps necessary to undertake civil penalties in the event the common carrier accepts or handles cargo for carriage under a tariff which has been suspended or after its right to utilize that tariff has been suspended. Statutory language concerning the nature of actions that may be taken is described in sec. 13(2) and 13(b) 1, 2, and 3 of the Shipping Act of 1984.

transportation of American leaf tobacco continued in 1986. The Japanese Government restricts marine containers mounted on truck chassis to 3.8 meters high for reasons of highway safety. The high cube containers used by most U.S. shipping lines exceed this height. After extensive consultations with the U.S. Government, the Japanese Government, in June 1986, relaxed their administrative regulations on this issue. The new guidelines, which took effect in August 1986, certified 40 new routes for transportation of high cube containers; reduced the application period for permits to carry the containers; extended the duration of the permits from 1 month to 1 year; and eliminated, in principle, rush hour restrictions on the carriage of high cube containers. Regarding the transportation of tobacco, the Japan Tobacco and Salt Public Corp. signed an agreement with two U.S. carriers in 1986 to transport a small percentage of tobacco to Japan. This follows several years of consultations with both the company and the Japanese Government to ensure fair and equitable access for U.S. carriers to this trade.

Discussions were also held with the Government of Iceland during 1985 on the issue of transportation of U.S. defense cargo to a military base in that country. A treaty was signed and ratified by the U.S. Senate in 1986 giving access to a small portion of this trade to Icelandic carriers, reserving the remainder for U.S. flag vessels.

The United States and the Soviet Union held three meetings during December 1985-January 1987 in an attempt to negotiate a new bilateral maritime agreement. The previous agreement lapsed in 1981. No accord was reached, however, and the two governments agreed to resume negotiations in Moscow in the spring of 1987. Discussions also began with the People's Republic of China in an effort to improve U.S.-Chinese ocean shipping arrangements.

Telecommunications services

Trade.—The value of certain communications services is estimated under "other private services" in the U.S. international transactions accounts and reflects the division of certain international revenues between U.S. carriers and foreign carriers.¹ These estimates also include receipts and payments between foreign communications companies and the International Satellite Communication Organization (Intelsat).² Exports of communications services were estimated at \$1.5 billion in 1985, up from \$1.3 billion in 1984.

¹ Imports are defined as payments by U.S. carriers to foreign carriers for the use of transmission services. Exports are defined as receipts from foreign carriers for transmission services provided by U.S. carriers.

² Intelsat is a consortium of 110 countries whose goal is to develop a global communications system. Comsat represents the United States in Intelsat.

Imports rose about 8 percent to slightly over \$2.6 billion in 1985.³ Imports exceeded exports again in 1985 largely because the majority of international telecommunications services originate in the United States. All outbound international calls that are transmitted partially through a foreign network require a payment from the originator to the foreign network for the use of its services.

Total U.S. international revenues after payments to foreign carriers are estimated to have risen over 14 percent in 1986 to approximately \$3.6 billion. This rate of growth is expected to continue through 1987 and result in revenues of over \$4.1 billion for the year. Continued growth is anticipated over the next 5 years with international revenues expected to increase at an average annual rate of 15 percent. In contrast, revenues from domestic communications services are estimated to have totaled \$113.3 billion in 1985, representing a 10-percent increase over the 1984 amount. Growth in domestic revenues is expected to slow in 1987 to slightly over 6 percent with revenues projected at \$120.3 billion.⁴

Trade-related activities in 1986.—Steps to open telecommunications services markets to competition are proceeding in a number of countries. In France, a law has been passed allowing competition in certain services beginning December 31, 1987. In addition, France established a governing authority modeled on the U.S. Federal Communications Commission to regulate telecommunications services.⁵ The segments of the industry that will be affected are value-added networks, private business communications networks, and some types of equipment. In Japan, as a result of laws liberalizing Japan's telecommunications industry, two competitors have challenged Kokusai Denshin Denwa's (KDD) monopoly position in the international telecommunications services sector. The two new entities are joint ventures; the first is an alliance led by Mitsubishi, Mitsui, and Sumitomo, and the second is a combination led by C. Itoh and Cable and Wireless. The newcomers to the Japanese market have announced that they will offer services at rates 20 to 30 percent below that of KDD. Under the same laws, competition with Nippon Telegraph and Telephone (NTT) was authorized. Since then, six rival carriers have been approved by the Ministry of Posts and Telecommunications (MPT). Two of these carriers include U.S. firms—Nippon Satellite, a joint venture with Ford Aerospace, and Japan Communication Satellite, a joint venture with Hughes Communications.⁶

³ Estimated by the Bureau of Economic Analysis, U.S. Department of Commerce.

⁴ U.S. Department of Commerce, *U.S. Industrial Outlook 1987*, ch. 31.

⁵ *International Communications Week*, Sept. 26, 1986, pp. 1 and 3-4.

⁶ *Ibid.*, May 23, 1986, pp. 1 and 9-10.

Moves are also under way in Malaysia, Switzerland, Chile, and Spain to make the telecommunications industry more competitive.

The United States has been conducting bilateral negotiations with several countries to improve market access for U.S. telecommunications service suppliers. Factfinding talks were held with West Germany and Italy and focused on procurement practices, standards, testing and certification, and rules governing the provision of enhanced services and private lines.¹ Negotiations specific to telecommunications continued with Israel as part of the extensive U.S.-Israel free-trade area agreement.² Although the ongoing talks with Israel have not yet reached a sectoral understanding in telecommunications, these negotiations are intended to achieve a legally binding agreement after the general principles have been modified to fit the sector. Talks are expected to continue through most of 1987 with Canada on negotiation of a free-trade arrangement that may include services.

Trade in services is one of the topics being discussed in the Uruguay Round of GATT negotiations. The United States has favored inclusion of trade in services in the GATT to provide a means of seeking relief from foreign trade barriers, especially in the area of international telecommunications services. The principles in this sector that the United States would like to see included are the adoption of nondiscriminatory technical rules and standards, open procedures for regulation and for certification of equipment, equal treatment for imported and domestic products, a transparent procedure for rulemaking with opportunity for interested parties to comment, and provisions for dispute settlement procedures, including consultation and compensation. Several developing nations are opposed to the inclusion of services in the GATT and have made their own proposals.³ India has announced that it would refuse to ratify an agreement that includes service sectors without adequately safeguarding the objectives of developing countries.⁴

A special International Telecommunications Union (ITU) committee is drafting a revision of the ITU's telephone and telegraph regulations for submission during the World Administrative Telegraph and Telephone Conference (WATTC) in 1988. The purpose of this rewrite is to update the regulations so that new technology and future developments in technology can be accommodated. The current draft regulations would change the definition of international telecommunications.

¹ Public Law 99-47, June 11, 1985.

² See ch. 4 section on the European Community for more information on this subject.

³ *International Communications Week*, Aug. 15, 1986, pp. 1 and 3-4.

⁴ For a further discussion of the Uruguay Round of Trade Negotiations, see ch. 1.

Many U.S. firms believe this change would widen ITU authority to include value-added services such as voice mail, electronic data bases, and protocol conversion.⁵ The origin of this definitional problem stems from the differences between the regulatory structure of the U.S. telephone and telegraph services industry and those of other nations. In the United States, the Federal Communications Commission's Computer II decision makes the distinction between enhanced or value-added services and basic services, and subjects only the latter to regulation. However, in many countries no distinction is made between these services and all are subject to regulation. Draft revisions of these regulations are expected at each of many meetings through 1987 in preparation for the WATTC in 1988, and the final language may be quite different from that currently proposed.

A new policy, established in 1986, discontinues launching commercial and foreign satellites unless they are specifically designed for launch from the space shuttle, or unless they are vital to national security. This policy, combined with the revisions in the shuttle launch schedule caused by the Challenger accident, has prompted the National Aeronautics and Space Administration (NASA) to cancel 24 of the 44 commercial payloads that the shuttle was scheduled to carry over the next 7 years.⁶ Many of the canceled payloads are expected to be launched by other countries such as France, Japan, China, and the Soviet Union. France's Arianespace has agreed to launch a satellite in 1989 for RCA and also has launch agreements with Intelsat.⁷ China has signed five preliminary launch agreements with four U.S. firms, Pan Am Pacific Satellite, Dominion Video Satellite, Teresat, and Western Union, and another agreement with a Swedish firm.⁸ The Soviet Union's space agency, Glavkosmos, is offering to launch satellites at prices that are below that of Western countries and will offer to barter goods for launch services.⁹ Many industry analysts believe that this policy change is too sudden to be beneficial to the nascent U.S. private launch industry and that foreign providers will receive the majority of former shuttle customers. Industry representatives have stated that they would rather use a foreign firm with a proven record than a U.S. firm with no history of successful launches.

⁵ *International Communications Week*, Oct. 31, 1986, p. 1-3.

⁶ *International Communications Week*, Oct. 10, 1986, pp. 5-7. Among those dropped from the shuttle manifest were 10 Hughes Communications satellites, 4 RCA satellites, and 1 satellite for American Satellite Co.

⁷ *International Communications Week*, Sept. 26, 1986, p. 8.

⁸ *Aviation Week and Space Technology*, Nov. 24, 1986, p. 20.

⁹ *Ibid.*, Sept. 5, 1986, p. 8.

CHAPTER 4

DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

INTRODUCTION

This chapter reviews the economic performance of major U.S. trading partners, U.S. trade with those countries, and important bilateral trade issues in 1985. Specifically, U.S. relations with the European Community (EC), Canada, Japan, and the newly industrialized countries (NIC's) of Mexico, Taiwan, the Republic of Korea (Korea), and Brazil are discussed.

The U.S. merchandise trade deficit in 1986 was \$162.3 billion, of which \$139.3 billion (86 percent) was with the countries under review in this chapter. The strength of the U.S. dollar and some loss in U.S. competitiveness in the production of certain manufactured products were substantially responsible for the continued deterioration of the U.S. merchandise trade account. The deficit figure was 19 percent larger than the 1985 level of \$136.6 billion. The largest bilateral merchandise trade deficit in 1986 was with Japan (\$59.1 billion, or 36 percent of the total U.S. merchandise trade deficit), followed by Canada and the EC (\$25.2 billion, or 16 percent each). The U.S. merchandise trade deficit with the NIC's covered in this report totaled \$29.8 billion, or 18 percent of the total U.S. merchandise trade deficit.

Acrimony over agricultural trade issues dominated the U.S.-EC bilateral agenda for the second particularly contentious year in 1986. The year was highlighted by a farm trade dispute that was set off when Spain and Portugal entered the EC on January 1, 1986. A year of escalating threats of retaliation and counterretaliation finally abated in January 1987 when a compensation agreement was reached. A dispute dating from the early 1970's over EC citrus import preferences granted to Mediterranean countries was finally resolved in 1986. U.S. and EC officials also agreed on quota levels for exports of semifinished steel to the United States. The lapse of the manufacturing clause of the U.S. Copyright Act was welcomed in EC countries, which have long sought access to the U.S. market for published books.

U.S. trade relations with Canada were highlighted by a year of negotiations on the establishment of a bilateral free-trade area. However, the revival of the softwood lumber dispute cast a dark shadow over bilateral trade relations in 1986. Other disputes focused on Canada's licensing system for pharmaceuticals, and their level of steel exports. Early results of Canada's new foreign investment policy, liberalized in 1985 after several years as a bilateral irritant, show increased U.S. investment activity in Canada.

Numerous trade disputes once again crowded the U.S.-Japanese bilateral agenda in a contentious year replete with another record bilateral trade deficit. Throughout the year, intense discussions on a spate of market access issues yielded mixed results (including semiconductors, the Kansai International Airport, tobacco, rice, and legal, financial, and telecommunications services), and export restraints were continued, or initiated, for several Japanese products (automobiles, machine tools, and textiles).

Bilateral trade relations with Mexico were marked by U.S. pressure to foster better protection of intellectual property rights in Mexico, an issue partially addressed in revised legislation enacted during 1986 in Mexico. Mexico's accession to the GATT in 1986 stands as a major move to facilitate U.S.-Mexican trade as well as Mexico's world trade. The U.S. imposition of a tax on imported crude oil and Mexico's generally restrictive foreign investment policy remain as contentious bilateral issues.

In 1986, several issues of importance to U.S.-Taiwan trade were successfully dealt with. Taiwan revised its copyright and trademark laws, thereby strengthening protection of intellectual property rights, reached an agreement with the United States on several other issues—customs valuation, sale of foreign beer, wine, and tobacco, and performance requirements—and agreed to export restraints for textiles and apparel and machine tools.

Korea and the United States reached an agreement in 1986 that resolved longstanding bilateral disputes over sale of foreign cigarettes, market access for U.S. insurance companies, and intellectual property rights protection. In addition, the United States and Korea signed a new pact extending import quotas on Korean textiles and apparel exports for another 4 years. A U.S.-Korean citrus dispute remained unresolved at year's end.

U.S.-Brazilian trade relations in 1986 took some positive steps. Progress was reported in expanding market access for U.S. exports of informatics, an issue of special concern to the United States. The Brazilian Government also took steps toward improving the investment climate in Brazil for foreign investors. Finally, in 1986, the Bilateral Maritime Agreement was extended for another 3 years in 1986.

THE EUROPEAN COMMUNITY

The Economic Situation in 1986

In 1986, the EC economy experienced a fourth consecutive year of moderate economic growth. However, although inflation rates fell, trade surpluses mounted, and public deficits declined, high unemployment persisted.⁴ The EC's Council of Finance Ministers once again

cited unemployment as Europe's number one economic problem in 1986.

In 1986, the EC registered a 2.5 percent average growth rate in real gross domestic product (GDP) up slightly from 2.4 percent in 1985. GDP grew 2.7 percent in Italy, 2.5 percent in West Germany, 2.4 percent in Great Britain, and 2.3 percent in France. Portugal and Spain, which entered the Common Market on January 1, 1986, registered GDP growth rates of 4.2 and 2.7 percent, respectively. The best economic news for the EC concerned the average inflation rate, which declined from 5.8 percent in 1985 to 3.6 percent in 1986, its lowest level in 20 years. There was deflation in West Germany of -0.5 percent in 1986 and the rate of inflation was 2.5 percent in France, 4.1 percent in Great Britain, and 6.4 percent in Italy.

In general, domestic demand fueled growth, particularly in the forms of relatively strong investment in plant and machinery and private consumption. Although the EC Commission estimated that the growth of investment in plant and machinery declined to 6.1 percent in 1986 compared with 8.0 percent in 1985, this slowdown was offset by an acceleration in the rate of private consumption growth from 2.3 percent in 1985 to 3.8 percent in 1986. The average increase in industrial production in the EC was just 2 percent between 1985 and 1986 compared with a 3.3-percent rise between 1984 and 1985; however, this figure compares favorably with the EC's two major competitors—the United States and Japan—which registered production changes of 1.1 percent and -0.5 percent, respectively. Capacity utilization in European industry edged up slightly in January 1987 to 82.9 percent from the previous survey in October 1986 (82.1 percent) and from January 1986 (82.4 percent). EC members' budget deficits averaged 4.7 percent of the GDP in 1986, down from 5.2 percent in 1985.

Although GDP growth accelerated slightly, the change was not sufficient to reduce unemployment in 1986. The growth of industrial investment provided a small increase in the number of people employed, but the continued expansion of the civilian labor force resulted in continued high levels of unemployment. The average number of registered unemployed rose 1.3 percent from 15.9 million in 1985 to 16.1 million in 1986. The unemployment rate in the EC remained stable at 12.0 percent in 1986. The rate of unemployment rose to 13.6 percent in Italy and to 10.7 percent in France, and declined slightly to 11.9 percent in Great Britain and to 8.1 percent in West Germany.

In 1986 the EC recorded its first trade surplus (\$5.6 billion). The decline in the prices of oil and nonenergy raw materials provided the basis for the improved trade position, which offset a decline in the EC's surplus in manufactured goods. Although the EC registered large increases in its deficits with Japan and with other industrialized countries of the Far East, the EC's trade surplus with other Western industrialized countries rose, and its trade deficits with developing countries and with state trading countries were reduced. Intra-EC trade rose 4 percent by volume and declined 2 percent in value. Spain's and Portugal's share of trade with other EC members increased in 1986 following their entry into the Common Market.

Merchandise Trade With the United States

The EC is the United States' largest trading partner, accounting for over one-fifth of total U.S. trade. Table 4-1 shows that the value of two-way trade between the United States and the EC rose 10 percent in 1986 to \$125.7 billion from \$114.3 billion in 1985.¹ The EC market increased its share of U.S. merchandise exports from 22.6 percent in 1985 to 24.3 percent in 1986. U.S. merchandise imports from the EC represented 20.5 percent of total U.S. merchandise imports from the world in 1986, up from 19.7 percent in 1985.

Table 4-1 shows that the United States recorded a merchandise trade deficit with the EC of \$25.2 billion, up 21 percent from \$20.8 billion in 1985. The U.S. trade deficit was \$15.5 billion with West Germany, \$5.8 billion with Italy, \$4.7 billion with Great Britain, and \$3.1 billion with France. The U.S. trade deficit with West Germany ranked third in value among all U.S. trading partners, accounting for close to 10 percent of the total U.S. trade deficit in 1986. Of the 12 member nations of the EC, the United States recorded trade surpluses with only the following: the Netherlands (\$3.5 billion); Belgium/Luxembourg (\$1.2 billion); Ireland (\$0.4 billion); and Portugal (\$21.6 million). The EC's share of the total U.S. trade deficit remained fairly stable between 1985 and 1986, rising only slightly from 15.3 percent to 15.5 percent. With the depreciation of the dollar, U.S. exports to the EC climbed 7.6 percent in 1986 to \$50.3 billion, after declining 3.1 percent in 1985 to \$46.7 billion. U.S. imports of EC products increased 11.7 percent, from \$67.6 billion in 1985 to \$75.5 billion in 1986, slightly less than the 13.1 percent growth of U.S. imports between 1984 and 1985.

¹ Although enlargement of the EC from 10 to 12 members took place on Jan. 1, 1986, all 1984-86 statistics presented in table 4-1 and tables C-1 and C-2 are based on 12-member figures.

Table 4-1

U.S. merchandise trade with the European Community, by SITC¹ Nos. (Revision 2), 1984-86

(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	3,727,565	3,076,462	3,268,238
1	Beverages and tobacco	1,084,183	1,072,924	1,185,213
2	Crude materials—inedible, except fuel	6,082,219	4,841,220	5,118,412
3	Mineral fuels, lubricants, etc	2,519,908	2,881,765	2,508,647
4	Oils and fats—animal and vegetable	233,519	194,149	155,591
5	Chemicals	5,724,045	5,892,698	6,296,221
6	Manufactured goods classified by chief material	2,759,610	2,556,290	2,937,504
7	Machinery and transportation equipment	20,103,217	20,489,939	22,330,594
8	Miscellaneous manufactured articles	4,585,364	4,497,260	5,082,848
9	Commodities and transactions not elsewhere classified ...	1,410,180	1,210,038	1,368,566
	Total	48,229,809	46,712,746	50,251,834
<i>U.S. imports</i>				
0	Food and live animals	1,881,055	2,111,843	2,321,199
1	Beverages and tobacco	2,219,778	2,318,769	2,411,733
2	Crude materials—inedible, except fuel	778,700	789,276	835,545
3	Mineral fuels, lubricants, etc	6,653,185	5,546,363	3,713,484
4	Oils and fats—animal and vegetable	73,393	80,973	96,245
5	Chemicals	5,637,287	6,082,099	6,264,746
6	Manufactured goods classified by chief material	10,335,380	10,844,979	11,260,762
7	Machinery and transportation equipment	21,765,467	27,161,825	33,608,469
8	Miscellaneous manufactured articles	8,257,906	10,129,669	11,616,448
9	Commodities and transactions not elsewhere classified ...	2,120,005	2,486,986	3,345,706
	Total	59,722,155	67,552,783	75,474,337

¹ Standard International Trade Classification.

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

Note: Because of rounding, figures may not add to the totals shown.

Appendix table C-1 shows that the leading U.S. exports to the EC in 1986 consisted of office machinery parts (\$3.5 billion), computers (\$2.5 billion), airplanes (\$2.1 billion), soybeans (\$1.9 billion), coal (\$1.9 billion), aircraft parts (\$1.9 billion), and engine parts (\$1.6 billion). These products accounted for 31 percent of total U.S. exports to the EC. With the exception of coal, U.S. exports of these products increased in 1986 compared with those in the previous year.

Table C-2 shows that the leading U.S. imports from the EC in 1986 were motor vehicles (\$10.0 billion), crude petroleum (\$2.0 billion), airplanes and airplane parts (\$1.5 billion), motor-vehicle parts (\$1.4 billion), and gold or silver bullion (\$1.0 billion). These products accounted for 21 percent of total U.S. imports from the EC. With the exception of crude petroleum, the value of each of these product categories increased in 1986 compared with that in 1985. U.S. imports of European motor vehicles rose almost \$1.7 billion in 1986, representing a 20.4-percent increase over those during the previous year. The fall in the price of crude petroleum in 1986 contributed to a 32-percent decline in the value of U.S. imports of this product.

Major Policy Developments Affecting Trade

In 1986, one of the major EC policies affecting trade was the continuation of heavy subsidization of the agricultural and steel sectors, although budgetary concerns prompted movements toward reform. Also, enlargement of the EC on January 1, 1986, had repercussions on most third-country trading partners of the EC, including the United States. Finally, the EC's objective to meet competition from outside sources, particularly the United States and Japan, led to further progress toward achieving an internal market by 1992, including an EC-wide research and development policy.

Agriculture

In 1986, EC farmers continued to struggle against the effects of stagnating demand, persistent overproduction in main commodity sectors, and fierce competition in world markets. Falling prices, dwindling farm incomes, and declining levels of EC support plagued EC agricultural producers.

Each spring, the EC Commission proposes common farm support prices for products cov-

ered by the Common Agricultural Policy (CAP) to the EC Council for a decision. Proposals to set the prices for farm products in the 1986-87 marketing year were fiercely debated among those agricultural ministers wanting to protect farm incomes and those hoping to gain control over the soaring costs of the CAP. The agreed proposals froze the prices of major farm products (common wheat, corn, milk, butter, meat (including beef, veal, sheep, lamb and pork), sugar, oilseeds, cotton, rice, and potatoes). The intervention prices for many cereals (feed rye, sorghum, barley, and feed wheat) were reduced by 5.0 percent. Prices also declined for durum wheat (4.0 percent), olive oil (5.0 percent), peaches (7.5 percent), apricots (4.0 percent), and tomatoes (7.5 percent). Tobacco support prices varied between no change and a decline of 6.0 percent. The only major food category to experience an increase in prices was peas and beans (up 1.0 percent). Other highlights of the package included a 3-percent reduction in milk quotas over 3 years and the institution of a coresponsibility levy (producer tax) on cereals equal to 3 percent of the EC's intervention price. Small producers are exempt from the levy, which was designed to help finance the sale of surplus products on world markets and discourage production.¹

Farm spending, which accounts for approximately two-thirds of the EC budget, has continued to increase rapidly, partly because of the effect of the falling U.S. dollar and partly because of saturated markets. Huge surpluses of butter, milk, beef and veal, and, to a lesser extent, cereals, caused serious concern among farm ministers over the impact of the surpluses on the cost of the CAP. The desire to adapt the CAP to these changed market conditions led to approval of a reform package in December. The scheme, aimed at cutting dairy and beef surpluses, will reduce milk production by 9.5 percent over the two years ending April 1989 and will cut the EC's excess beef stock—estimated at 590,000 tons at year's end—by reducing support prices by an average of 11 percent in 1988.² The package was hailed by EC officials as the first significant reform achieved under the CAP.

Steel

Prospects for 1986 steel production were bright at the beginning of the year when many EC steelmakers saw modest profits. However, a

¹ The text of the final compromise approved by the EC's Council of Ministers can be found in "Farm Prices: Agreement At Last on 1986/87 Prices and New Measures to Mop Up EC Grain and Milk Surpluses," *European Report*, Apr. 25, 1986.

² The dairy agreement retains a 2-percent cut in national production quotas that began in April 1986 as part of the 1986-87 marketing year pricing package agreed in the spring of 1986. Milk quotas shall be reduced further by 4 percent in 1987 and 5.5 percent in 1988 under the new agreement.

downturn in the crude steel market resulted in a 6.7-percent decline in EC output in 1986 compared with that in 1985. Germany and Italy remained the EC's major producers, although Italy, along with Spain, experienced a noticeable decline in production (4.3 percent and 16.8 percent, respectively). Four EC countries—Denmark, Portugal, Greece, and Ireland—increased crude steel production in 1986.

Poor performance by the EC's steel industry delayed efforts to phase out the 1980 Davignon Plan and return to normal market conditions. The Davignon Plan, designed during the recession to restructure and modernize the EC's steel sector, set up production and price controls and State subsidies to ailing plants for restructuring purposes. The EC Commission has argued that the steel industry is healthy enough to dismantle the quota system by the end of 1987. In October, the Commission proposed lifting price and production controls on four products: wire rods, light sections, merchant bars, and galvanized sheet. Under this proposal, the share of EC steel output subject to controls would have fallen from 65 percent to about 45 percent. However, pressure from major steel producers slowed the liberalization process; only production quotas on galvanized sheet were removed, lowering the proportion of steel under production controls by 5 percentage points to 60 percent in January 1987. In return for continued protection on the three products, the major steel producers will draft a plan by spring 1987 for reducing annual excess steel capacity voluntarily. The European steelmakers propose a cut in production capacity of almost 12 million metric tons, over 50 percent of the 20 million metric tons of annual overcapacity projected to accumulate in the EC by the end of the 1980's. The Commission will make a decision regarding its proposals to end quotas on the three products after it has reviewed the steel producers' plan in 1987.³

Internal market

To promote the economic integration of the 12 separate national markets of the EC and thus, to foster EC competitiveness, a reform package—commonly referred to as the Single European Act—was endorsed by member governments in 1985. This act, which amends the 1957 Treaty of Rome, the founding charter of the EC, is designed to streamline the EC's decisionmaking process and to create an economic area without internal frontiers. It was agreed that all nontariff measures including physical, technical, and fiscal barriers, be removed by December 31, 1992, to complete the internal market. Over 300 specific

³ In March 1987, the EC's industry ministers indicated the capacity cuts proposed by the steelmakers were not sufficient to eliminate surplus capacity. On June 1, the industry ministers will examine any new proposals by the steel producers and establish a new production quota system accordingly.

proposals for eliminating barriers, each with a timetable, were presented in a Commission white paper in 1985.¹ A rolling program of decisions was set up calling for 149 internal market decisions by June 1987. Although 1986 ended with only 68 of the planned 95 decisions agreed on or adopted, important measures were agreed upon in such areas as counterfeiting, good laboratory practices, technical standards on tractors and certain trucks, and customs formalities for commercial vehicles among EC member states.² The current backlog partially reflects the reluctance of individual countries to release the last remnants of State control of nontariff restraints on intra-EC imports.

The Single European Act was intended to enter into force in January 1987; however, entry into force has been suspended until ratification by all member countries. One nation, Ireland, had not yet ratified the act by February 1987.³

Research and development

Concern over the international competitiveness of advanced European technology has prompted the EC to strengthen its initiatives in cooperative research and development (R&D) programs. Member nations of the EC agree that individual countries cannot stand up alone against U.S. and Japanese competition; instead, they must pool their markets and their human, financial, and technological resources.

EC research is organized by a Community Research and Development Framework program. The purpose of the program is to sponsor "pre-competitive" research; i.e., research in the intermediate stage between fundamental research and subsequent development work that immediately precedes marketing. All programs under the framework initiative are open to non-EC nations in Western Europe. The framework program that expired at the end of 1986 encompassed a number of large-scale technology development programs. Such programs include ESPRIT (European Strategic Programme for R&D in Information Technology), RACE (R&D in Advanced Communication Technology for Europe), and BRITE (Basic Research in Industrial Technology for Europe). ESPRIT was launched in February 1984 and both RACE and BRITE were launched in 1985. These programs continued to strengthen in 1986 with the successful negotiation of a growing number of contracts.

A new framework program to cover the period 1987-91 is currently under consideration by

the EC's Council of Research Ministers. This new program will be the first application of the Single European Act that provides for a true legal framework for R&D, including a provision for the adoption of a multiannual framework program. However, disagreement over the aims of EC research and the R&D budget has delayed approval of the program and held up progress on certain specific programs. In regard to the programs that should be covered under the framework program, the technologically advanced countries prefer to limit the initiative to those programs that promote industrial competitiveness through cooperative efforts, whereas, the technologically developing nations view the framework program as a means to help them catch up. In addition, the former has blocked approval of the program on grounds that the budget is too large.

Another important European R&D program is EUREKA (European Research Cooperation Agency), which supplements the EC's framework research program. EUREKA was launched in 1985 in an effort to enhance European technology in general and to raise the technological level of European countries to that of the United States and Japan.⁴ This program focuses on the rapid development of goods with high market potential compared with the EC's R&D framework program that concentrates on long-term research with less emphasis on immediate commercial exploitation. Western European countries that are not members of the EC also participate in EUREKA.

Two EUREKA Ministerial conferences were held in 1986: the first in June in London, and the second in December in Stockholm. Sixty-two new R&D projects were approved at the June meeting and an additional 37 projects were approved in December, bringing the total number of approved projects under EUREKA to 109. These projects are estimated to cost \$3.7 billion, which will be financed by a combination of public and private sector funds.

Enlargement

On January 1, 1986, Spain and Portugal officially acceded to the EC after 8 years of negotiations. Since that date, both nations have enjoyed the rights and have been subject to the obligations prescribed by the founding treaties and subsequent regulations of the EC.⁵ EC members eliminate tariffs among themselves (the customs union), set up a common external tariff (CET) wall that treats imports from nonmembers

¹ For more details see the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 144-145.

² For more specific information on the progress made, see "Internal Market Council: Success at Last," *European Report*, Dec. 2, 1986.

³ Following Ireland's vote of approval in a May referendum, the Single European Act will enter into force on July 1, 1987.

⁴ EUREKA also was a response to the implementation of the research phase of the U.S.-sponsored Strategic Defense Initiative (SDI). See the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 145-146.

⁵ The body of EC law and rules is known as the "acquis communautaire."

uniformly, and regulate the terms of competition among their firms (the Common Competition Policy).

Transitional arrangements have been negotiated in order to delay the full impact of the effects of accession.¹ The accession treaties call for the elimination of the majority of Spanish and Portuguese internal tariffs by 1992 when the two countries fully integrate into the customs union. Free movement of goods, services, capital, and labor will be achieved within 7 years, with some exceptions. In addition to dismantling customs duties between the entrants and the 10 former EC members, Spain and Portugal will gradually align their external customs tariffs with the EC's CET over the next 7 years. The first staged reduction of Portuguese and Spanish external tariffs was implemented on March 1, 1986. These countries have also adopted the preferential tariffs granted by the EC to the developing nations and those negotiated with African, Caribbean, and Pacific countries and the Mediterranean countries by cooperation agreements.² Spanish and Portuguese trade relations with the European Free Trade Association (EFTA) countries (Switzerland, Austria, Norway, Sweden, Iceland, and Finland) are based on agreements reached between the EC and EFTA.

The EC's integrated Mediterranean programs (IMP), a special form of regional aid, was approved in 1985 to secure support from the EC's southern agrarian regions for Spanish and Portuguese accession. A spending package for Greece, France, and Italy was approved to give these countries the means to meet increased competition resulting from enlargement. In September, the first IMP was officially launched. This package will finance a series of infrastructure and development projects on Crete.

On February 12, the General Agreement on Tariffs and Trade (GATT) formed a working party to determine whether or not the provisions for accession of Spain and Portugal to the EC meet the basic obligations set out in GATT article XXIV:5. Article XXIV:5 requires that the EC demonstrate that "the duties or other regulations of commerce . . . are not on the whole higher or more restrictive than the general incidence of the duties and regulations . . . prior to the formation of the union." In 1986, the working party met

three times to discuss with the EC's trading partners the impact of enlargement on third countries and its consistency with article XXIV:5.³

U.S.-EC Bilateral Trade Issues

Overview

The year 1986 marked a second particularly contentious year in U.S.-EC trade relations. Agricultural trade issues continued to be the source of the most serious disputes because of the massive imbalance in global agricultural supply and demand. However, several key agreements were also reached, fostering encouragement for the future of the U.S.-EC trading relationship. Enlargement of the EC dominated the bilateral agenda throughout the year, but threats of retaliation and counterretaliation were stymied through negotiations that ended first in a temporary truce on July 1 and then a more permanent solution in January 1987. U.S. and EC officials also signed an accord addressing a longstanding U.S. complaint that EC duty preferences on Mediterranean citrus products discriminated against U.S. citrus exports. Unilateral measures and countermeasures that were imposed in a dispute over the level of EC exports of semifinished steel to the United States were abandoned when the two parties agreed to set quotas. Also, EC officials welcomed the lapse of the manufacturing clause of the U.S. Copyright Act, which prohibited imports of books by American authors that were printed abroad.⁴ Lastly, both U.S. and EC officials supported the Punta del Este agreement on launching a new round of multilateral trade negotiations (MTN), especially noteworthy for the compromise struck to include all agricultural trade issues in new round discussions.

Several important bilateral issues were pending at the end of the year, however, including U.S. access to Europe's telecommunications market, the EC's ban on the use of hormones in meat production,⁵ West German exports of machine tools to the United States, EC subsidies to Airbus, and agricultural subsidies. In addition, EC officials have protested the bilateral accord between the United States and Japan concerning semiconductors.

Agriculture

Agricultural subsidies and the Uruguay Round

Increasing productivity, stagnating demand, and strong farm support programs have led to massive surpluses in agricultural markets. The downward pressure on farm prices and incomes caused by global oversupply, combined with the

¹ For a complete discussion of the provisions of the accession treaties, see the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 20-24.

² These programs include GSP; Lome III, the 5-year aid, trade and investment treaty that entered into force on May 1, 1986, and links the EC-12 with 66 developing nations in Africa, the Caribbean, and Pacific Basin; and EC trade agreements with 12 Mediterranean Basin countries that are under renegotiation to ensure that their traditional export sales to the EC are maintained in the wake of Spanish and Portuguese accession.

³ For a discussion of GATT art. XXIV:6 negotiations with the United States, see the section below entitled "Enlargement-related farm trade dispute."

⁴ For more details about the EC complaint on the U.S. manufacturing clause in the GATT, see ch. 2.

⁵ For a complete discussion of this issue, see the ch. 2 section on the Standards Code.

difficulties in transferring labor from the agricultural sector to other occupations, have led the EC and the United States to continue to allocate huge sums to support farm incomes, contributing further to the problems associated with structural surplus. Although both countries recognize the fundamental problems of surplus production capacity and of subsidies underlying their trade tensions, they are reluctant to make major reforms in the politically sensitive sector. Instead, the battle for market share escalates as the two nations attempt to rid themselves of surpluses and maintain their trading position in farm products.

Both countries now lay their hopes for agricultural reform on the new round of MTN. With agricultural expenditures mounting, they have a particular incentive to negotiate reforms. Although the EC adamantly defended the preservation of the CAP at the GATT Ministerial meeting, agreement was reached to cover all agricultural trade issues in discussions.

Citrus and pasta

The citrus dispute had its beginning in the early 1970's after the EC lowered tariffs on citrus fruits from certain non-EC Mediterranean countries as a form of development aid.¹ In 1982, the U.S. Government lodged a formal complaint with the GATT claiming that EC duty preferences on Mediterranean citrus products discriminated against U.S. citrus exports. The report issued by the GATT dispute settlement panel in December 1984 found that the United States had been affected adversely by the preference scheme on fresh oranges and lemons and should be compensated. However, the EC blocked adoption of the panel report, insisting that the tariff preferences were necessary to promote political stability in the region. The United States responded in June 1985 by announcing its intention of increasing duties on U.S. imports of EC pasta in retaliation.

The entrance of pasta into the citrus conflict resulted from another ongoing trade dispute between the United States and the EC. In a separate case brought by the U.S. Government before the GATT Subsidies Code panel, EC export subsidies on the durum wheat component of pasta were found in violation of the Code. The ruling, made in May 1983, was never formally adopted and the United States took no direct action in response to the case.

Negotiations between U.S. and EC officials during July 1985 succeeded in postponing the proposed U.S. tariff increase on pasta. EC threats of retaliation and its agreement to lower its subsidies on pasta by 43 percent led to a temporary truce to provide time to negotiate in a calmer atmosphere. However, the moratorium ended without agreement. On November 1, 1985, the

¹ For further details, see ch. 5 for a discussion of the sec. 301 case brought in 1976.

U.S. Government raised its import duties on pasta products. In response, the EC increased its tariffs on imports of U.S. lemons and walnuts. In addition, the EC raised its subsidies on pasta, eliminating the reduction in subsidies that was imposed in July.

With the accession of Spain and Portugal to the EC in early 1986, the dispute intensified. Under enlargement, the EC began to phase out its duties on imports of citrus products from Spain and Portugal. To preserve the market of the non-EC Mediterranean producers, the EC also began to renegotiate its preference on imports of Mediterranean citrus. The United States reacted to the possible granting of further preferences on Mediterranean citrus by imposing a deadline of July 31 to reach a settlement. To apply further pressure on the European negotiators, the Reagan administration also withheld its signature on a separate agreement raising import quotas on semifinished steel. As the deadline drew near, the EC proposed an extension of 4 months. The United States rejected the proposal, and intense negotiations ensued to meet the deadline.

On August 10, U.S. and EC officials finally signed an agreement ending the long-term citrus conflict. The terms of the agreement encompassed four major areas. First, the trade barriers imposed in November 1985 were dismantled. The Europeans agreed to lift their November restrictions on U.S. lemons and walnuts, and the U.S. Government agreed to dismantle its tariffs on EC pasta.² Second, the EC and the United States agreed to lower tariffs, or raise quota levels, on a variety of other products. Specifically, the EC granted tariff quota concessions on imports of U.S. grapefruit, lemons, certain sweet oranges, almonds, roasted ground nuts, and frozen orange juice. The United States, in turn, agreed to lower tariffs, or raise quota levels, on imports of EC anchovies, cheese, satsuma oranges, olives, capers, cider, paprika, and olive oil.³ Third, the U.S. Government agreed not to challenge in GATT the legality of present or future preferential trade accords between the EC and the 12 non-EC Mediterranean countries. However, this settlement does not preclude the United States from requesting compensation for damages on noncitrus products. Lastly, settlement of the pasta dispute was postponed. Although the legality of the subsidies on pasta may not be determined for years, the amount of the subsidies must be negotiated by July 1987.

² These restrictions were lifted on Aug. 21.

³ On Mar. 18, 1987, the United States raised its quotas on imports of certain EC cheeses and, in return, the EC reduced tariffs on certain sweet oranges, Minneolas (grapefruit hybrids), and frozen orange juice. Definitive implementation of the entire agreement, including further tariff and quota concessions by both sides, is dependent on Congressional passage of legislation granting tariff-cutting authority.

On October 27, the member nations of the EC ratified the agreement. Opposition by the leading EC citrus producers—Spain, Italy, and Greece—had held up EC ratification but they dropped their objections in return for assurances that their own citrus trade would not suffer.

Enlargement-related farm trade dispute

Of all the issues that stem from enlargement of the EC, its effect on U.S. agricultural trade caused the most serious tensions between the United States and the EC in 1986. According to the terms of the accession treaties, on March 1, 1986, Spain and Portugal imposed several measures that would impede imports from nonmember nations, including the United States. In particular, the EC imposed quotas on Portuguese imports of soybeans and required that 15.5 percent of its grain be purchased from other member countries. With Spain's adoption of the EC's system of variable import levies, the EC also raised tariffs on corn and sorghum imported into Spain from 20 percent to over 100 percent.¹

The dispute over EC restrictions affecting exports of U.S. soybeans and grains to Portugal ended in May. At that time, the President imposed quotas on a variety of imports from the EC, including white wine valued over \$4 per gallon, chocolate, candy, apple and pear juices, and beer. Because the EC claimed that its Portuguese measures would not hurt U.S. exports, the administration set quotas large enough so that they had no immediate impact on trade.

On May 15, in response to the increase in Spanish tariffs on corn and sorghum, the President published a list of EC products—including wines, brandies, gin, cheeses, and sausages—that would be affected by U.S. restrictions on July 1 if the EC did not provide adequate compensation by that date. On June 16, the EC set forth a plan to curb imports of U.S. wheat, rice, and corn gluten feed should the United States impose its restrictions on July 1.

After intensive negotiations, U.S. and EC officials agreed on July 2 to a 6-month settlement. Under the compromise, Spain was allowed to retain its high level of tariffs on corn and sorghum that were enacted as a condition for joining the EC. However, the EC agreed that should U.S. shipments of these products to Spain fall below 234,000 metric tons per month—roughly equivalent to 1985 levels—other EC members would reduce their tariffs on these products to make up for the shortfall.

The temporary truce was designed to grant time to negotiate permanent compensation through the GATT. After the expansion of a

¹ For a discussion of U.S. agriculture's concerns with these restrictions, see the *Operation of the Trade Agreements Program*, 37th Report, 1985, pp. 23-28.

customs union, GATT article XXIV:6 requires negotiations for compensation on a bilateral basis for any withdrawal of previously negotiated trade concessions. However, the EC failed to offer acceptable compensation before the December 31 deadline. Key differences remained, particularly those regarding whether or not increased U.S. sales of manufactured products to Spain would be sufficient to compensate for lost sales in the agricultural sector, as the EC contended.²

Because no compensation agreement was forthcoming, on December 31, the Reagan administration announced its intention of imposing 200-percent duties on imports of European agricultural products, including certain cheeses, white wine, brandy, gin, canned hams, endive, carrots, and olives. To provide time to settle the dispute, the increased U.S. duties are to go into effect at an unspecified date, but no later than January 30, 1987.³

Steel

In late 1985, the 1982 U.S.-EC Arrangement Concerning Trade in Certain Steel Products (the arrangement) was renewed limiting EC steel shipments to 5.5 percent of the U.S. market through September 30, 1989.⁴ Although the scope of the 1982 arrangement was broadened to cover new steel products, semifinished steels continued to be treated as "consultation products" in the 1985 pact. Since U.S. and EC officials could not agree on acceptable limits during the renewal negotiations, the two factions agreed to subject semifinished steel products to discussion if EC shipments to the U.S. market increased significantly.

On December 30, 1985, the United States unilaterally imposed quotas on imports of EC

² See the *Operation of the Trade Agreements Program*, 37th Report, 1985, pp. 27-28.

³ Soon after the U.S. announcement, EC officials indicated that they were prepared to take counter-retaliatory measures against imports of U.S. corn gluten feed and rice if no agreement were reached, and the United States carried out the threatened restrictions. However, on January 29, the EC agreed to provide the United States with what was considered adequate compensation. Under the agreement, the EC will ensure that Spain imports 2 million metric tons of corn and 300,000 metric tons of sorghum from non-EC suppliers over each of the next four years. These purchases will be made by means of either reduced-levy quotas or direct purchases in world markets under the authority of the EC Commission. Alternatively, the quota can be filled by substitute products such as corn gluten feed, citrus peels and pellets, and brewing residues. Another provision of the agreement withdrew the requirement in the enlargement treaty that Portugal purchase at least 15 percent of its grains from the EC. The EC also agreed to provide further compensation in the form of lower tariffs on over 20 industrial and agricultural products including dried onions, avocados, certain fruit juices, plywood, some chemicals, aluminum sheets, and silicon wafers. Finally, the EC agreed to extend to Spain and Portugal its current zero tariff rate on soybean products and corn gluten feed.

⁴ See the *Operation of the Trade Agreements Program*, 37th Report, 1985, pp. 152-154.

semifinished steel products. EC shipments were limited to 400,000 short tons annually over the period January 1, 1986, to September 30, 1989, with an additional 200,000 short tons a year allowed to cover contracted shipments from British Steel Corp. to Tuscaloosa Steel of Alabama. The EC protested the action by imposing retaliatory measures against imports of U.S. fertilizers, coated paper, and animal fats effective February 15, 1986, to November 15, 1989.

In June 1986, the United States and the EC agreed to abandon these measures and broaden the 1985 arrangement to cover semifinished steel. The new limits on EC semifinished steel exports to the United States are as follows (in short tons): 300,000 from July through December 1986; 620,000 in 1987; 640,000 in 1988; and 502,500 from January through September 1989. In addition, the United Kingdom is permitted to export 200,000 tons annually to a steelmaking plant in Tuscaloosa, AL. The EC agreed to rescind the retaliatory measures it imposed in February when the new agreement became effective.

The EC's signature on the semifinished steel accord was subject to the approval of the EC's Council of Ministers. Because of an internal dispute among ministers on the allocation of the quota among EC member countries, the EC's signature was delayed until July 16. The burden sharing plan that was agreed to is as follows: Germany, 50 percent; France, 14.5 percent; Italy, 3 percent; United Kingdom, 4.5 percent (in addition to the 200,000-ton special reserve to Alabama); the Netherlands, 15 percent; and Belgium and Luxembourg, 13 percent. Denmark and Ireland do not supply semifinished steel products to the United States and both Spain and Portugal have separate agreements with the United States.

Implementation of the agreement was further delayed, however, when the United States refused to approve it until the ongoing citrus dispute was resolved. Although the citrus accord was not officially settled until October, U.S. officials were persuaded to implement the semifinished accord on September 15. On September 13, the EC dropped its retaliatory trade measures adopted in February.

Semiconductors

On September 2, the United States and Japan signed a 5-year agreement designed to increase the foreign share of the Japanese semiconductor market and prevent dumping of semiconductors in the United States and third countries.¹ The Japanese agreed to monitor costs and export prices of Japanese semiconductor firms in order to prevent pricing at less than fair

¹ For a further discussion of this accord, see the ch. 4 section on Japan.

value (LTFV). A provision to require the monitoring of third-country pricing was also included. This provision was designed to both discourage U.S. producers of semiconductor-utilizing products, such as computers, from moving offshore to take advantage of lower-priced chips, as well as to restore the competitive edge of U.S. semiconductors in their export markets. In addition, it was hoped such a provision would assuage European concerns that the agreement would divert Japanese chips from U.S. to EC markets and thereby hurt EC manufacturers of semiconductors.

However, the EC protested the agreement for two major reasons. First, the EC is concerned that the potentially privileged access of U.S. firms to the Japanese market could threaten EC exports to Japan. U.S. officials claim that access to the Japanese market does not single out American chips but is laid out in the accord in terms of "foreign" chips, including semiconductors from the EC. However, the EC charges that an unofficial understanding guarantees U.S. firms access to Japan at the expense of competing EC suppliers.²

Second, the EC criticized the monitoring of Japanese exports to third countries and the subsequent price increase for certain types of semiconductors on the EC market. The EC alleges that the United States and Japan, which together account for about 80 percent of world semiconductor production, now have the power to arbitrarily set semiconductor prices on the world market, including prices in Europe. The EC objects in principle to the accord which affects third countries without their prior approval.

The exact effect of the U.S.-Japanese accord on prices in the EC market is unclear. EC computer manufacturers and other consumers of chips charge that the pact has increased the prices of imports of Japanese semiconductors in the EC. By contrast, the European Electronic Component Manufacturers' Association (EECA) claims that the prices of some types of semiconductors have fallen since the accord was implemented. The EECA fears that Japanese producers will decrease prices in the future to gain market share in Europe.³ The EC Commission summarizes the problem as follows: the effect of the pact, to the detriment of EC industries that use them, has been to raise the price of semiconductors that are not manufactured in the EC, but to continue to dump in the EC those types of semiconductors that are also manufactured in the EC, thereby hurting the EC's chip industry.

² In early 1987, U.S. producers complained to Japan that U.S. sales of semiconductors to Japan had in fact fallen since the pact was signed.

³ On Feb. 26, 1987, the EECA filed a formal complaint with the EC Commission alleging that Japanese dynamic random access memories (DRAM) microchips are being sold in the EC at unfairly low prices.

On October 8, the EC requested the GATT to investigate the legality of the U.S.-Japanese semiconductor accord. The EC's complaint in the GATT is twofold. First, the EC requested formal consultations under article XXII of the GATT, which is part of the GATT's dispute settlement process.¹ The EC also charged that the U.S.-Japanese accord violates the GATT Antidumping Code by controlling export prices to third countries. The EC claims that under the Code, only the importing country has the right to decide on appropriate antidumping measures affecting its market. Consultations began in November under GATT article XXII and article XV of the Antidumping Code.²

On another semiconductor issue, the EC agreed to provide copyright protection for imports of U.S. semiconductors. Under the directive approved December 1, the 12 EC member nations must enact legislation protecting the designs of U.S.-made chips. Only the United Kingdom already has such legislation in place. The directive was approved in response to a U.S. law—the Semiconductor Chip Protection Act of 1984—that ensures copyright protection for foreign chip manufacturers in the United States only if reciprocal protection is provided for U.S.-produced semiconductors abroad.

Airbus

U.S. claims that Airbus Industrie, a European aircraft manufacturing firm, is being unfairly subsidized led to two sets of consultations in 1986 to resolve the dispute. Airbus Industrie is a public/private corporation co-owned by Aerospatiale of France, Deutsche Airbus of West Germany, British Aerospace and Constructores Aeronauticas of Spain. The U.S. aerospace industry charges that Airbus is unfairly competing with U.S. firms because of government subsidies primarily in the form of long-term low-cost loans. The administration claims that government aids to Airbus builders and State-backed financial incentives to potential customers of Airbus violate the Agreement on Trade in Civil Aircraft, one of the Tokyo Round codes. Specifically, articles 4 and 6 prohibit trade-distorting subsidies and unfair inducements for potential purchasers.

U.S. officials and representatives from the three major Airbus partner Governments of Britain, France, and West Germany debated the issue in March and June. (Spain has not participated in the talks because it has less than a 5-percent stake in the company.) Both sides

¹ See also ch. 2 section on dispute settlement proceedings in the GATT.

² The EC also requested the GATT to set up a dispute settlement panel under article XXIII to investigate the U.S.-Japanese semiconductor pact. On Mar. 4, 1987, the United States and Japan blocked the EC attempt at the GATT Council meeting; however, at the next Council session on Apr. 15, 1987, a consensus was reached to establish a panel.

agreed to monitor more closely customer inducements but the subsidies issue remained in a stalemate. The Europeans allege that their loan system does not constitute illegal subsidization. Moreover, the Airbus partners charge that the United States subsidizes its aircraft industry as much as the Europeans through generous defense contracts as well as tax benefits. The Europeans add that Airbus provides healthy competition for the U.S. industry, which holds about three-fourths of the world market. Further meetings in 1987 are planned.³

Telecommunications

In comparison with the less regulated U.S. telecommunications market, the United States is concerned that EC countries are not liberalizing their telecommunications markets sufficiently. EC regulatory policies and procurement practices concerning telecommunications services and equipment limit the ability of U.S. firms to enter the EC market. In most EC member countries, government monopolies control the provision of telecommunications services and often operate strict "buy national" policies.⁴

To improve access to the EC market for U.S. telecommunication services and equipment companies, the United States initiated a series of country specific discussions known as market access fact-finding (MAFF) talks. These informal discussions are not intended to be actual negotiations but to serve as preparation for negotiations on this subject matter, either bilaterally or in the context of the new trade round. MAFF talks give

³ The United States is now concerned not only with past subsidization of Airbus and special customer inducements, but also with subsidies to be granted to launch a new series of aircraft. In the U.S. view, Airbus would be violating the Aircraft Code which prohibits governments from subsidizing an aircraft project unless there is a "reasonable expectation of recoupment of all costs." U.S. officials claim that Airbus has never shown a profit, but the Europeans respond that the subsidies are loans that will be repaid. To clarify the U.S. allegations, French, British, and German representatives met with U.S. officials in Europe on Feb. 2-4, 1987. Because the United States failed to convince the governments concerned that the Airbus project is contrary to their obligations under the Aircraft Code, U.S. officials requested a special meeting of the GATT Aircraft Committee to begin talks within the GATT framework. The United States is seeking clarification of the Code's clauses and hopes Code members will be able to agree on an explanatory note to the Code defining the allowable use of subsidies. At the special Mar. 19-20 meeting, the United States agreed to accommodate EC objections that the Aircraft Committee discuss subsidies for civil aviation in general rather than for Airbus in particular. In exchange, the EC agreed to discuss the issue in ongoing regular sessions of the Committee.

⁴ On Mar. 18, 1987, the EC Commission unveiled plans to liberalize EC public procurement markets, including national telecommunications markets that have generally been preserved for national bidders. Although the proposed changes would only liberalize procurement practices among EC member nations, it is possible that further steps could be taken to broaden procurement opportunities for non-EC bidders.

both sides the opportunity to exchange information about their respective telecommunications environments. The United States hopes to gain information on national policies and regulations that affect the provision of telecommunications services and equipment and that may pose barriers to U.S. exports. So far, the United States has conducted MAFF talks with West Germany, Italy, and France.

The EC Commission also met with U.S. delegations in 1986 to discuss developments on the telecommunications market. These meetings focused on developing closer cooperation in work on international standards for information technologies and telecommunications.¹

Machine tools

On May 20, President Reagan announced that he would request four countries—West Germany, Switzerland, Japan, and Taiwan—to voluntarily reduce their exports of machine tools to the United States on national security grounds.² Currently, total imports account for about 42 percent of U.S. machine tool sales. West Germany, the only EC member addressed directly in the President's program, is the second largest supplier of machine tools to the U.S. market, following Japan. Whereas Japan and Taiwan both agreed to restrain exports for the 5-year period beginning January 1, 1987,³ West Germany and Switzerland did not agree to formal voluntary restraint agreements (VRA's). As a result, on December 16, the President announced that the U.S. Government would monitor machine tool imports from West Germany and Switzerland to determine whether they exceeded certain limits. If it is determined that these levels have not been met and the integrity of the machine tool revitalization program is being undermined, the President indicated he would be prepared to take unilateral action under U.S. law. In addition, the President announced that the United States would take remedial action against any other major machine tool supplier—including Italy, the United Kingdom, and Spain—that took advantage of import curbs on other countries to increase its market share. The restraints, set at 1981 or 1985 levels, were scheduled to take effect on January 1, 1987. Germany's sales to the United States of lathes, machining centers, and punching and shearing machines would be affected by the action.

¹ In February 1987, the United States and the EC agreed to cooperate in the telecommunications sector through information exchanges and standardization work. Both sides agreed to exchange information regularly on technical and political developments in the field. They hope that closer cooperation on the standards issue will ensure the "interoperability" of new products.

² For a discussion of the findings of the section 232 investigation that led to the President's machine tool program, see ch. 5.

³ For further information on the Japanese and Taiwanese agreements, see the ch. 4 sections on Japan and Taiwan.

In response to the announcement, the EC and West German Government indicated that they would not recognize the newly imposed limits.⁴ The EC rejected the U.S. national security argument and claimed that the U.S. action is contrary to the GATT standstill commitment⁵ made by GATT Contracting Parties (CP's) at Punta Del Este in September.⁶ However, the prospects for a serious dispute appear to be diminishing. Because of the weakness of the dollar, U.S. imports of German machine tools are not expected to reach the newly imposed ceiling. If the United States enacts restrictions, the EC Commission has indicated that it will propose remedial action.

CANADA

The Economic Situation in 1986

Canada experienced a strong economic downturn in early 1986. Unlike 1985, when strong domestic demand allowed Canada to offset poor economic conditions in the United States, 1986 was marked by a pronounced economic slowdown. Higher taxes in Canada and the drop in oil prices contributed to the situation.⁷ The external sector, particularly dependent on the United States, registered negative performance during the year.

Unemployment has been of particular concern in Canada where, despite impressive growth figures prior to 1986, a high rate of unemployment has persisted. In January 1986, the rate fell to 9.8 percent, the first time that unemployment registered below 10 percent since 1981. The rate continued downward during the year, registering 9.4 percent for the final quarter. In 1986, unemployment averaged 9.6 percent, down from 10.5 percent the previous year.

The manufacturing sector stagnated, and shipments and new orders fell. During the last 6 months of the year, the manufacturing downturn was somewhat offset by an increase in the number of housing starts.

⁴ For a discussion of the EC reaction, see for example *European Report*, "EEC/US: US limits Machine Tool Imports," Dec. 19, 1986, pp. V-3; *International Trade Reporter*, "EC, West German Government Protest U.S. Action to Restrict Machine Tool Imports," Dec. 24, 1986, pp. 1537-1538; and *European Community News*, No. 1, Jan. 8, 1987.

⁵ The standstill agreement commits each of the GATT contracting parties to desist from imposing any new protectionist measures before the Uruguay Round gets underway.

⁶ The EC was also concerned that the United States contacted the West German Government directly rather than the EC Commission since the Commission, not individual member states, has competence over all external trade matters.

⁷ The oil price decline caused serious declines in Federal (and Provincial) energy tax revenues. This worsened the budget deficit problem and is believed to have contributed to the weak Canadian dollar.

Consumer spending in Canada rose markedly in 1986. This rise was financed primarily by household savings. The Canadian savings rate dropped to 9 percent, its lowest point in 12 years.¹ The consumer was the Canadian engine of growth in 1986.²

In 1986, Canada determined that real GDP would be its measure of aggregate economic activity.³ Canadian GDP grew at a rate of 3.2 percent in 1986, down from 4 percent in 1985.

After falling 3.6 percent in 1985, the trade-weighted average value of the Canadian dollar continued downward in 1986. The Canadian dollar hit a record low of US\$0.6913 cents in February 1986. The decline for the first quarter was 13.1 percent. From March through December of the year, the Canadian dollar remained in the US\$0.72 to \$0.73 cent range. The weakness in the Canadian dollar reflects the difference in the rates of inflation in each country: consumer prices rose an average of 4.3 percent in Canada in 1986; the comparable U.S. increase was 1.3 percent. The stubborn budget deficit—greater on a per capita basis than that of the United States—is believed to be another major reason behind the shrinking Canadian dollar. The Canadian Federal budget deficit was equivalent to 6.7 percent of GDP in 1986.⁴

A marked deterioration in Canada's external sector performance characterized 1986. Canada's current account deficit, almost zero in 1985, rose to nearly Can\$9 billion in 1986. In August 1986, Canada recorded its first deficit in the trade balance in over 10 years. The depreciation of the Canadian dollar, weak commodity prices, and the continued downturn in the United States all contributed to the deterioration.

Merchandise Trade With the United States

Canada ranks as the single most important trading partner of the United States. Two-way trade between the two countries is greater than that between any of the world's trading partners. In 1986, the bilateral trade turnover was eclipsed slightly by that between the EC and the United States.

¹ The U.S. savings rate is 4.5 percent.

² This role is expected to be taken over by exports in 1987 as a stronger U.S. economy and appreciation of Japanese and European currencies bolster Canadian sales abroad. See *Business America*, Mar. 30, 1987, p. 24.

³ To measure overall production, Statistics Canada (StatsCan) replaced Gross National Product (GNP) with GDP. Since Canada sends more revenue out of the country than it receives, its GDP is higher than its GNP. (GDP includes revenues paid to nonresidents and excludes revenues from Canadians abroad.) StatsCan believes that GDP will provide a truer indicator of Canadian production.

⁴ The comparable U.S. figure is 5.5 percent of the GNP in 1986.

At a time when Canada has maintained a healthy positive balance in merchandise trade with the United States,⁵ its balance with major European trading partners and Japan has become negative. This fact underscores the already important role of the U.S. market to Canadian traders. Nearly three-fourths of Canada's world trade is with the United States.

Mirroring declines in both imports and exports, U.S. merchandise trade with Canada was off by 2.4 percent in 1986 (table 4-2). The decline in U.S. exports to Canada was 4.5 percent, whereas U.S. imports from Canada fell slightly by 1.1 percent. Overall trade was measured at slightly above \$111 billion. The bilateral trade deficit in 1986 was \$25.2 billion.⁶ With the drop in U.S. exports to Canada being four times greater than the decrease in imports, the bilateral trade deficit increased by 5.5 percent between 1985 and 1986.

Discrepancies in trade data are a source of ongoing concern between Canada and the United States. The problem results from inaccuracy of U.S. (and, to a lesser extent, Canadian) export statistics. A number of companies fail to file voluntary export documents with U.S. Customs before their goods are exported to Canada. This has resulted in an underreporting of U.S. exports, and has overstated the size of the U.S. bilateral trade deficit. Since import statistics are a more detailed and a more accurate measure of trade, their use would result in more reliable trade data. By 1990, both countries have agreed to use one another's import statistics as a basis for trade balance calculations. Between now and 1990, the reconciliation process will take place quarterly rather than once a year.

⁵ For the years 1984-86, the balance has been US\$21.8, US\$23.9, and US\$25.2 billion, respectively. It should be noted, however, that Canadian trade statistics do not reflect the same situation. Statistics Canada has reported that Canada's trade surplus with the United States declined significantly in 1986 from Can\$20.7 billion to Can\$16.2 billion (see *The Journal of Commerce*, Feb. 12, 1987). This reflects an ongoing discrepancy between U.S. and Canadian measures of bilateral-trade flows.

⁶ The figures cited represent unreconciled trade statistics. In 1985, the U.S. Department of Commerce preliminary data measured the U.S. merchandise trade deficit with Canada at \$22 billion. Statistics Canada, on the other hand, measured the same figure at close to \$14 billion. Both countries agreed on a reconciled figure of nearly \$16 billion. The 1986 measures are \$23 billion (U.S. statistics) and \$11 billion (Canadian statistics). The discrepancy is serious enough to produce a difference in trade results for 1986: U.S. data show exports to Canada declining from 1985, whereas Canadian data indicate a 4.4 percent increase in imports from the United States between 1985 and 1986. The 1986 reconciliation, as agreed upon at \$13.3 billion, resulted in a nearly \$10 billion reduction in the balance. This reconciled figure represents a \$2.4 billion decline from the bilateral balance registered in 1985, and is the first year since 1951 that the level of the U.S. bilateral deficit with Canada has decreased.

Table 4-2

U.S. merchandise trade with Canada, by SITC¹ Nos. (Revision 2), 1984-86

(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	1,538,218	1,298,431	1,324,288
1	Beverages and tobacco	51,903	65,353	49,457
2	Crude materials—inedible, except fuel	1,761,463	1,477,684	1,360,875
3	Mineral fuels, lubricants, etc	1,925,022	1,605,361	1,397,347
4	Oils and fats—animal and vegetable	48,558	38,541	27,013
5	Chemicals	2,739,337	2,686,108	2,655,318
6	Manufactured goods classified by chief material	4,321,645	3,982,577	3,631,443
7	Machinery and transportation equipment	25,728,255	27,033,904	25,572,793
8	Miscellaneous manufactured articles	2,789,922	2,600,166	2,548,682
9	Commodities and transactions n.e.c	3,610,758	4,240,821	4,418,897
Total		44,515,081	45,028,947	42,986,113
<i>U.S. imports</i>				
0	Food and live animals	2,296,324	2,373,124	2,669,566
1	Beverages and tobacco	508,269	470,717	457,075
2	Crude materials—inedible, except fuel	5,919,665	5,680,270	5,695,148
3	Mineral fuels, lubricants, etc	9,054,458	9,912,737	6,473,152
4	Oils and fats—animal and vegetable	10,523	18,476	24,194
5	Chemicals	3,177,684	2,894,398	2,720,306
6	Manufactured goods classified by chief material	10,853,764	10,803,060	11,682,112
7	Machinery and transportation equipment	27,990,597	29,380,570	29,880,206
8	Miscellaneous manufactured articles	2,613,581	2,916,225	3,185,446
9	Commodities and transactions n.e.c	3,917,588	4,433,995	5,359,773
Total		66,342,454	68,883,572	68,146,979

¹ Standard International Trade Classification.

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

Note: Because of rounding, figures may not add to the totals shown.

Table 4-2 provides a detailed breakdown of U.S.-Canadian trade along broad product lines. A more specific product examination is contained in tables C-3 and C-4. There was no significant change from 1985 to 1986 in the major products traded between the two countries. It is noteworthy, however, that U.S. imports of Canadian crude petroleum, having increased by more than \$1 billion from 1984 to 1985, declined by \$1.2 billion from 1985 to 1986, returning to their pre-1984 level.

The leading U.S. imports from Canada in 1986 were passenger cars, parts of motor vehicles, newsprint paper, trucks, gold or silver bullion, natural gas, methane, ethane, and crude petroleum. These products accounted for 40 percent of the total U.S. imports from Canada of over \$68 billion. Other important U.S. imports from Canada in 1986 included spruce lumber and woodpulp.

The leading products exported to Canada from the United States were passenger cars, motor-vehicle parts, trucks, parts of office machinery, and piston engines. These products accounted for 35 percent of the total U.S. exports to Canada of \$43 billion. Other principal U.S. exports to Canada in 1986 included coal, auto-

matic data processing machines, and gold or silver bullion. The preponderance of automotive products in trade with Canada—regardless of the direction of that trade—is noteworthy. Nearly one-half of the total trade between the two countries occurs in the Standard International Trade Classification (SITC) section covering machinery and transport equipment. This reflects the considerable trade taking place in automotive products, most of it under the bilateral Auto Pact.

Major Policy Developments Affecting Trade

Free-trade initiative

The U.S.-Canadian free-trade negotiations are the single most important issue on the bilateral trade agenda.¹ Although the genesis of the proposal was in 1983, the change in the Canadian Government in the fall of 1984 caused the momentum for free trade to be slowed while the concept was reexamined. Following the March 1985 Quebec Summit between President Reagan and

¹ For a more detailed discussion of 1986 developments in the FTA arena, as well as the main issues in the talks, see ch. 1.

Prime Minister Mulroney, where the notion of bilateral trade liberalization was endorsed, the initiative received further support from the Royal Commission on the Economic Union and Development Prospects for Canada and from the Trade Minister. It was officially announced as Government policy in September 1985 and presented to the United States at that time.¹

In 1986, the negotiations officially commenced. A number of bilateral meetings were held by year's end. These concerned principally indentifying the issues and parameters of the negotiations. Because of Canada's dependence on the United States as a trading partner, the negotiations toward a free-trade agreement (FTA) are significant. They could lead to the formation of the world's largest free-trade area, both geographically and in terms of trade turnover. Canada's desire for more secure access to the larger U.S. market is somewhat tempered by its reluctance to be overly influenced by the sheer size of the United States.

Operation of the U.S.-Canada Automotive Products Trade Agreement

The Automotive Products Trade Act (APTA) of 1965 implemented a bilateral agreement between the United States and Canada that removed duties on trade between the two countries in new motor vehicles and original-equipment parts. In effect, the agreement created the basis for an integrated automobile industry in North America.²

¹ A chronology of the 1985 events leading up to the initiative being presented to the U.S. Congress, as well as a brief discussion of the factors influencing bilateral consideration of the proposal, is contained in *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 29-43.

² According to art. I, the agreement has three objectives: "the creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved; the liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and the development of conditions in which market forces may operate effectively to attain the most economic pattern of investment production and trade."

Because the United States did not extend this customs treatment to automotive products of other countries with which it has trade-agreement obligations, it obtained a waiver of its Most-Favored-Nation (MFN) obligations under GATT insofar as they pertain to automotive products. Canada, on the other hand, did not consider it necessary to obtain a GATT waiver because, at the time the agreement went into effect, it accorded duty-free treatment to specified automotive products on an MFN basis to all manufacturers with production facilities in Canada. There is, therefore, a difference in the application of the agreement in the two countries. In the United States, anyone may import a finished vehicle from Canada covered by the agreement duty free. In Canada, however, the duty-free import privilege is limited to vehicle manufacturers, but they may import auto parts free of duty from most other countries in addition to the United States. Individuals importing

Previous research has identified several problems in accounting for all the trade in automotive products between the United States and Canada. U.S. export statistics, for example, sometimes fail to capture as automotive products those goods having a variety of end uses (e.g., engine parts, nuts, bolts, fabric for seat covers, and so forth). Consequently, a joint U.S.-Canadian committee studying overall trade statistics agreed that each country should use its own import statistics to report its imports, and use the other country's import statistics to report its exports.³ The result is the "import/import" method of reporting automotive trade used in table 4-3.

Table 4-3
U.S.-Canadian automotive trade, 1964-86

(In millions of U.S. dollars)			
Year	U.S. imports	Canadian imports ¹	Canadian imports less 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	2,935	-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	1,023
1978	10,493	10,964	471
1979	9,715	12,274	2,559
1980	8,780	10,552	1,773
1981	10,618	12,055	1,437
1982	13,292	10,971	-2,321
1983	16,940	14,779	-2,161
1984	23,047	18,996	-4,051
1985	24,726	21,450	-3,276
1986	24,817	21,605	-3,212

¹ Canadian import data converted to U.S. dollars.
Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.
Note.—Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

The Auto Pact governs the most significant sectoral flow of trade between the United States and Canada. At a time when both countries are giving consideration to an even closer trading relationship, the bilateral agreement is looked upon by some as a prototype of what could follow from a free-trade agreement. If the Auto Pact were a true sectoral FTA, it could easily be incorporated into a broader, comprehensive liberalization

² Continued. motor vehicles, or parts thereof, from the United States must pay the Canadian duty.

³ The Committee's study, entitled *The Reconciliation of U.S.-Canada Trade Statistics 1970, A Report by the U.S.-Canada Trade Statistics Committee*, was published jointly by the U.S. Department of Commerce, the U.S. Bureau of the Census, and Statistics Canada.

scheme. But the pact, at least as it is administered by Canada, does not fully constitute an FTA. Canada applies duty-free status only to automotive imports from bona fide manufacturers of motor vehicles. The United States, on the other hand, provides duty-free status to all new (original-equipment) automotive imports from Canada, whether for manufacturers or individuals. According to the agreement, the United States provides duty-free status for automobiles, buses, and most trucks assembled in Canada with a 50-percent North American content. Therefore, Canada can incorporate parts imported free of duty from third countries into vehicles produced in Canada and export those products free of duty to the United States. Furthermore, in "Letters of Understanding," Canadian manufacturers pledged to increase the Canadian value added by at least 60 percent by the end of 1968.¹

The year 1986 was not a banner year for growth in trade in the U.S.-Canadian automotive sector. The industry, already well integrated, did not register significant increases in trade flows from the previous year. Between 1984 and 1985, U.S. shipments of automotive products to Canada increased by 13 percent, and Canadian shipments to the United States grew by 7 percent. In 1986, bilateral trade remained constant.

Since the inception of the agreement, the value of annual two-way trade in automotive products between the United States and Canada has increased nearly 65 times in nominal dollars. In 1986, U.S. shipments of automotive products to Canada were relatively unchanged from the prior year. The 1986 value of such shipments was \$21 billion (table 4-4). Assembled vehicles accounted for 38 percent of shipments in 1986. Dutiable imports into Canada of automotive products were valued at \$953 million in 1986, representing a decline of 3 percent compared with those in 1985 and representing 4 percent of total U.S. automotive product exports to Canada (table 4-4).

Canadian shipments of automotive products to the United States in 1986 were valued at \$24.8 billion—virtually unchanged from 1985. Assembled vehicles accounted for 64 percent of the annual shipments. Dutiable imports of automotive products were valued at \$1.4 billion, or 6 percent of total automotive product shipments from Canada. The major categories of dutiable articles for both Canada and the United States

¹ Under the APTA, Canadian manufacturers received favored status. In a previous report, the U.S. International Trade Commission stated that "the agreement as implemented by Canada is not a free trade agreement, and it has primarily benefited the Canadian economy." The report further states that the concessions provided through APTA are made by the United States, whereas Canada made no substantive concessions except those in the Letters of Understanding. See *Canadian Automotive Agreement*, U.S. International Trade Commission, Ninth Annual Report, 1976.

Table 4-4

U.S.-Canadian automotive trade, by specified products, 1985 and 1986

(In millions of U.S. dollars)		
Item	1985	1986
<i>U.S. Imports from Canada:</i> ¹		
Duty free: ²		
Passenger cars	11,127.3	11,774.0
Trucks, buses, and chassis ..	4,658.9	4,130.1
Parts and accessories	7,657.4	7,519.3
Total	23,443.6	23,423.4
Dutiable:		
Passenger cars	46.8	50.2
Trucks, buses, and chassis ..	30.8	44.5
Parts and accessories	771.1	812.6
Tires and tubes	433.9	486.0
Total	1,282.6	1,393.3
Total:		
Passenger cars	11,174.1	11,824.2
Trucks, buses, and chassis ..	4,689.7	4,174.6
Parts and accessories	8,428.5	8,331.9
Tires and tubes	433.9	486.0
Total	24,726.2	24,816.7
<i>Canadian Imports from the United States:</i> ³		
Duty free: ²		
Passenger cars	6,158.4	6,104.1
Trucks, buses, and chassis ..	1,784.3	1,969.3
Parts and accessories	12,523.4	12,554.7
Tires and tubes	5.4	23.5
Total	20,471.6	20,651.6
Dutiable:		
Passenger cars	114.4	160.6
Trucks, buses, and chassis ..	97.5	121.9
Parts and accessories	579.1	530.3
Tires and tubes	187.9	140.1
Total	978.9	952.9
Total:		
Passenger cars	6,272.8	6,264.7
Trucks, buses, and chassis ..	1,881.9	2,091.2
Parts and accessories	13,102.5	13,085.0
Tires and tubes	193.4	163.6
Total	21,450.4	21,604.5
U.S. trade balance	-3,275.8	-3,212.2

¹ U.S. import data.

² Duty free under the U.S.-Canada Automotive Products Trade Agreement.

³ Canadian import data converted to US dollars as follows: 1985, Can\$1.00=US\$0.73230; 1986, Can\$1.00=U.S.\$0.71963.

Source: Compiled from official statistics of the U.S. Department of Commerce and Statistics Canada.

Note.—U.S. imports are f.a.s. or transaction values, as published by the U.S. Bureau of the Census. Canadian imports are valued on a similar basis.

are replacement parts for motor vehicles (only original-equipment parts are accorded duty-free treatment under the agreement) and all tires and tubes.

Ninety-five percent of the bilateral trade in automotive products between the United States and Canada is free of duty. Until 1982, the United States normally had enjoyed an overall

automotive trade surplus with Canada—the surplus in the parts sector being lessened by the deficit in trade in assembled vehicles. Although Canada's auto parts deficit has increased in the last 3 years, its surplus in trade in vehicles has been more than enough to override this, resulting in an overall automotive trade surplus.

In 1982, for the first time in 10 years, the United States had a deficit in automotive trade with Canada. This deficit recurred in 1983 and 1984, as Canadian automobile manufacturers were able to take advantage of the increased demand in the United States for larger cars. In 1984, the deficit soared from \$2.2 billion to \$4.1 billion, representing an increase of 87 percent. In 1985, the deficit continued, although it declined by \$776 million from the 1984 high. The U.S. deficit—nearly systemic after 5 years—increased in 1986 to \$3.3 billion, nearly 2 percent from the prior year.

The status of the Auto Pact in the current FTA negotiations is unclear. Trade in the automotive sector represents one-third of the value of bilateral trade. The United States is concerned over its bilateral deficit in automotive products in addition to other irritants specific to the automotive sector.

A genuine FTA in automobiles and related equipment does not exist under the bilateral Auto Pact since only original equipment and parts are covered under the pact's duty free provisions. Tires, tubes, trailers, and replacement parts are excluded. Two issues are of concern to the United States: the rules of origin under the pact, by which some foreign autos may be allowed to enter free of duty, and Canadian duty remission schemes, under which foreign automobile manufacturers producing or assembling in Canada sign agreements with the Canadian Government to receive remission of a certain percentage of the duties collected on their imported components. An aim of the United States in the free-trade negotiations is to have national treatment for investment, both in the auto sector and others.

A perception exists in the minds of the Canadian populace that because of the auto agreement, 60 percent of the cost of vehicles sold in Canada must originate in Canada. The 60 percent requirement is one of the conditions for Canadian manufacturers to receive duty free treatment for their products, but it is actually the result of a different formula than is commonly believed in Canada. The fraction that must equal 60 percent is the Canadian value-added/cost of goods sold in Canada. This fraction, computed on a company-by-company basis, includes both overhead and parts purchases. Thus, a desk used by GM Canada, if purchased in Canada, is part of both the numerator and the denominator of the fraction.

At present, in the U.S. view, the agreement is largely structured in Canada's favor: Canada

has a 60 percent Canadian value-added requirement, whereas the United States has a 50 percent local content requirement; Canada has had some foreign companies sign production agreements; and Canada has a production/sales ratio requirement as part of the Auto Pact on its side of the border. Since a protected auto market continues to exist in Canada, there is reluctance on Canada's part to open the Auto Pact to further negotiations.

Any change in the terms of the agreement is likely to be controversial, particularly in Canada. The safeguards, or local content restrictions, if altered, could affect Canadian employment in the auto industry. A reason for the concern is the increased presence of Asian auto facilities in Canada.¹ These manufacturers do not have to meet the Canadian local content requirements of the pact. To force such compliance could adversely affect investment in Canada and discourage the technological upgrading needed to maintain North American competitiveness in autos. The basic problem is that official policies governing offshore auto products have developed differently in the United States and Canada.² A program emphasizing North American auto content, whereby new entrants to production and assembly are encouraged to add more North American content to their vehicles and parts could help remedy the present situation. Such a program would require a definition of content as well as common rules of origin for both countries.

New foreign investment policy in Canada

Legislation creating a new foreign investment agency in Canada became effective on June 30, 1985. The Investment Canada Act exempts all new investments from Canadian Government review. It also raises the threshold value for exemption from reviews of takeovers of Canadian companies from Can\$3 million to Can\$5 million. The legislation is expected to result in faster, simpler decisionmaking, with the total number of investments subject to review being reduced by 90 percent.³ The basic criterion for determining whether or not proposed investments are of significant benefit to Canada has been eased. The new legislation requires only that a proposed investment be of net benefit to Canada. Investment Canada data for the period September 1985 through August 1986 show that relative to the preceding 12-month period, new businesses and acquisitions by U.S. firms increased by 20 percent.⁴ Most of the activity was the result of

¹ Honda, Toyota, Hyundai, and Suzuki are now building automotive assembly plants in Canada.

² Nels Ackerson, "U.S.-Canada trade pact may founder on autos," *Wall Street Journal*, June 23, 1987, p. 30.

³ The act does permit the agency to review foreign investment in "culturally sensitive" areas such as broadcasting and book publishing.

⁴ Investment Canada, *First Annual Report*, 1986.

acquisitions that were previously reviewable by the Foreign Investment Review Agency.

U.S.-Canadian Bilateral Trade Issues

Relative to a successful outcome to the FTA talks, the other issues on the bilateral agenda are considerably less significant in terms of the potential they have for contributing to the longer term economic well-being of both countries. However, a number of trade irritants did occur during 1986, some of which are discussed here.

The major problem—and the one receiving considerable press attention—was the U.S. countervailing duty (CVD) case against imports of softwood lumber from Canada. Over \$2 billion of lumber shipments were involved—and potentially subject to additional duties. The concern with softwood lumber began in 1981. Both economic and political concern erupted in 1986, and a settlement was reached only in the closing hours of the year.

Softwood lumber dispute

Background

Canadian softwood lumber producers' steadily increasing share of the U.S. softwood lumber market, even during the recessionary period of 1982, was the main issue in the softwood lumber dispute between the United States and Canada. Canadian producers' ability to undercut U.S. softwood lumber prices, even on exact and similar products, was the cause of the increased market share. This ability was alleged to be a result of raw material (stumpage) pricing practices. Because Canadian producers purchase stumpage primarily from the Provinces on land that is under the companies' stewardship, no competition is involved in the pricing of the stumpage. Conversely, U.S. producers must obtain raw material from 3 equal groups—state and Federal Governments, private land owners, and industrial lands; thus, there is heavy competition for two-thirds of the stumpage. In Canada, stumpage prices are set by the Province, whereas in the United States, they are either negotiated or bid upon. Canada argued that the results of its pricing system are essentially the same as the results that would be obtained by a competitive bidding system. The U.S. lumber industry, represented by the Coalition for Fair Lumber Imports, asserted that the Canadian stumpage fees are set below market value, and in effect, act as subsidies.

The issue, involving Canada's broad resource development policy, was complex since most CVD cases are based on a specific complaint concerning Government grants, loans, or tax policies. On October 7, 1982, the U.S. lumber industry alleged that Canada was subsidizing lumber in a similar case against Canadian lumber imports.

Although the U.S. International Trade Commission initially ruled that Canadian lumber imports were a likely cause of injury to the U.S. industry, the Commerce Department ultimately dismissed the case, stating that there was no significant evidence that a subsidy existed. In addition, Commerce felt that the benefits derived from stumpage fees were not countervailable since the advantages were not specific to the lumber industry alone but to other Canadian industries such as plywood, veneers, pulp, paper, charcoal, turpentine, and furniture.

The U.S. lumber industry, which continued to face economic problems, was confident that a shift in defining what constitutes a subsidy could reverse the 1983 ruling affecting lumber from Canada. A 1986 International Trade Administration (ITA) case initiated a re-evaluation of foreign government programs that, in theory, benefit a broad range of industries, whereas in practice, discreetly promote a specific industry.¹ Closer examination of the issues found that if there is sufficient proof that a "dominant user" benefits from a government program, thus distorting the export market, a countervailable subsidy may exist.² This shift in policy, reinforced by considerable political support by members of Congress from the northwest and southeast, gave the Coalition for Fair Lumber Imports confidence to re-open the case against Canadian stumpage fees.

Petition

The coalition filed a formal petition with the U.S. International Trade Commission and the Department of Commerce on May 19, 1986, claiming that the Canadian Federal and Provincial Governments were providing subsidies on the production of softwood lumber, and as a result, the U.S. softwood lumber industry was being materially injured. The coalition's petition called for a CVD of at least 27 percent of the value of Canadian lumber imports.

The Canadian Government, angered by what it considered to be the retrying of a case that had already been settled three years previously, filed a formal statement to the GATT Council. The statement described the U.S. lumber industry's petition as "calculated protectionist action" that would "subject the Canadian industry and government to unwarranted costs and harassment." The Canadian position was that because Canadian policies had remained unchanged since the prior case, the new case was unwarranted; the only change was in the U.S. interpretation of what constitutes a subsidy.

¹ *Carbon Black From Mexico* (51 F.R. 13, 269, Apr. 18, 1986).

² Original petition by the Coalition for Fair Lumber Imports, pp. 23-24.

Preliminary USITC investigation

The Commission began its preliminary investigation to determine whether or not the U.S. industry was in fact being materially injured, or threatened with material injury. The preliminary investigation found that Canadian softwood lumber imports accounted for an increasing percentage of the U.S. market: 19 percent in 1975, 27 percent in 1981, 29 percent in 1983, and 32 percent in 1986. U.S. imports increased 10 percent in quantity and 8 percent in value between 1984 and 1985.

In Canada, the majority of productive timberland is owned by Federal and Provincial Governments. The preliminary investigation indicated that the price calculated and assigned by the Government ranged from \$10 to \$12 per 1000 board feet in 1984. This price was substantially lower than 1984 U.S. prices, which were determined competitively and averaged \$100 per 1000 board feet. In reference to this price differentiation, the petitioners argued, "without the government assistance of extremely low timber prices, the Canadian softwood lumber mills would be at \$30 per 1000 board feet." The coalition maintained that unfairly low stumpage fees were responsible for the closure of more than 600 U.S. mills between 1974 and 1984, and for the drop in mill employment by 25 percent during the same period.

In response to the U.S. petition stating that Canadian stumpage rates were too low, the Canadian lumber industry contended that the U.S. price cannot be compared with Canadian stumpage fees because of timberland differences in size, quality, density of timber, terrain and accessibility of standing timber. The Canadian view is that Canadian fees are calculated realistically, accounting for costs and problems of harvesting timber in difficult terrain and climate. The Canadian lumber industry argued that there are a number of other factors that enable Canadian lumber to be more salable than U.S. lumber. First, it insisted that both its mills and its means of transportation are more efficient. Second, during the 1970's surge in housing construction, Canada invested \$3 million to modernize and expand its mills. The lower value of the Canadian dollar against the U.S. dollar was cited as the third factor causing the Canadians' increased share of the U.S. lumber market. Finally, it was claimed that U.S. consumers preferred Canadian softwood lumber over U.S. lumber.

The Canadian lumber industry argued further that if the Canadian stumpage fee benefits can be considered indirect subsidies, certain U.S. tax policies should also be more closely examined. Under U.S. tax policy, companies can show an appreciation in market value of lumber as a capital gain rather than income, thereby cut-

ting the corporate tax rate from 50 percent to 20 percent. In addition, the United States, it was argued, provides tax shelters for purchasers of stumpage through partnerships that allow tax advantages to participants. The Canadian lumber industry maintained that the two Governments' pricing policies operate so differently that a direct comparison could not be drawn to substantiate a CVD.

On June 26, 1986, the Commission unanimously determined that there was reason to believe that U.S. producers are being hurt by softwood lumber imports from Canada. Following the ruling, the Commerce Department continued its parallel investigation to determine the extent of support provided by Canadian stumpage fees.

Initial negotiations

Before the preliminary ruling by Commerce, Canada proposed a negotiated settlement. The proposal involved a \$350 million offer to the United States. The offer, a combination of an accelerated increase in stumpage fees in some Provinces and export surtaxes in others, was equivalent to a 10 percent CVD on Canadian softwood lumber. Canada's proposal was conditioned on the U.S. lumber industry withdrawing its petition against imported Canadian lumber. Canada's Trade Minister Pat Carney insisted that the Canadian softwood lumber industry was not being subsidized; she claimed the proposed settlement was made "to save the industry from this kind of harassment from American lumber producers."¹ Canada was working at this point to retain any export tax revenues in Canada. Canada was also motivated by a strong desire to prevent legislation in Congress that could result in administrative trade law changes.

The Coalition for Fair Lumber Imports turned down the Canadian proposal because of concern over how the agreement would be monitored and what sort of guarantees would be available. The U.S. industry also objected to the Canadian demand that the coalition withdraw its support for natural resource subsidies legislation then before the Senate finance committee.

Included in further negotiations was a suggestion that the Commerce Department evaluate a common pricing scheme. Because of the stable exchange rate between the two countries, this would provide a method of monitoring the stumpage fees. The Canadians argued that such a proposal would infringe on Canadian sovereignty. In an attempt to promote further negotiations, the Commerce Department delayed their preliminary ruling for one week. At that time the GATT agreed to establish a panel to examine the issues.²

¹ *Wall Street Journal*, Oct. 1, 1986.

² See discussion of GATT case in chs. 2 and 5.

Preliminary Commerce Department ruling

On October 16, 1986, the Commerce Department altered the 1982-83 finding by ruling that Canadian lumber exports were subsidized and responsible for distorting the U.S. market. Commerce calculated a 15 percent tariff to compensate for the average amount of Canadian subsidies. Some U.S. importers were required to post bonds equal to 15 percent of the value of their shipments of Canadian lumber.

Further negotiations

By mid-November, both sides realized the advantages of a negotiated settlement. Minister Carney insisted that "a dangerous new precedent in U.S. countervail law will be avoided by withdrawal of the action."¹ At the same time, the Coalition for Fair Lumber Imports commented that they were "not opposed to negotiations to settle the lumber dispute, but continue to believe that the full amount of the subsidy must be offset."² On November 26, the Canadian Government made a proposal for a 15 percent surtax, in the form of an export tax or increased stumpage fees, in exchange for the withdrawal of the CVD. Since the Canadian Government did not fully consult with its own industry, there were negative reactions indicating less than unanimity on the Canadian front.³ The U.S. response to the proposal was mixed: U.S. Commerce Secretary Malcolm Baldrige approved of the proposal, but the U.S. lumber industry turned it down hoping to come closer to their initial request for countervailing duties of at least 27 percent.

In a further attempt to negotiate a settlement, the U.S. lumber industry offered two proposals; the first, December 10; the second, December 17. The first involved a 22.5-percent increase in Canadian stumpage fees, and the second involved monitoring of the increase by officials from both countries. The two proposals were rejected by the Canadian Government.

In the final stages of the negotiations, both the United States and Canada agreed to a 15 percent tariff but the question remained of how broadly to apply the export tax and stumpage fee increase in Canada. The United States proposed applying 15 percent higher stumpage fees in Canada through the collection of \$900 million in revenue by the Provinces. The Canadians offered a 15 percent export tariff that would be equivalent to about \$600 million in higher stumpage fees. The Coalition for Fair Lumber Imports wanted the 15 percent figure to be applied to all Canadian lumber, but the Canadians felt the tariff should apply only to exports of softwood lumber to the United States.

¹ *International Trade Reporter*, Bureau of National Affairs, Nov. 26, 1986.

² *Ibid.*

³ *Ibid.*

Settlement

One hour prior to the December 30 deadline,⁴ the softwood lumber dispute between the United States and Canada was settled. The agreement involved a 15 percent export charge imposed to offset Canadian stumpage subsidies and to act as a substitute for a CVD. In the agreement, the United States specified its right to monitor and approve the export charges and the transitional steps to higher stumpage fees. The level of shipments from companies exempted from the tariff would also be monitored to ensure the agreement effectively compensated for the Canadian softwood lumber subsidies. Finally, the agreement listed several Government actions that would not be acceptable such as: rebates, remissions, noncollection of the export fees, grants, low-cost loans, or other benefits. The U.S. Government indicated that it would consult directly with the Coalition for Fair Lumber Imports concerning the operation of the agreement.

Canadian reaction to the pact was divided, primarily because the Federal Government participated in the negotiations, whereas the Provinces were only consulted minimally. Trade Minister Carney was satisfied with the result because certain U.S. requests were eliminated from the pact—requests for an established floor price, regardless of market conditions; U.S. dictation on how stumpage policies would operate; and specific changes in Provincial stumpage systems within a defined timeframe. Canada's largest forestry union, the International Wood Workers of America, was satisfied with the settlement, and stated that it was absolutely essential to agree to ensure that the additional 15 percent of the cost of softwood exports stayed in Canada. However, Alberta's Premier, Don Getty, insisted that any tax on a Provincial resource must be a result of a Federal-Provincial agreement, and "we won't be part of any arrangement."⁵ Premier David Peterson of Ontario was equally disturbed, stating, "We've turned over not only our resource and taxation policies, but in a sense our regional development and employment policies over to another sovereign country." Since the U.S. Government cooperated directly with the Coalition for Fair Lumber Imports, both the Government and the industry were in agreement. The settlement decision required the coalition to withdraw its petition. This was done, effectively terminating the case prior to a final determination.

Implications

Further implications of the final lumber pact may include: shifts in the lumber market, eco-

⁴ The Dec. 30 deadline is significant because it represented the statutory date by which Commerce was required to make its final determination. The petitioner could withdraw their petition up to the final determination, but would be unable to do so after a decision was made.

⁵ Canadian Press, Jan 6, 1986.

conomic disturbances for both Canada and the United States, and potential difficulties in negotiating an FTA. Some trade experts predicted that the export tax would encourage Canada to ship more of its lumber to Far Eastern countries.¹ Concern was also expressed that the reduction of profitability and reinvestment could threaten lumber industry jobs in both the United States and Canada.² The lumber dispute that led Commerce to revise its 1982-83 ruling may also have an impact on the negotiations for an FTA. The need for established trade rules and subsidy definitions along with a mechanism to resolve disputes has been underscored by the controversial lumber dispute.³

Pharmaceuticals

At the start of 1986, Canada was the only major industrialized country with a compulsory licensing system aimed at a single industry. Canadian patent law contains a provision that allows the granting of compulsory licenses for pharmaceutical patents and the payment of an artificially low royalty of 4 percent to the inventor of the drug.⁴ This system effectively removes patent protection for drug products researched and developed in Canada, as well as for those imported for sale in Canada. The system allows licensees or "generic" drug manufacturers to copy and market a patented drug in return for a royalty paid to the patent holder.

Since most Canadian drug patent holders are based in the United States, the licensing system has been a bilateral irritant for some time. Pressure from American pharmaceutical firms to extend the period of exclusivity from three years to a longer period has been intense. A number of valuable patents have been licensed to Canadian producers of generic pharmaceuticals, and the U.S. drug firms which have made considerable R & D investments in these drugs have suffered substantial losses. Besides the inadequate patent protection, the Canadian system discourages R & D in new products and has given generic manufacturers an unfair advantage in export markets.

In 1983, the Canadian Government announced its intention to change its patent law, bringing it into line with that of other industrialized nations. The legislation was delayed following the change in Government in Ottawa, and finally, in June 1986, new legislation was submit-

ted. The legislation has recently been presented in its third reading in the House of Commons and is before the Senate. The Senate, barring any amendments, is the final step before receiving royal assent into law. According to an industry publication, ". . . the Canadian government will extend patent holder's exclusive rights to between 7-10 years and give full 17 year protection to drugs developed in Canada. In return, drug manufactures will have to boost R & D funding from 5 percent of sales to 8 percent by 1990, and 10 percent by 1995."⁵

Steel

The problems of the steel industry in the developed world are multifaceted. They include overcapacity, unemployment, government subsidies, price depression, and industry shrinkage. The United States has not escaped these difficulties. Canada ranks third as a steel supplier to the United States, after Japan and the EC. It is the largest export market for U.S. steel.

The steel import program announced by the President in September 1984⁶ has a goal of reducing steel imports to 18.5 percent (excluding semifinished steel) of the U.S. market during the 5-year period ending September 30, 1989. In order to achieve that goal, the United States has negotiated export restraint agreements with eighteen countries, but not with Canada. The United States has relied on close cooperation and consultation with Canada, voluntary action on Canada's part, and joint monitoring of trade.

Canada has refused to enter into a VRA with the United States in steel, arguing that it is not violating any law and is not responsible for the problems facing the U.S. steel industry.⁷ In 1987, the Canadians, in order to avert a worsening of trade tensions, particularly in light of the lumber dispute, offered to try and contain steel exports.⁸

Canadian exports of steel to the United States are viewed by some observers as excessive,⁹ and have led to the introduction of legis-

⁵ European Chemical News, July 21, 1986, p. 15.

⁶ The steel import program is covered in detail in ch. 5.

⁷ Employment in the U.S. steel industry fell to a record low in January 1987 for the fourteenth consecutive month.

⁸ In February 1987, the Canadian Import Tribunal released a report on specialty steel imports, concluding that Canada does not need a special monitoring system to control such imports. The market disruptions that have occurred in the carbon steel market have not been replicated in specialty steel, according to the report.

On Apr. 8, 1987, Trade Minister Carney announced a program to monitor Canadian exports of steel to the United States. The program will ensure that Canada is not used as a "back door" into the U.S. market by offshore steel producers.

⁹ Canada's share of the U.S. steel market has grown from 3.7 percent to 5 percent over the recent past, a statistic viewed with concern at a time when an effort is being made to restrain all imports of foreign steel into the United States.

¹ Trade data for the first quarter of 1987 indicate that this has not happened. Canadian production levels have remained the same, and Canada has increased slightly the volume of its shipments to the United States over the comparable 1986 period.

² *Portland Business Today*, Aug. 2, 1986.

³ See ch. 1 section on the U.S.-Canadian free-trade negotiations.

⁴ Since 1969 pharmaceuticals sold in Canada have been governed by a law that forces foreign drug firms to license smaller Canadian companies to duplicate medicines in exchange for the small royalty.

lation that would impose quotas on imports of steel from Canada and other non-VRA countries.¹ One area of particular concern is that of transshipments, whereby steel exporting countries ship to the United States by way of Canada in an attempt to circumvent the "voluntary" restraints already in place.

JAPAN

The Economic Situation in 1986

The Japanese economy has been slowing down since the second half of 1985 as a result of the adverse impact of the strong yen on exports. Real GNP growth fell to 2.5 percent in 1986, a postwar low except for negative growth rates following the first oil shock in 1973-74. The main reason for the contraction was a decline in the external sector, which had previously led economic expansion. Two divergent economic trends emerged in 1986. Whereas the export-oriented manufacturing sector was hit hard by the appreciation of the yen, the nonmanufacturing sector remained solid, benefiting from lower oil prices, rising household consumption, and falling import prices. Production in the mining and manufacturing sector fell for the first time in 11 years. As manufacturing industries experienced a drop in export earnings, electric, gas, and oil refining companies registered windfall profits following a drop in the price of oil.

Japan's current account surplus as well as its trade balance set record highs in 1986. Both indicators benefited from a rise in the value of exports from \$174.0 billion in 1985 to \$205.6 billion in 1986, or by 18 percent. The current account surplus rose from \$49 billion to \$86 billion in 1986. A 10-percent decline in the services deficit contributed to the increase in the current account surplus.

Domestic demand helped boost the economy and offset the decline in the external sector. Growth in consumer spending, which accounts for more than one-half of the GNP, rose to 4 percent in 1986 despite the fact that nominal income grew only slightly. The strong showing for personal consumption was attributed to stable consumer prices associated with the appreciation of the yen. However, by year's end, analysts predicted a weakening in domestic demand as unemployment continued to rise.

Growth in residential construction rebounded from 3 percent in 1985 to 13 percent in 1986. Housing starts were expected to exceed 1.35 million in 1986, the highest level since 1979. A major factor in the recovery of this sector was

Government efforts to stimulate housing construction by increasing the availability of financing at low interest rates. Increased investment in housing has been favored both in Japan and overseas as a means of expanding domestic demand and reducing the trade surplus.

Unemployment became a major issue in 1986 as the Japanese economy underwent structural reform. The unemployment rate climbed to a postwar high of 2.8 percent, but was still relatively low compared with other industrialized countries. The steel industry cut its workforce by 6,000 during 1986, and planned to lay off another 13,000 workers during the next 4 years. The auto, shipbuilding, and electronics industries also began to reduce the number of their employees last year. Predictions of cutbacks for 1987 run as high as 300,000 workers.

As the world's largest creditor, Japanese net investment income rose 37 percent to \$9.4 billion. Japan's net long-term capital outflows doubled over its 1985 level to \$131.8 billion in 1986. Japanese companies have been directing funds to the United States, whereas foreign investors repatriated their money as Japanese stock market prices fell. Also, Japanese manufacturers continued to move production facilities abroad in order to maintain their competitiveness. According to Department of Commerce estimates, Japanese investment in production facilities and equipment in the United States jumped sharply from \$16 billion in 1984 to \$27 billion in 1986.

The appreciation of the yen had a significant influence on trade flows in 1986. Export volume fell 1.4 percent, and import volume rose 13.3 percent. Japanese companies attempted to prevent further deterioration in export volume by limiting increases of export prices. This cap on export prices led to a drop in earnings for manufacturing companies. Corporate pretax profits for the manufacturing sector fell a record 32 percent from their 1985 level. Five major iron and steel companies and six major shipbuilding and heavy machinery companies recorded declines in profits for their manufacturing operations.

Merchandise Trade With the United States

The U.S. merchandise trade deficit with Japan reached a historical high of \$59.1 billion in 1986, an increase of 27 percent over that in 1985. The continuing rise in the trade deficit was linked to the relatively strong performance of the U.S. economy, the appreciation of the dollar from 1980 to 1985, the high Federal budget deficit, and the declining competitiveness of certain industries. The decline in the value of the dollar

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¹ Among them, Sweden and Taiwan.

was not reflected in trade flows in 1986 partly because of the J-curve effect.¹

The value of imports from Japan rose from \$68.2 billion to \$82.0 billion during 1985-86, or by 20 percent (table 4-5). U.S. exports to Japan rose only 6 percent from 21.6 billion in 1985 to \$22.9 billion in 1986. Imports of manufactured goods (SITC sections 5, 6, 7, and 8) accounted for 98 percent of total imports from Japan in 1986, or \$80.4 billion compared with \$66.8 billion in 1985. Except for two product categories, increases in leading imports of machinery and equipment occurred across the board (see

¹ The J-curve effect is one explanation offered for the worsening (improving) in the short term of the merchandise trade balance immediately following a depreciation (an appreciation) of the exchange rate. The depreciation of the exchange rate raises the domestic currency price of imports and exports. Over time this usually improves the trade balance since the purchase of imports is discouraged and the sale of exports is encouraged. However, due to a time lag in the adjustment process in the short term, the increase in export quantities and the decrease in import quantities are not large enough to offset the price changes induced by the exchange rate. Consequently, the merchandise trade balance actually worsens. As export quantities gradually increase and import quantities gradually decrease in response to the price change, the merchandise trade balance improves.

table C-6). Imports of autos and other miscellaneous vehicles accounted for 30 percent of total imports from Japan in 1986, representing an increase of 36 percent over those in the previous year. Other products exhibiting prominent increases in terms of value were tape recorders and dictation machines (6 percent), light trucks (42 percent), office machines (35 percent), unfinished motor vehicle parts (38 percent), and radio apparatus (74 percent). Parts of data processing machines, which were not reported in 1985 as a separate import item, amounted to \$1.8 billion in 1986. Imports of lightweight motorcycles (under 700cc) and carbon steel sheets and strip were the only two items showing a drop in value in 1986.

The value of total exports to Japan increased slightly because of larger shipments of manufactured goods, which grew by 11 percent over the 1985 level of \$11.2 billion. According to table C-5, the primary manufactured goods exhibiting growth were electronic products, including digital computer equipment, electronic tubes and transistors, and electrical measuring equipment. Exports of civil aircraft increased by 28 percent, from \$904 million in 1985 to \$1.2 billion in 1986 primarily because of deliveries of 17 large transport aircraft to Japan Air Lines. In addition, the

Table 4-5
U.S. merchandise trade with Japan, by SITC¹ Nos. (Revision 2), 1984-86
(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	4,684,870	3,987,900	4,105,483
1	Beverages and tobacco	398,949	417,340	390,401
2	Crude materials—inedible, except fuel	4,449,789	3,948,895	4,064,395
3	Mineral fuels, lubricants, etc	1,813,969	1,783,388	1,312,109
4	Oils and fats—animal and vegetable	57,580	55,924	54,151
5	Chemicals	2,974,158	2,923,955	3,111,444
6	Manufactured goods classified by chief material	1,428,178	1,268,658	1,325,451
7	Machinery and transportation equipment	5,210,525	5,501,065	6,213,261
8	Miscellaneous manufactured articles	1,469,908	1,457,415	1,779,706
9	Commodities and transactions n.e.c	204,202	258,389	534,445
Total		22,692,129	21,602,930	22,890,847
<i>U.S. imports</i>				
0	Food and live animals	401,105	452,787	446,600
1	Beverages and tobacco	28,753	31,817	37,735
2	Crude materials—inedible, except fuel	103,412	128,814	136,315
3	Mineral fuels, lubricants, etc	53,623	65,963	79,567
4	Oils and fats—animal and vegetable	7,419	8,650	10,899
5	Chemicals	1,283,174	1,381,562	1,757,976
6	Manufactured goods classified by chief material	7,290,031	7,615,562	6,833,650
7	Machinery and transportation equipment	42,079,855	51,968,786	65,118,259
8	Miscellaneous manufactured articles	4,947,357	5,841,081	6,736,153
9	Commodities and transactions n.e.c	401,196	746,835	828,720
Total		56,595,926	68,241,856	81,985,873

¹ Standard International Trade Classification.

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

Note: Because of rounding, figures may not add to the totals shown.

U.S. export value of logs and woodpulp rose 16 and 29 percent, respectively, during the period 1985-86. The primary reason for the increase in shipments of these products was their price competitiveness compared with those from Japan's two other suppliers, the Soviet Union and Canada.

In contrast to exports of manufactured goods, the value of corn exports fell 33 percent from \$1.3 billion in 1985, the value of soybeans exports decreased 11 percent, and the value of wheat exports fell 10 percent compared with those in the previous year. The value of U.S. exports of crude oil declined sharply from \$507 million in 1985 to \$270 million in 1986, or by 47 percent, mainly because of depressed oil prices. The export value of coal shipments followed a similar trend, falling by 27 percent, from \$926 million to \$675 million during 1985-86.

Major Policy Developments Affecting Trade

Market-oriented, sector-selective (MOSS) talks with the United States

Following a mostly successful year of MOSS talks in 1985, the United States and Japan agreed to continue their negotiations in 1986.¹ In addition to reviewing implementation of the 1985 agreements, both countries agreed that the new talks would address unresolved issues and be expanded to include new sectors. However, it was agreed that the inclusion of new products would have to be acceptable to both sides.

Early in the year, the United States proposed to add the following four new sectors to the talks: processed foods, alcoholic beverages, chemicals, and emerging technologies. These suggestions were met with resistance by Japanese producers and the proposal was rejected. In the meantime, the U.S. auto parts industry, Congress, and the administration officials urged the Japanese to negotiate on auto parts because of the growing U.S. trade deficit in this area. During his visit to Tokyo for the economic summit with Prime Minister Nakasone in early May, President Reagan stressed the urgency for agreeing on the new sectors because of the pressure in Congress for action on the growing trade imbalance with Japan.

In May, Japan acceded to U.S. requests to pursue MOSS talks on transportation machinery, and specifically, auto parts. The major objectives of U.S. negotiations are the elimination of tariff and nontariff barriers impeding access of U.S. parts producers, assurance of full access to the Japanese maintenance and aftermarket for autos, and establishment of a system to monitor progress on other objectives.

¹ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 159.

The U.S. trade deficit with Japan in auto parts and accessories was \$4.3 billion in 1986, including \$4.5 billion in imports and \$200 million in exports. U.S. auto parts makers allege that the use of Foreign Trade Zones (FTZ's), Government grants and tax incentives encourage imports of Japanese parts by Japanese-owned facilities in the United States. By contrast, U.S. firms supplied less than 1 percent of Japan's \$50 billion market for original equipment and replacement parts in 1986. According to some analysts, the failure of U.S. parts producers to penetrate the Japanese market can be attributed primarily to exclusionary producer/supplier relations and secondarily to Japanese Government regulations. Japanese original equipment manufacturers (OEM's) in the United States claim that although U.S. parts suppliers are competitive, many are unable to meet quality, price and delivery requirements. There was little progress during the initial discussions held in August, October and December in the areas of data collection requirements and aftermarket issues. However, the Ministry of International Trade and Industry (MITI) and the Japanese Automobile Manufacturers Association (JAMA) agreed to hold a major seminar in May 1987 to assist U.S. firms with marketing techniques in Japan.²

The first followup meeting on medical equipment and pharmaceuticals was held in August. The discussions focused on the one unresolved issue from 1985—standards, regulations and tariffs on over-the-counter vitamins. The talks also reviewed problems regarding implementation, including acceptance of foreign clinical test data, transferring of manufacturing licenses, insurance reimbursement, patent term restoration, and statistical reporting under the agreement by the Japanese Ministry of Health and Welfare. Both sides agreed to hold meetings in 1987.

MOSS talks in telecommunications moved from a negotiating phase to a monitoring phase in 1986. Oversight discussions during August focused on several outstanding issues, including cellular radio equipment, radio services, radio equipment approval and establishment of a monitoring system for the telecommunications agreement. The Japanese agreed to a U.S. proposal regarding the exchange of information and statistical gathering that would cover value-added services and equipment approval, and radio services and equipment approval.

Economic stimulus policies

Japanese economic policies in 1986 had the following two aims: reducing the national deficit, and stimulating domestic consumption to cut the balance-of-payments surplus. Although Government spending was cut, the appreciation of the

² In early 1987, there were some indications of a breakthrough in the talks on establishing an acceptable data collection system.

yen added fuel to the domestic recession and contributed to the growing trade imbalance. In response, the Government employed various fiscal and monetary measures and began working on a sweeping overhaul of the tax system. Prime Minister Nakasone was forced to walk a political tightrope in the middle of his campaign for reelection. He was being pressured by the industrialized countries to stimulate the economy, and, at the same time he had to try to satisfy his domestic constituency's calls to control spending. The blueprint for correcting Japan's external imbalance and restructuring the economy was embodied in the "Maekawa report" issued by a special advisory group to the Prime Minister in April.¹ The April 7 Maekawa report advised the government to: reduce Japan's current account surplus, promote economic growth led by domestic demand, transform its trade and industrial structure, cut income taxes and employee working hours to stimulate consumer spending, rapidly increase direct overseas investment, improve market access for foreign products, work toward exchange rate stability, and further liberalize financial transactions. Although the United States greeted the panel's recommendations with optimism, the European countries' reaction was somewhat dubious. Japanese politicians and business leaders were critical of the report, claiming that it would reduce Japan's competitiveness, increase unemployment and impose greater tax burdens on individuals and corporations. A "Special Committee on Economic Restructuring" within the Prime Minister's Economic Council was assigned the responsibility for reviewing the report's recommendations.

Following the introduction of the Maekawa report, the Government of Japan announced an economic package primarily designed to counteract the negative impact of the appreciation of the yen on the economy. This was the third installment of Japan's Action Plan initiated during 1985 to encourage imports.² The first two packages in July and October of 1985 focused on restructuring the export-oriented economy towards domestic-led economic growth. The April 8 initiative was engineered to smooth the way for Prime Minister Nakasone's visit to the United States scheduled later that month and to placate other industrialized nations' criticism of Japan's growing trade surplus. Among the goals of the April package were the following: 1) pursuing a less restrictive monetary policy, 2) advancing public works projects to the first half of the year, 3) reducing utility rates and prices of imported goods, 4) promoting urban redevelopment through

deregulation, 5) encouraging housing construction and private sector capital investment, and 6) providing assistance to smaller depressed businesses.

On September 19, the Japanese Government announced a comprehensive economic program to stimulate the economy as part of its Fiscal Year 1986 supplementary budget. The key feature of the \$23 billion program was \$9 billion in additional public works programs. The stimulus package also included \$5.2 billion in regional projects to be financed by local governments, \$4.5 billion in financing for housing construction, and \$645 million for road construction. In addition, the Government expected increases in private investment by utilities and by the telecommunications industry.

In late October, the debate over tax reform began with the introduction of two different sets of proposals. On October 30, the Government's tax advisory council proposed the most sweeping overhaul of the tax system in over 10 years. The Government's plan included individual tax cuts totaling about \$29 billion and proposed that Japan's corporate taxes be reduced below the current 43.3-percent rate. The reduction would be offset by some type of an indirect tax such as a value-added tax. Among the most controversial aspects of the plan was a call for the elimination of the tax-exempt small savings system. A month later, following much deliberation, the Liberal Democratic Party's (LDP's) tax commission followed suit with a very similar plan. Although the LDP agreed to cut both individual and corporate taxes, several controversial issues remained unresolved such as the rate of a value-added tax. The business community was split in its reaction to the plan with some leaders joining the opposition parties in criticizing the Prime Minister for reneging on an earlier promise not to enact an indirect tax. The LDP continued to negotiate the details of the tax plan through the end of December with the expectation that the plan would be implemented in April 1987.

On December 1, 1986, a supplement to the Maekawa report was submitted to the Prime Minister by the Special Committee on Economic Restructuring. With economic growth slowing, the study warned of an impending unemployment crisis if structural transformation of the economy were delayed. To combat rising unemployment, the group suggested creating new job opportunities through domestic spending and developing new industries based on technological advances. The restructuring committee offered specific recommendations such as improving employment retraining programs, encouraging consumer spending, expediting housing construction, and relaxing Government regulations in order to stimulate the private sector. The panel report assumed that corporate expansion overseas was inevitable and that no further growth could be

¹ "Report of the Advisory Group on Economic Structural Adjustment for International Harmony," submitted to the Prime Minister, Mr. Yasuhiro Nakasone (English translation), Apr. 7, 1986.

² See the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 59-162.

expected from the export sector. The report noted that 4 percent real economic growth was a prerequisite for structural adjustment. However, the Government's own projections called for only 3.5-percent growth in 1987, and outside sources forecast an even lower level of around 2 percent. The Committee will issue final recommendations in 1987.

Dramatic fluctuations in the dollar-yen exchange rate resulted in considerable turbulence for the Japanese economy in 1986. On October 24, the value of the yen dropped sharply following press reports of an increase in U.S. economic growth. During an emergency meeting on October 31, Japan's Minister of Finance Kiichi Miyazawa and Secretary of the Treasury James A. Baker agreed to cooperate on exchange-market issues and to promote closer cooperation of economic policies among all industrialized countries. The two representatives released an ambiguous statement noting that the exchange rate had reached an acceptable level since the "Plaza Agreement" of September 1985. Although some observers interpreted the statement to mean that a "target zone" had been set for the two currencies and would be maintained by joint intervention, the yen continued to rise. Shortly after the Baker-Miyazawa meeting, the Bank of Japan reluctantly cut its discount rate for the fourth time in 1986 to 3 percent, matching a postwar low in 1978 of 3 percent. It was hoped that the cut would contribute to the stabilizing of exchange rates and boost economic growth.

Structural adjustment measures

In 1986, the Government of Japan initiated two programs to aid firms that had been hurt by the appreciation of the yen. The United States has expressed concern regarding the anticompetitive and restrictive effects the programs have on imports.

In 1985, Japan instituted a subsidized loan program ("yen-impact" program) for small firms in more than 150 manufacturing sectors adversely affected by the appreciation of the yen. In May, the program's coverage was expanded and loan terms were eased. On September 19, the Government announced that it would extend the program beyond March 1987 and increase its funding by \$1.25 billion. In addition, moratoriums on interest and principal payments for previous loan recipients and reductions in collateral requirements would be offered. Among those industries qualifying for assistance under this program are the textile, ball bearings, steel wire, forgings, and shipbuilding industry. The auto and electronics industries are excluded from the program.

Other structural adjustment measures were announced on September 19 for small- and medium-sized firms in designated regions that

would be eligible for below-market rate loans and financial guarantees. The shipbuilding, fisheries, forestry, and steel industries are included under this program. Other provisions of the program are designed to encourage new industries and technological development.¹

U.S.-Japanese Bilateral Trade Issues

Overview

During 1986, the United States and Japan repeated their all too familiar roles in the bilateral trading relationship. The United States threatened to take protectionist actions on a number of fronts, and Japan provided reassurances and evidence of its commitment to fair trade. The year began smoothly enough with the successful conclusion of the first round of MOSS talks in January 1986. However, lingering dissatisfaction from 1985 over inadequate market access measures resulted in public criticism of Japan by U.S. representatives.

In early April, 50 Senators sent a letter to President Reagan urging him to focus on trade during his meeting with Prime Minister Nakasone later in the month. Shortly thereafter, Prime Minister Nakasone arrived in Washington bearing the Maekawa report, which had been unveiled a week earlier, and promised to take steps towards implementing its recommendations. The Nakasone-Reagan meeting set the stage for Japan to assume its responsibilities as host for the Tokyo economic summit where it hoped to gain support from other industrialized nations in cooperating on exchange market issues. Although the overall outcome of the summit was viewed as successful by many observers, the opposition parties in Japan criticized the Prime Minister for failing to gain commitments on preventing further increases in the value of the yen. Prime Minister Nakasone's reelection in July was a reassuring sign that economic stimulation measures would be implemented. However, monthly trade statistics showed no signs of a decrease in Japan's trade surplus, lending an added sense of urgency to Congressional calls for action to correct the trade imbalance. U.S.-Japanese negotiations on semiconductors overshadowed other issues during the summer, and tensions over tobacco, aluminum, and the Kansai airport project simmered just below the surface. Bilateral talks in August resulted in some progress on tobacco, aluminum, and soda ash, in particular. Consultations throughout the remainder of 1986 left many key issues unresolved and the semiconductor matter once again began to dominate the trade agenda.

¹ On Feb. 13, 1987, a third program, the "smooth adjustment" plan, was announced to provide relief to large firms in the form of loan guarantees, interest rate subsidies and direct funding. The program will be funded at \$65 million in Fiscal Year 1987 if it is approved by the Japanese Diet.

The United States appeared to take one step forward and two steps backward in resolving specific trade issues with Japan in 1986. On the plus side, several pending trade cases were resolved and progress was achieved on such key issues as machine tools, semiconductors, textiles, tobacco, aluminum, alcoholic beverages and salmon fishing. In addition, Japan agreed to provide greater access to U.S. firms providing legal, financial and telecommunications services. However, by year's end, some of these same issues such as semiconductors and telecommunications were back on the negotiating table. In addition, other important issues such as supercomputer exports and access to the Kansai Airport project were heating up.

An election year coupled with a rising Federal deficit proved to be the perfect formula for starting an avalanche of trade bills in Congress with Japan as the target in many cases. International trade was an issue that provided "something for everyone" as Congressional representatives scurried to claim credit for aiding producers in their State or district. Out of 1166 trade measures introduced during the 99th Congress (1985-86), 68 referred to Japan at least once. The barrage of bills and resolutions mentioning Japan focused on a diversity of issues including coal exports, semiconductors, autos and parts, securities firms, steel and chocolate. Most of the legislation was submitted under the guise of "trade expansion or enhancement" and carefully avoided such protectionist measures as import quotas or domestic-content provisions. There were two reasons for this trend: (1) the administration's vocal opposition to protectionist language; and (2) fear of retaliation from trading partners. In May, the House passed a comprehensive trade bill, pieced together from bills submitted to six committees during the previous year. The President immediately labeled the bill as highly protectionist and threatened to veto it. One especially objectionable provision from the administration's viewpoint was the amendment sponsored by Rep. Gephardt which would have required the President to achieve 10 percent annual cuts in trade surpluses with Japan, West Germany and Taiwan, or take retaliatory actions. Other provisions pertaining to dumping in third-country markets, barriers to telecommunications markets and stabilization of currency markets were interpreted as being aimed at Japan. The Senate finance committee began markup of its bill in September, but the full Senate adjourned on October 18, 1986, without passing any trade legislation.

Semiconductors

During 1986, U.S. hopes for resolution of the semiconductor issue¹ were raised on September

¹ For further details on the history of this issue, see the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 168-170.

2 following the signing of a 5-year agreement, but then quickly dissipated during the next few months as it became apparent that Japanese producers were not abiding by the terms of the accord. At year's end the issue had come full circle with the administration pressuring Japan for compliance and an interagency working group considering the initiation of a section 301 case.²

Under the September agreement, the Government of Japan promised to encourage imports of foreign semiconductors and prevent dumping of their components in both the United States and third-country markets. Although no specific schedule for increasing U.S. market share was established in the agreement, an increase above the 8.5-percent share held in 1985 to \$1 billion to \$2 billion, or approximately 20 percent of the Japanese market was expected.³ The Government of Japan promised to establish an organization to promote foreign sales of imported semiconductors and improve relations with Japanese purchasers over the long term. The Japanese also agreed to monitor costs and export prices of semiconductors in order to prevent pricing at LTFV in both the United States and third-country markets. For its part, the United States agreed to suspend two dumping cases initiated in 1985 and a section 301 case, contingent upon Japanese compliance with the agreement's provisions. However, the United States reserved the right to reinstate the cases and impose dumping duties if monitored data indicated that Japanese firms were violating the agreement.

The United States was initially optimistic that the agreement would result in an increase of U.S. semiconductor exports to Japan and would prevent future dumping.⁴ The EC immediately criticized the bilateral agreement, charging that the provisions relating to the monitoring of third-country pricing were inconsistent with the GATT.⁵

U.S. industry representatives claimed that Japanese producers continued to sell their components at LTFV in third-country markets. During regular consultations in November and December, U.S. officials urged MITI to take stronger actions to prevent dumping and expressed serious concerns about MITI's apparent unwillingness or inability to promote sales of imported chips over the long term. Although the Japanese attempted to assure U.S. negotiators that they had taken steps to enforce compliance

² *Journal of Commerce*, February 10, 1987.

³ *International Trade Reporter*, August 6, 1986, p. 994, *The Wall Street Journal*, March 30, 1987, and *The Washington Post*, March 30, 1987.

⁴ *International Trade Reporter*, August 6, 1986, p. 996.

⁵ For a discussion of the EC reaction to the U.S.-Japanese semiconductor accord, see ch. 4 section on the EC.

with the agreement, the issue was not resolved to the satisfaction of the United States.¹

Automobiles and parts

The dominant question for U.S. officials and automakers in 1986 was whether or not Japan would extend its VRA on exports to the United States for yet another year. During the past 5 years, the VRA's gave U.S. producers time to modernize their production facilities and increase their profits. The Japanese have also benefited from the restrictions by loading their autos with accessories and raising prices. Given the healthy financial position of U.S. producers and the appreciation of the yen, which lowered the price differential between Japanese and American cars, some analysts believed that the restraints were no longer justified. However, on February 13, 1986, MITI announced it would continue export restraints for a sixth year through March 31, 1987, at the annual level of 2.3 million autos, the second year of restraints at that level.² The Japanese hoped the VRA renewal would discourage Congressional enactment of protectionist legislation. However, neither the administration nor Congress appeared to be impressed by the symbolic action, and the calls for correcting the trade imbalance went unabated.

The Japanese have responded to the VRA's by increasing their U.S. production by 41 percent above 1985 levels to over 300,000 units in 1986. This additional assembly capacity has led to increased imports of Japanese auto components and aroused complaints from U.S. auto parts makers. To appease both parts producers and Congressional critics, MITI has urged Japanese companies with U.S. production to increase their purchases of locally produced parts. Nissan, Honda, Mazda, and Toyota have subsequently announced plans to increase their content of U.S.-made vehicles from about 30 percent to over 60 percent. Their decision was based in part on the appreciation in the value of the yen, which has made it more economical to switch to U.S. products.

Despite the 50-percent appreciation in the yen since March 1985, Japanese producers raised their prices on auto exports to the U.S. by only 17 percent during 1986. Japanese automakers apparently opted for incurring financial losses rather than risk losing market share by passing on even higher prices to U.S. consumers. Both U.S.

¹ In February 1987, the U.S. Semiconductor Industry Association urged U.S. officials to consider retaliatory action and on Mar. 27, the President announced his intention to raise tariffs on imports of certain types of electronic products. A 100-percent ad valorem tariff would be imposed on certain products following a hearing on the matter. The penalties will be lifted when the semiconductor agreement is fully implemented.

² See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 149 and *37th Report, 1985*, p. 164.

and Japanese manufacturers are facing increasing competition from low-priced imports of smaller model autos from Yugoslavia and the Republic of Korea. As a result, the Japanese may have a harder time filling their quotas in 1987 and U.S. producers could also lose market share.³

Machine tools

Japan accounted for approximately 47.5 percent, or 1.3 billion dollars worth of total U.S. imports of metalworking machine tools in 1986. Domestic producers of machine tools have long been concerned about rising Japanese imports. In 1983, the machine tool industry's association sought temporary quota relief under section 232 of the Trade Expansion Act of 1962.⁴ In March 1986, the U.S. Department of Commerce submitted its report on the case to the President for a determination. On May 20 President Reagan announced that he would seek voluntary restraints on machine tool imports from four countries, including Japan.⁵

Just prior to the November 20 deadline for Presidential action, the United States and Japan initialed a VRA limiting four types of Japanese metalworking machine tool exports for up to five years. Under the terms of the accord, the Japanese will limit their exports of machining centers; numerically controlled and nonnumerically controlled lathes, punching, and shearing machines; and milling machines, as of January 1987. The Government of Japan reportedly agreed to reduce its U.S. market share for high-technology machining centers and numerically controlled lathes and numerically controlled punching and shearing machines to approximately the 1981 level for these products. The Japanese would also slightly reduce their exports of low-technology machine tools, such as some milling machines, nonnumerically controlled lathes, and manual punching and shearing machines to 1985 market levels.⁶

The import restraints are viewed as a temporary remedy, giving the U.S. industry time to boost its capacity utilization, modernize its production facilities, and regain a competitive position in the domestic market.

Kansai International Airport

During the next 10 years, over 60 billion dollars worth of major public works projects

³ On Jan. 27, 1987, MITI announced that it would extend the VRA limiting exports to 2.3 million units through Mar. 31, 1988.

⁴ See *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 153.

⁵ An agreement was also worked out with Taiwan to restrict imports of milling machines, manual and numerically controlled lathes, and machining centers. The President notified West Germany and Switzerland that their shipments of certain product lines must be maintained at specified levels for the next 5 years. For a discussion of U.S.-West German consultations on this issue, see the ch. 4 section on the EC. 4-27

⁶ U.S. Department of Commerce Fact Sheet, 1986.

including airports and urban renewal projects are scheduled for completion throughout Japan. The Kansai International Airport project, which has been in the planning stages for 10 years, is the first slated for construction. The airport project will involve four phases of construction, including the building of an artificial island, and is scheduled for completion in the 1990's at a cost of over \$8 billion. U.S. construction and engineering companies have expressed tremendous interest in participating in the project since 1978, but to date have had only minimal success in winning contracts.

The Kansai International Airport Corp. (KIAC), which is responsible to Japan's Ministry of Transportation, was set up in 1984 to manage the project. Two differing viewpoints of the project emerged from the start; whereas Tokyo insisted it was a private endeavor exempt from GATT coverage, the United States claimed it was a public works project subject to open bidding procedures. A consortium of Japanese firms were invited to participate in the initial planning stages, giving them an opportunity to become familiar with the unique environmental and engineering constraints of the project. U.S. and other foreign companies were excluded from participation and therefore did not gain access to valuable information that could be used later to win more lucrative construction contracts.

On January 14, 1986, the KIAC seemed to be opening its designated bidding system when it publicly announced that foreign firms could register their interest in bidding for all four phases of the project by February 28. However, on February 2, the KIAC signed a contract with six firms that had originally been involved in the planning phase of the project. Following pressure from U.S. officials, the KIAC agreed to accept applications after the February 28 deadline.

By July, 21 U.S. firms (mostly telecommunications and electronics suppliers) of a total 6,740 domestic and foreign companies were registered with the KIAC as prospective bidders. U.S. officials continued to pressure Tokyo to allow competitive bidding opportunities for U.S. firms, but Japanese officials insisted that it could not open bidding for the civil engineering work during the first phase of the project because it would delay construction. During the remainder of the summer, the administration continued to pressure the Japanese Government through letters, Congressional hearings, and visits from high-level trade officials and members of Congress.

As it became increasingly apparent that U.S. companies might be shut out of the entire construction project, several Senators urged the administration to consider initiation of a section 301 case. Japanese representatives, including Prime Minister Nakasone, continued to assure U.S. officials that American firms would be provided

timely information on procurement plans, bid procedures and award criteria. However, at a seminar in October for U.S. businessmen, the KIAC reiterated their position that the first phase of the project involving construction of the offshore island, seawalls and a connecting bridge had already been contracted to Japanese firms. At year's end both administration officials and members of Congress were still urging the Japanese to allow U.S. participation on subsequent phases of the project.

Supercomputers

On December 10, 1986, the Office of the United States Trade Representative initiated a section 305 investigation on Japan's trade practices with regard to supercomputers. The investigation includes an examination of Japan's supercomputer industry, its trading practices in the United States and third-country markets, and the significance of such technology to the U.S. economy.

U.S. producers claim that tight producer/supplier relationships impede their access to the Japanese market. As evidence, they cite the fact that Cray Research Inc., the world's leading supercomputer manufacturer, has sold only 7 machines in Japan, whereas the top three Japanese firms have delivered 59 computers during the past two years. The other major U.S. supplier, ETA, a subsidiary of Control Data Corp., has not sold any computers in Japan. Of particular concern to the U.S. administration is the lack of purchases by any Japanese Government-funded organization. The Japanese note that they have been willing to make drastic price cuts in order to win sales to universities and research institutions, whereas U.S. firms have not. Meanwhile, the U.S. industry is afraid that an all-out trade war over the issue could adversely affect their chances for winning lucrative contracts with Nippon Telegraph and Telephone (NTT).

Telecommunications equipment and services

Bilateral discussions on market access to Japan's telecommunications market proceeded as an influx of foreign companies sought to provide services and equipment following the enactment of certain market-opening measures by the Diet in April 1985.¹ Although U.S. and foreign companies were successful in certain areas, a heated debate ensued over the awarding of contracts for mobile communications and international services. During 1986, the United States renewed a bilateral agreement with Japan giving U.S. companies access to Japan's domestic telecommunications market for 3 more years. The 1981 accord was extended previously in 1984 and was slated to expire on December 31, 1986.

¹ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 165-67.

In 1986, the first challenge to Kokusai Den-shin Denwa (KDD), Japan's monopoly on international telecommunications services emerged. Although the Ministry of Post and Telecommunications (MPT) announced that only one group would be awarded a license, two consortia were formed to compete with KDD. One consortium, International Digital Communications (IDC) was composed of 30 Japanese firms (led by C. Itoh & Co.), two U.S. companies (Pacific Telesis and Merrill Lynch), and a British firm (Cable & Wireless, Ltd.). IDC proposed to provide services by constructing a trans-Pacific fiber optic cable. The consortium hoped to be able to reduce international telephone charges by 20 to 30 percent. However, another consortium, International Telecom Japan (ITJ) led by major Japanese trading companies (Mitsubishi Corp., Mitsui Co., Sumitomo, and Matsushita Electric Industrial Co.) also applied to compete with KDD. ITJ planned to provide services by leasing either cables or satellite circuits from KDD.¹

U.S. companies faced a setback in gaining access to Japan's market for mobile telephones in 1986. In August 1986, Japan's MPT agreed in principal to allow foreign firms to compete with NTT in its mobile phone services market. MPT had indicated that it could only grant one license because of a lack of frequencies. At that time, Daini Denden, Inc., applied for a license with the intention of using Motorola's U.S.-made J-TAC system. Teleway Japan, an affiliate of Toyota Motor Corp., submitted an application as a late entry in the competition and planned to use the NTT system.

U.S. officials were at first optimistic that Daini Denden, Motorola's partner, would be awarded a single contract for the services market and Motorola would subsequently gain entry into Japan's \$340 million equipment market. In October, MPT suggested that the two competing consortia, Daini Denden and Teleway Japan, form a joint venture. At year's end, merger talks between the two firms had reached a standstill. In February 1987, MPT announced that it had decided to award two franchises: Daini Denden would serve western Japan and Teleway Japan would operate in the eastern region, which includes Tokyo and is twice the size of the other market. U.S. industry representatives and officials viewed MPT's decision as a sign of Japan's failure to implement agreements reached in the

¹ In March 1986, MPT urged the two consortia to merge, noting that only one competitor to KDD would be chosen. MPT recommended that foreign ownership in the consortium be limited to less than 3 percent per company rather than 33 percent as permitted under Japanese law. U.S. trade officials notified the Japanese Government that they viewed the suggestion to limit foreign participation as a contradiction of Japan's commitment to the MOSS talks.

August MOSS talks and feared the action could be a hint of future decisions on competition against KDD.

Japan's value-added network (VAN) market is projected to total \$2.14 billion by 1989. Last year, 10 Japanese and foreign companies signed up to provide large-scale VAN services and 300 firms planned to provide smaller-scale network VAN services. IBM Japan, the largest U.S. company to enter the market, has entered into a joint venture with NTT. Under Japan's new regulatory system, carriers are divided into two categories: type I carriers own facilities and are heavily regulated; and type II carriers are less regulated and lease communications lines from type I carriers. Type II carriers are permitted to provide private telephone line, telegraph, telex, facsimile, and data communications services. They cannot operate mobile radio networks, television, or radio stations. U.S. companies were concerned about whether or not MPT would award recognized private operating status to new type II carriers. This issue was resolved during negotiations with the United States in 1986 when MPT reacted favorably to U.S. requests on this issue.

Legal services

The U.S. Government first raised the issue of opening the Japanese legal market to U.S. lawyers in 1982. This followed 8 years of unsuccessful talks between the American Bar Association and the Japanese Federation of Bar Associations (Nichibenren).² During a visit to Tokyo by United States Trade Representative (USTR) Clayton Yeutter in September 1985, the Japanese Ministry of Justice agreed to work towards allowing foreign lawyers to practice in Japan. High-level discussions occurred during 1986 and focused on licensing requirements, procedures for admission, disciplinary control of foreign lawyers, and permissible forms of association between Japanese and foreign lawyers. In May 1986, the Japanese Diet passed a law allowing foreign attorneys to offer advice on foreign laws. However, the law contained several objectionable provisions such as giving Nichibenren disciplinary control over foreign lawyers, limitations on the formation of partnerships between U.S. and Japanese attorneys, narrow limits on the scope of practice, and restrictive reciprocity requirements. U.S. negotiators continued to push for further market-opening measures throughout the remainder of the year.³

² See the *Operation of the Trade Agreements Program, 35th Report, 1983*, p. 276.

³ The United States and Japan reached agreement on Feb. 27, 1987, to resolve many outstanding issues from the previous year. The accord included provisions that will ease qualification, registration, and licensing procedures and broaden the scope of practice for U.S. lawyers in Japan.

Tobacco

For years, Japanese restrictions on the marketing and distribution of imported cigarettes and tobacco products have impeded U.S. producers' access to the Japanese market.¹ The Government of Japan implemented market-opening measures, such as tariff reductions, increased access to retail outlets, and changes in advertising rules, as recently as 1983. However, the U.S. share of Japan's \$12 billion retail market for cigarettes was less than 3 percent in 1986. At the beginning of 1986, the major remaining impediments to Japan's market were a 20 percent tariff, a high excise tax, a price approval system favoring the Japanese tobacco monopoly, and discriminatory distribution practices.

On October 3, 1986, following months of bilateral discussions, the United States and Japan reached agreement on a set of market-opening measures. The accord was signed just 3 days before President Reagan was scheduled to make a determination on the administration's first self-initiated section 301 case.² Under the terms of the agreement, Japan will eliminate its tariff on cigarettes effective April 1, 1987. The Government will also end the deferral of excise tax payments by the Japan Tobacco and Salt Public Corp. (JTS) by this date. In addition, the Government of Japan agreed to replace its fixed-price approval system with an automatic approval formula. The minimum application approval period will be reduced from 60 days to 30 days, effective January 1, 1987.

The United States, in turn, agreed to suspend its section 301 case and to terminate the case once Japan's liberalization measures are implemented. The agreement was intended to give U.S. tobacco firms greater access to Japan's existing distribution network. The U.S. industry predicts an increase of U.S. tobacco exports to Japan even though the Japanese continue to maintain exclusive control over manufacturing. JTS plans to continue introducing new brand name cigarettes in order to compete effectively with the expected influx of popular U.S. brands.

Textiles

In November 1986, the United States and Japan agreed to limit U.S. imports of Japanese textiles to increases of 0.8 percent annually beginning January 1986 and continuing through December 1989. Japan was the fifth largest supplier of textiles and apparel in 1986, accounting for 5.7 percent of total U.S. textile imports. The agreement followed six rounds of consultations to

¹ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 168-170.

² See the *Operation of the Trade Agreements Program, 35th Report, 1983*, p. 254.

set quotas on imports from Japan after the previous U.S.-Japanese textile accord expired on December 31, 1985. The pact covers cotton, wool, and manmade fiber textiles and products. The new agreement also establishes a system to prevent illegal transshipments from occurring by requiring Japan to certify the country of origin on all its exports to the United States.

Rice

On October 23, 1986, the USTR rejected a section 301 petition filed by the U.S. Rice Millers' Association, which called for an investigation into Japan's virtual ban on rice imports. In rejecting the petition, United States Trade Representative Clayton Yeutter noted that although he was sympathetic with the Rice Millers' concerns, an investigation would most likely not result in major market-opening measures at that time. Instead, U.S. officials will pursue the issue within the framework of the Uruguay Round discussions.

Alcoholic beverages

Japan's policies regarding alcoholic beverages were the subject of GATT discussions and bilateral consultations with the United States during 1986. In November, the United States joined the EC in a complaint brought before the GATT concerning Japan's discriminatory practices. The complaint charged that Japan's high tariff and excise taxes plus its labeling and distribution system were barriers to imports of foreign wines and distilled spirits. In November, U.S. talks with Japan broke down, leaving the United States with little hope of resolving the issue.³

Aluminum

The United States held followup consultations on a December 1985 agreement to reduce Japanese tariffs on aluminum ingots and some mill products.⁴ Although new tariff levels were established, the two countries were at odds over the timing of the reductions which were scheduled for implementation by January 1, 1988. Initially, the United States pushed Japan for a phased tariff reduction beginning in January 1987. Japan, however, favored introducing its reductions between April and June. In November 1986, the two sides agreed to an interim tariff reduction to take effect on April 1, 1987, with the full cuts occurring on the original target date. In addition, an ad hoc committee was formed and will meet biannually to review aluminum trade issues.

³ In early 1987, Japan announced that it would lower its taxes and tariffs on imported wines. The tariff on bottled wines will drop from 30.4 percent to 21.3 percent. In addition, Japan agreed to lower a 50 percent tax on wines costing more than \$3 per liter to 5 percent. The tariff cuts will take effect on Jan. 1, 1988.

⁴ See the *Operation of the Trade Agreements Program, 37th Report, 1986*, p. 71.

plummeting petroleum prices. Accordingly, in a sharp departure from past practices of demanding austerity policies for financial assistance, the IMF announced its support for a growth-oriented policy in Mexico and eased the terms of debt repayment.¹ Meanwhile, the IMF stressed that concessions granted to Mexico were special and should not be considered a precedent for other debtor countries.

In return for IMF support, Mexico agreed in July to wide-ranging economic policy reforms that would amount to reducing the role of the Government which owns or controls some three-fourths of the economy. Mexico also agreed to open its inefficient industries to international competition by liberalizing foreign trade and investment in accordance with Mexico's then upcoming GATT membership.² Other commitments made by Mexico included the introduction of a new tax system and tax collection reforms to raise more revenue, and a price reform to ensure that prices are responsive to markets. Mexico's July commitments were regarded as consistent with the 3 to 4 percent rate of growth projected for 1987, despite the severe budget cuts the Government was compelled to make. This estimate compares with the 3 to 4 percent decline in the Mexican economy in 1986.

Before sharply falling crude oil prices, a severe earthquake in September 1985, and shortcomings in performance weakened its economy, Mexico was known as the most willing Latin American country to accept austerity as a price for its massive accumulated debt. In 1985, however, Mexico failed to meet its austerity commitments for the first time. As a result, in September 1985, the IMF revoked its 1983-85 loan agreement with Mexico, freezing the upcoming disbursements in loans. The IMF's criticism of Mexico's 1985 performance centered on the Government's failure to control the budget deficit and inflation.

Mexico's new accord with the IMF in July 1986 broke a 5-month deadlock in the negotiations. The principal argument between the parties was the extent of budget reduction the Mexican Government must undertake. After holding out for a smaller budget cut, Mexico eventually agreed to slash its budget deficit. The deficit is projected to reach a record 16 percent of the GDP for the year under review.

¹ The July agreement came within the framework of U.S. Treasury Secretary James A. Baker's plan (the "Baker plan") for helping indebted developing economies with more lending so that they can adopt the reforms needed and become capable of paying back their creditors. Secretary Baker himself, Federal Reserve Board Chairman Paul A. Volcker, and other officials of the U.S. Government actively participated in forging this pact.

² See the following section "Accession to the GATT" for a discussion of this issue.

Merchandise Trade With the United States

In 1986, Mexico was the fourth largest U.S. trading partner. Mexico ranked third as a single country market for U.S. exports but moved from fourth place in 1985 to fifth place in 1986 as a single-country source of U.S. imports.

The year 1986 was the fifth consecutive year in which the United States had a negative merchandise trade balance with Mexico. In contrast, the United States consistently maintained a surplus in this trade through 1981. The balance shifted in 1982 when Mexico's debt crisis triggered significant trade controls and a recessionary environment in that country.

Trade with the United States was greatly affected in 1986 by the deepening oil slump and its effect on Mexico's economy. The year marked the first decline in trade with Mexico in both directions in recent times. Although the 1986 trade balance still favored Mexico, the U.S. deficit continued to narrow to \$5.3 billion from \$5.9 billion posted a year earlier.

U.S. exports

In 1986, U.S. exports to Mexico amounted to \$11.9 billion, down 8.9 percent from that in the previous year. The decline was attributable to depressed demand in Mexico that was a result of the continuing erosion of the peso and the virtual lack of domestic bank credit. The drop in 1986 followed rebounding U.S. exports to Mexico in 1984 and 1985 from low 1983 levels. The 1986 decline in exports occurred in all major commodity SITC sections except miscellaneous manufactures (table 4-6).

In 1986, machinery and transportation equipment accounted for more than one-half of the overall U.S. exports to Mexico. Automotive products (particularly chassis and parts), electrical equipment, office machines, and telecommunications products were the leading goods in this category (table C-7). Although the absence of industrial expansion and new investment largely reduced Mexican demand for machinery and equipment, U.S. sales were sustained by Mexico's booming maquiladora industry, which imports machinery and equipment for reexport after assembly.³ Unlike the rest of the Mexican economy, the maquiladora industry remained strong in 1986, and currently ranks as Mexico's second largest industry after oil and related production. Owing, in part, to the two-way trade flow involving maquila plants, machinery and transportation equipment constitutes the leading

³ Mexico's maquiladora (or "in-bond") industry processes materials, or assembles components, produced in the United States and returns the processed or assembled product to the United States. See also "U.S. imports" below.

MEXICO

The Economic Situation in 1986

In 1986, a continued sharp decline in oil prices aggravated the problems of the Mexican economy that were already severe at the beginning of the year. Revenues from crude oil and related products, Mexico's major source of foreign exchange, plummeted in 1986 to \$6.1 billion, or by nearly \$8.5 billion. Before the Mexican Government reached a debt accord with the International Monetary Fund (IMF) in July 1986, the country's economic stability appeared in serious jeopardy.¹

The distress signals included massive capital flight, the peso's rapid decline, serious unemployment, and other economic hardships suffered by a broad segment of the Mexican population. Rumors persisted that the Government was under great pressure to suspend interest payments on some, or all, of its \$100 billion foreign debt. Although the July accord with the IMF promised to resolve Mexico's immediate cash-flow problem, analysts remained generally skeptical about the country's prospects, barring an unexpected reversal in the decline of crude oil prices.

To prevent further economic disruption in 1986, the Mexican administration pursued major corrective measures, including tight fiscal and monetary policies to stem the outflow of capital from the country. By setting interest rates at high levels, officials reduced internal borrowing and provided incentives for Mexicans to keep their pesos at home. Moreover, in seeking to reduce the budget deficit and increase the efficiency of the public sector, officials continued closing down unprofitable State-owned companies or selling them to the private sector. Notable among the 23 State enterprises sold or closed between February 1985 and June 1986, is the shutdown of Fundidora Monterrey in May 1986. Fundidora Monterrey is Latin America's oldest steel mill.

These measures notwithstanding, most of Mexico's macroeconomic indicators for 1986 are poor. The GDP declined by an estimated 3 to 4 percent, down for the second time in the last 4 years. In 1986, the economy was reduced to the size it was in 1979, but with a population of almost 10 million persons greater than 7 years earlier. Inflation was 105.7 percent on an annual basis compared with 64 percent in 1985, the worst in the country's history. The exchange rate on free money markets was 918 pesos to the dollar at the end of 1986, compared with 450 pesos at year's end of 1985. The accumulated devaluation of the Mexican currency amounted to 851 percent since 1982.

¹ See "Agreement with creditors" later in this section.

Trade performance

Mexico's merchandise trade surplus continued to erode in 1986. The reduction in overall imports from \$13.5 billion in 1985 to \$11.4 billion in 1986, and a vigorous rise in non-oil exports from \$7.1 billion to \$9.7 billion in 1986, could not offset the heavy losses suffered in oil export revenues. The \$8.4 billion trade surplus attained in 1985, which itself already showed the effects of declining oil prices, was cut almost in half to \$4.4 billion in 1986.² The shrinking 1986 trade surplus, in turn, contributed to the deterioration of Mexico's current payments account. The 1986 current account deficit of some \$1.1 billion compares with a small surplus reached in 1985. Even so, in terms of its current payments' and international reserve position, Mexico had a better year than expected. International reserves amounted to \$6.3 billion, registering a modest increase compared with those a year ago. Although the decline of oil prices was by far the biggest factor in reducing Mexico's 1986 trade surplus, the prices of several other Mexican exports dropped on world markets during the year, contributing to the loss of revenue. These products included silver, copper, lead, zinc, cement, winter vegetables, and assorted auto parts and steel products.

Agreement with creditors

On September 30, 1986, Mexico reached an agreement with the Bank Advisory Group representing its commercial bank creditors. The accord, which is subject to ratification by some 500 commercial banks, provides Mexico with \$6 billion in new commercial financing. This agreement is part of a \$12.5 billion financing package for 1986 and 1987 that was arranged by the IMF earlier in the year in support of a comprehensive program of economic adjustment and structural reforms in Mexico.

In addition to infusion of fresh money, the September agreement eased Mexico's debt repayment terms; the accord stretched out the repayment schedule of \$43 billion of Mexico's \$100 billion debt to 20 years (including a grace period of 7 years), and lowered the interest rate Mexico must pay over the London interbank rate (LIBOR) on 6-month Eurodollar deposits.

The precursor of the September accord with commercial banks was the signing of a \$12.5 billion standby agreement by Mexico and the IMF on July 22. Under the agreement, the earlier mentioned \$6 billion would come from private banks, and the remaining \$6.5 billion would be collectively provided by the IMF, the World Bank, and the governments of advanced industrial countries. In this accord, the IMF acknowledged for the first time that Mexico is unable to absorb the massive losses of revenues caused by

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² The deterioration of the 1985 trade performance was preceded by 3 years of trade surpluses.

Table 4-6

U.S. trade with Mexico, by SITC¹ No. (Revision 2), 1984-86

(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	997,358	912,874	593,432
1	Beverages and tobacco	2,127	1,774	1,938
2	Crude materials—inedible, not fuel	1,305,510	1,139,990	802,836
3	Mineral fuels, lubricants, etc	370,922	573,018	405,634
4	Oils and fats—animal and vegetable produce	170,758	112,257	136,947
5	Chemicals	1,247,569	1,411,545	1,270,965
6	Manufactured goods by chief material	1,177,159	1,362,956	1,272,206
7	Machinery and transport equipment	5,183,438	6,284,254	6,140,994
8	Miscellaneous manufactured articles	753,924	852,204	919,168
9	Commodities and transactions n.e.c	252,437	433,380	380,731
Total		11,461,203	13,084,252	11,924,851
<i>U.S. imports</i>				
0	Food and live animals	1,543,375	1,587,982	2,190,689
1	Beverages and tobacco	104,477	151,121	182,696
2	Crude materials—inedible, not fuel	321,295	470,744	676,787
3	Mineral fuels, lubricants, etc	7,814,391	7,820,772	3,696,280
4	Oils and fats—animal and vegetable produce	2,788	1,906	1,624
5	Chemicals	490,734	472,690	365,934
6	Manufactured goods by chief material	1,476,092	1,251,976	1,615,764
7	Machinery and transport equipment	4,574,378	5,444,513	6,537,831
8	Miscellaneous manufactured articles	944,607	1,179,289	1,323,742
9	Commodities and transactions n.e.c	490,261	557,252	605,015
Total		17,762,399	18,938,246	17,196,360

¹ Standard International Trade Classification.

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

Note: Trade does not include special category exports.

product category of U.S.-Mexican trade in both directions.¹

In 1986, U.S. farm exports to Mexico were especially hard hit. In addition to slack demand overall, the decline in this category was attributable to both a strong agricultural output in Mexico, and falling world prices of many farm products. Exports of soybeans fell steeply in terms of volume and even more in terms of value (table C-7). Soybeans was the second leading U.S. export to Mexico in 1984 and 1985, but it moved to 10th place in 1986. Corn exports to Mexico continued to decline for the fourth consecutive year.

U.S. imports

In 1986, U.S. imports from Mexico amounted to \$17.2 billion, down \$1.7 billion, or 9.2 percent (table 4-6). A \$4.1 billion decline in the import value of mineral fuels—the product section that contains crude oil—was solely responsible, with imports up in all other major product sections. Most of the sharp decline in mineral fuel imports was the result of significantly lower petroleum prices in 1986.

For years, mineral fuels constituted the dominant product section in U.S. imports from Mexico but they shifted to second place for the first time in 1986. Nonetheless, crude oil continued to top the list of specific products imported from Mexico, still dwarfing the value of all other imports (table C-8).

U.S. imports of Mexican machinery and transportation equipment—the new leading import category from Mexico in 1986—were up 20 percent to \$6.5 billion (table 4-6). As before, automotive products, telecommunication equipment, and office machines were the top goods in this group. These imports generally enter the United States under TSUS items 807.00 after assembly or further processing in Mexico. The United States levies duty only on the value added in Mexico. Together with Japan and Canada, Mexico is a leading beneficiary of the U.S. program under TSUS items 806.30 and 807.00. In addition to machinery and equipment, various wearing apparel products also feature prominently in the program.²

² Item 806.30 of the TSUS applies to nonprecious metal articles (1) made or processed in the United States, (2) exported for more processing abroad, and then (3) returned to the United States for further processing. Item 807.00 applies to articles that are assembled abroad, in whole or in part of U.S.-made components, and then imported into the United States.

¹ For more details, see "U.S. imports" below.

TSUS provisions 806.30 and 807.00 have induced the establishment of the maquiladora program to foster job creation in Mexican territory that borders with the United States. Maquiladoras are the principal Mexican source of U.S. imports under the TSUS items 806.30 and 807.00. Mexican authorities allow maquiladoras to be fully foreign owned, and they do not levy import duties on U.S. shipments to the maquiladoras, or export duties on the outbound shipments of these plants.¹

Table 4-7 shows imports from Mexico under TSUS items 806.30 and 807.00 during 1984-86. Items entering under TSUS 807.00 continued to rise as a share of overall U.S. imports from Mexico, accounting for 26.9 percent of the total in 1984, 29.2 percent in 1985, and 38.3 percent in 1986. Goods entering under TSUS item 806.30, although still relatively insignificant, almost doubled in 1986 over those in 1985. These imports constituted 0.2 percent of all U.S. imports from Mexico in 1984 and 1985 and 0.4 percent of the total in 1986. Their growth raised some concern in the United States that certain Mexican steel exports, which are subject to a bilateral steel accord, now find their way to the U.S. market under this program.²

Another noteworthy 1986 development was a 38-percent rise in U.S. imports from Mexico of food, the third largest product section in this trade flow. The United States is the principal foreign market for Mexican food exports. U.S. imports of coffee and shellfish, the leading products in this category, increased in 1986 in volume and value (table C-8). Mexico also supplies a large portion of all fresh fruits and vegetables consumed in the United States during the winter months. Some of these imports compete with U.S. production of similar items. In 1986, the price of Mexican tomatoes on the U.S. market

¹ The Mexican maquiladora industry is dominated by subsidiaries of U.S. companies that take advantage of the lower labor costs in Mexico. However, Japan and other countries have also shown an interest in this program. Currently Mexico has some 900 maquiladoras that employ over 215,000 workers.

² See also the subsection on "U.S.-Mexican bilateral relations" later in this section.

almost doubled from that in 1985, reaching record value.

As a developing country, Mexico is also a beneficiary of the GSP program of the United States. In 1986, merchandise valued at \$1.3 billion, or 7.6 percent of overall U.S. imports from Mexico, entered duty free under this program.³ Mexico was the fourth-ranking beneficiary country of the GSP during the year. Benefit levels are expected to decline in the future as the decisions based on the "general review" of the GSP program will be implemented.⁴

In 1986, almost one-half of the total imports from Mexico entered the United States under preferential provisions. Imports under GSP and under TSUS items 806.30 and 807.00, together, added up to almost 47 percent of overall imports from Mexico.

Major Policy Developments Affecting Trade

Trade liberalization

The year 1986, was an active year for Mexican foreign trade policy. New foreign trade legislation was announced on January 13, establishing for the first time antidumping duty, countervailing duty, and safeguard procedures. The liberalization of Mexico's severe protectionist foreign trade and investment controls—a process that began in 1984—continued. Notably, in April 1986, Mexico announced a broad program of duty reductions, mainly affecting products with tariffs exceeding 20 percent.⁵ The program immediately lowered all 100-percent duties to 50 percent, and scheduled significant reductions in all remaining duty categories. The reductions will take place over 30 months, with final implementation by November 1988.

³ Mexico's GSP share is the smallest among all beneficiaries of the U.S. GSP program. The reason for the small share is that petroleum, which still dominates this trade flow, is not GSP eligible.

⁴ See also the section "Generalized System of Preferences" in ch. 5.

⁵ These reductions were not directly related to Mexico's subsequent accession to the GATT.

Table 4-7
U.S. imports from Mexico entered under TSUS Items 806.30 and 807.00, 1984-86

Item	1984		1985		1986	
	Million dollars	Per-cent	Million dollars	Per-cent	Million dollars	Per-cent
Total U.S. imports	17,762	100.0	18,938	100.0	17,196	100.0
TSUS Item 806.30	33	.2	39	.2	74	.4
TSUS Item 807.00	4,776	26.9	5,524	29.2	6592	38.3
Imports under items 806.30 and 807.00 . . .	4,808	27.1	5,563	29.4	6,666	38.8

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

Accession to the GATT

The process by which Mexico joined the GATT was initiated in 1985.¹ On August 24, 1986, a protocol of accession, which was signed 30 days earlier, took effect and Mexico became the 92d contracting party.² Ratification of accession by the Mexican Senate followed on September 11. As a result of its accession, Mexico was able to participate in its new capacity at the September Ministerial meeting of the GATT in Uruguay.

On joining the GATT, Mexico gained the benefit of all tariff concessions negotiated by GATT Contracting Parties since the inception of the General Agreement in 1948. In particular, Mexico enjoys guaranteed MFN treatment by other GATT members, and has access to the GATT dispute settlement procedures. In addition, Mexico is entitled to special GATT privileges that are accorded developing countries as an aid to their economic development.

Mexico is committed to eliminate its import restrictions "to the fullest extent possible" within 6 months of accession.³ For Mexico, dismantling import controls involves, most importantly, the phasing out of its system of prior import licensing and replacing it with tariffs. Licensing once covered virtually all of Mexico's imports. At the time of accession, it applied to about 800 products, representing 35 percent of the value of overall imports. Also in accordance with its GATT commitments, on August 14, 1986, Mexico abolished a list of products that had been prohibited for imports—mostly luxury items. However, the formerly banned goods still remain subject to prior import licensing requirements.

In the area of tariffs, Mexico committed itself to "bind" all of its import duties at a ceiling of 50 percent.⁴ During the course of bilateral tariff negotiations with individual GATT members, Mexico also agreed to bind 373 products at specified lower duty levels. Two hundred of these products are typical U.S. export items. Altogether, these bilaterally negotiated bindings cover 16 percent of Mexico's total 1985 import value. However, during the GATT accession process, Mexico also announced that it might need to apply tariff surcharges during the next 8 years.

¹ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 183.

² It should be noted that Mexico was ready to join the GATT once before but subsequently withdrew its application in March 1980 in response to broad protectionist sentiment against this move. The protocol of accession that Mexico signed in July 1986 is generally regarded as less favorable to Mexico than the earlier protocol that was not implemented.

³ The current administration began this process prior to 1986. See "Easing import controls" in the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 181.

⁴ "Binding" means agreeing not to raise a particular duty above the bound level without following prescribed GATT procedures.

The protocol of accession also provides for the elimination of Mexico's "official price" system of customs valuation by December 31, 1987. This system, which raised the value of many goods for customs purposes at the request of Mexican producers, will then be replaced by the value of actual transactions in accordance with GATT rules. In June 1986, even before formally joining the GATT, Mexico eliminated the use of official prices for 270 goods.

Accession also committed Mexico to phase out its "buy national" policy and make the purchasing practices of its State-owned enterprises consistent with the GATT. Furthermore, Mexico must administer its laws on antidumping and CVD in accordance with GATT requirements. Mexico further agreed to join GATT codes on import licensing, customs valuation, antidumping, and standards, and initiate negotiations to join the Subsidies Code within 6 months of accession.

Under the terms of accession, in addition to trade-related commitments, Mexico must implement its National Development Plan in accordance with GATT rules.

U.S.-Mexican Bilateral Trade Issues

Overview

The key issues in 1986 consultations between U.S. and Mexican officials were foreign investment regulations and weak patent and trademark protection in Mexico. Despite some progress in recent years towards facilitating foreign investment and strengthening protection of intellectual property in Mexico, these issues are expected to remain high on the bilateral agenda.

U.S.-Mexican economic relations improved markedly following a meeting of the two countries' presidents and Mexico's accession to the GATT, both in August. At the August 13 meeting of the two leaders, President Reagan praised Mexican President de la Madrid for his Government's recent actions such as joining the GATT; making efforts to liberalize trade; devaluing the peso; shutting down inefficient State-owned companies; and taking steps to restore Mexico's economic growth.

Most important, the two presidents agreed in August to complete bilateral negotiations leading to a broad agreement on trade and investment within 1 year. A U.S.-Mexican comprehensive "framework" agreement on principles and procedures of bilateral trade and investment has been planned since April 1985.⁵ Such a bilateral accord would provide a permanent consultation and dispute settlement mechanism between the two countries to minimize disruptions in their trade relations. In addition, the accord would serve as a vehicle to clarify the trade and investment

⁵ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 183.

principles on which bilateral transactions would be based, and would complement the multilateral mechanism that was newly provided by Mexico's accession to the GATT.

The cordiality of the August meeting was enhanced by President Reagan's announcement that a 6-year-old U.S. embargo on tuna imports from Mexico would be lifted immediately. This ban was imposed on July 14, 1980, after Mexican authorities began seizing U.S. tuna boats in a dispute over territorial water limits. In addition, the President followed up his meeting with the Mexican President by urging commercial banks to act promptly on Mexico's request for additional loans. However, bilateral relations subsequently suffered a setback when a new U.S. measure imposed a higher surcharge on imported oil than on domestic oil.

The United States played an active role in Mexico's accession to the GATT in 1986 and is expected to be a major beneficiary of this development.¹ In the words of the USTR, "This agreement (the protocol of accession) will guarantee U.S. exporters to Mexico protection under the GATT including the transparency of import regulations, recourse to GATT dispute settlement procedures, and compensation for violations of commitments made under the GATT."²

Many of Mexico's controversial trade practices were addressed in bilateral negotiations preceding accession. For example, some 200 of the product-specific tariff bindings Mexico accepted as part of its GATT commitment are products of particular interest to U.S. exporters.³ Also, when effective, Mexico's accession to the GATT Subsidies Code is expected to reinforce its 1985 commitment to the United States on phasing out export subsidies.⁴

A 5-year VRA on Mexican steel exports to the United States was in effect throughout the year. This accord was concluded in 1984.⁵ Steel products that were manufactured in Mexico's maquiladoras from U.S.-produced steel and reentered the United States under TSUS item 806.30 remained outside the scope of the steel accord. In 1986 bilateral consultations, the United States commented on the surge during the year of these exempted U.S. steel imports, especially of cold-rolled sheet and strip.⁶ Mexico agreed that, from January 1987, exports of cold-rolled sheet and strip in the exempted category will be separately recorded and limited for the duration of the steel accord.

¹ See "Accession to the GATT."

² Office of the United States Trade Representative, *Press Release* of July 15, 1986.

³ See "Accession to the GATT" earlier in this section.

⁴ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 184.

⁵ See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 163.

⁶ See also the previous section "Merchandise Trade With the United States."

A bilateral agreement under the Multifiber Arrangement (MFA) covering trade in textile and apparel products was also in effect in 1986. The accord, originally signed in 1979,⁷ was due to expire in June 1986, but was subsequently extended through December 1987. Certain modifications have been made to the agreement as extended.

Crude oil

Bilateral economic relations suffered from the imposition of a U.S. levy on imported crude oil that was signed into law by President Reagan on October 17, 1986, effective January 1, 1987.⁸ A tax of 11.7 cents per barrel on imported oil (and of 8.5 cents per barrel on domestic oil) was among several measures Congress passed prior to its adjournment preceding the November 1986 elections. The revenues from the surcharge will form a "super fund" designed to pay for clearing deposits of toxic waste in the United States. Imports for the U.S. Strategic Petroleum Reserve will be exempt from the new levy.

Mexico, along with other petroleum supplier nations, protested against the new oil import levy on grounds that this will reduce Mexican sales of crude oil and byproducts to the United States. Mexico, as well as other oil suppliers, requested that the United States explain the consistency with GATT requirements of the differential between the levy imposed on domestic crude and imported crude.

On November 7, 1986, the United States signed a 1-year contract providing for stepped-up crude oil purchases from Mexico for the U.S. Strategic Petroleum Reserves. Mexico had been supplying oil for U.S. stockpiling under a 5-year contract that expired in November 1986. The new contract provides for delivery of 65,000 barrels a day, compared with 50,000 barrels a day under the earlier accord.

Foreign investment

Mexico's restrictive foreign investment policy, which generally prohibits foreign majority ownership, has long been a contentious issue between the United States and Mexico. The Mexican Government claims that it is now actively promoting direct foreign investment, but many barriers remain. STR 191 Notably, in nearly all cases where majority foreign ownership is authorized, Mexico attaches specific conditions such as local content, export performance, location, and R & D requirements.⁹ Commerce For years, U.S. officials have been pressing for modifications, especially concerning foreign investment policies and practices in the automotive and computer industries. U.S. officials also perceive that the alleged liberalization of Mexican foreign

⁷ The *Operation of the Trade Agreements Program, 31st Report, 1979*, p. 151.

⁸ Public Law 99-499.

⁹ The *Operation of the Trade Agreements Program, 36th Report 1984*, pp. 159-160, and *37th Report*, p. 185. 4-36

investment policy has not been communicated effectively to the Mexican public, which remains opposed to outside investors.

Nonetheless, the Mexican Government did facilitate foreign investment in limited ways in recent years and continued to do so in 1986. Trend In May 1986, Mexico instituted the "debt for equity" program as a measure to relieve the country's large external debt. Under this program, a foreign investor can purchase, at a discount, Mexican public sector debt for pesos. The investor can then use these funds to make a new investment, or increase equity in an existing firm. In its first 7 months, the debt-for-equity program yielded considerable new foreign investment in Mexico.

Moreover, in September, officials announced that they will simplify rules to ease access to Mexico of small- and medium-sized foreign businesses. According to the rules under consideration, small- and medium-sized firms with up to 100-percent foreign ownership will not need permission from Mexico's National Foreign Investment Commission (CNIE) to start operations in Mexico, provided they agree to export part of their output.¹ A parent company of small or medium size is defined under the new regulation as having net annual sales of \$8 million or less and employing no more than 500 persons. The rules specify a range of other conditions for foreign firms to qualify.

Most foreign investors are generally limited to 49-percent ownership in Mexico. In the past, however, investment authorities have granted exceptions even to large foreign companies when they considered a project to be beneficial to the country's economic development, for example, subsidiaries of IBM and Hewlett-Packard. The September 1986 changes followed a Government statement denying rumors of an impending complete overhaul of Mexico's foreign investment statutes.² Despite its interest in attracting foreign investment, the current administration insists that there is no need to change the statute. Instead, Mexican officials claim that the existing law is being applied in a flexible manner.

In negotiations of a bilateral framework agreement, the United States intends to cover extensively Mexico's investment barriers, as well as its trade restrictions. The U.S. direct investment position in Mexico is estimated at about \$5 billion, which ranks Mexico as 13th among foreign destinations for U.S. direct foreign investment. The big three automakers have extensive invest-

¹ CNIE resolution No. 15, unofficial translation, in *Business Mexico*, December 1986, p. 72.

² Mexico's treatment of foreign investment is based on three laws with their respective resolutions: the 1973 Law to Regulate Foreign Investment, the 1973 Technology Transfer Law, and the 1976 Law on Inventions and Trademarks.

ments in Mexico, as do a number of U.S. companies in the chemical, computer, and tourism industries.

Intellectual property rights

Responding to pressure from the U.S. Government, in September 1986, the de la Madrid administration submitted to the Mexican Congress amendments to the 1976 Law on Inventions and Trademarks. The package was designed to correct certain weaknesses in the protection provided by the earlier law.

Inadequate protection of intellectual property rights is one of the major impediments to foreign investment in Mexico's capital-intensive high-technology areas. Mexico's 1976 Law on Inventions and Trademarks establishes a 10-year, nonrenewable protection for patented goods. However, this law denies patents to pharmaceuticals, chemicals, foods and beverages, metal alloys, nuclear devices, pollution control devices, and plant and animal varieties. In the case of pharmaceuticals, agricultural chemicals, foods, beverages, and plant and animal varieties, neither processes nor products can be patented.³ A few of these invention categories are covered by only a "certificate of invention," which grants the right to receive royalties on an innovation but does not guarantee exclusive production rights.

Although the legislation proposed in September 1986 addressed many of the U.S. concerns, several problem areas in the original law remained unchanged. Certain categories of products, including pharmaceuticals, agricultural chemicals, and biotechnical processes and alloys were to remain unpatentable. Dissatisfied with the Mexican bill, in 1986, Members of the U.S. Congress pressured the administration into taking strong action against Mexico in the context of the ongoing general Generalized System of Preferences (GSP) review, unless the patent protection offered was improved substantially.⁴ However, in spite of a U.S. threat of possible retaliation, the Mexican Congress passed the intellectual property rights bill in December without any substantial improvements.⁵

TAIWAN

The Economic Situation in 1986

For Taiwan's economy, 1986 has been characterized as a year of plenty, but the improved economic performance also highlighted numerous

³ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 85.

⁴ See "GSP Review" in ch. 5 of this report.

⁵ On Jan. 2, 1987, Mexico lost duty-free treatment under GSP for an assessed 16 percent of the benefits enjoyed in 1985. Mexico is one of eight advanced beneficiary countries for whom the United States reduced the scope of duty-free preferences as a result of the 2-year review of the GSP program.

economic problems. Taiwan achieved real growth of 10.8 percent in calendar year 1986, compared with 5 percent in 1985.¹ This improved performance was due in significant part to the decline in world oil prices since Taiwan imports almost all of its oil needs. In addition, the sharp rise of the yen helped make local manufacturers' products more competitive in overseas markets. Demand for Taiwan's exports was particularly strong in the United States as evidenced by a \$2.7 billion increase in the island's bilateral trade surplus. However, the strong export boom also led to massive increases in Taiwan's foreign-exchange reserves, which resulted in increased inflationary pressures and raised many questions about the failure of financial authorities to use the funds in a productive manner.²

Taiwan's central bank holdings increased to about \$44 billion by year's end, compared with \$22.2 billion at the end of 1985. The surplus stemmed, in part, from the island's vast store of domestic savings and a decline in both public and private investment; domestic savings exceeded domestic investment by 230 percent in 1986.³

Taiwan's propensity for savings, exacerbated by uncertainty towards future political and economic developments, has contributed significantly to the widening gap between savings and investment. Moreover, the declining capital investment has serious implications for Taiwan's efforts to upgrade its industrial structure in the face of increased competition from other developing nations.

Merchandise Trade With the United States

The glut of money in Taiwan caused increasingly acrimonious debate on how it should be best utilized. One outlet for the funds will be increased Government spending on major infrastructure projects. The authorities on Taiwan have decided to speed up spending on 14 major infrastructure projects, among them, electrical power development, telecommunications modernization, harbor projects, and highway and railway expansion. Officials have said that U.S. firms will be given preferential consideration in

¹ Far Eastern Economic Review, Ltd., *Asia 1987 Yearbook*, "Taiwan," p. 253.

² *Ibid.*

³ Carl Goldstein, "Stimulative measures," *Far Eastern Economic Review*, Apr. 2, 1987, p. 57. The drop in private investment is partly explained by characteristics of the typical Taiwan firm: the overwhelming majority are thinly capitalized, have fewer than 50 employees, and record sales of less than \$1.5 million annually. Very successful at labor-intensive production, these firms do not readily adopt modern management practices, undertake risky investments, or incorporate more complex technologies. Morgan Guaranty Trust Co., *World Financial Markets*, January 1987, p. 7.

bids for major projects in an attempt to moderate the trade surplus Taiwan enjoys at the expense of the United States.⁴

Taiwan is the fifth largest source of U.S. imports—the United States took about 50 percent of the island's exports during the year—and the 11th largest U.S. export market. As shown in table 4-8, U.S. exports increased in 1986 by 16.6 percent over those in the previous year. Taiwan's exports to the United States increased by 20.9 percent.

Taiwan's merchandise trade surplus with the United States approached \$15 billion by year's end. The huge surplus is due, in part, to Taiwan's ability to produce low-cost, increasingly high-quality consumer goods that are very competitive in the United States. Leading exports to the United States are footwear, consumer electronic products, textiles, sporting goods, and a variety of light industrial products. (See tables C-9 and C-10 for details of U.S.-Taiwan trade.) Taiwan's major imports from the United States during the year were primarily agricultural products such as soybeans, corn, and wheat, but also included electrical components, machinery, chemicals, and raw materials.

Taiwan was again the leading beneficiary of the U.S. GSP program in 1986. About \$10.8 billion in GSP-eligible articles were imported into the United States from Taiwan in 1986, or 27 percent of total GSP products entering the country. Taiwan is the leading GSP source for a variety of products that include electrical sound or visual signaling apparatus, pneumatic tires, furniture parts, packing containers, electrical measuring instruments, sporting equipment, and machine tools. In order to retain its benefits under the GSP program, Taiwan was required by the United States to demonstrate adequate progress in opening its markets and protecting intellectual property rights.

Taiwan's major exports worldwide in 1986 were textiles, leather, wood, paper and related products, metal products, machinery, and transport equipment. Major imports worldwide were crude oil, agricultural products, minerals, chemical and pharmaceutical products, basic metals, and electrical equipment and apparatus.

Major Policy Developments Affecting Trade

Four-year economic development plan

In midyear, the Council for Economic Planning and Development announced a 4-year economic development plan for 1986-89. Under the plan, the following measures were proposed to promote foreign trade:

⁴ Carl Goldstein, *op.cit.*, p. 57.

- reduce import tariffs;
- liberalize import restrictions;
- focus on improving trade imbalances with the United States and Japan;
- diversify export markets;
- provide incentives for development of new products and markets;
- secure supplies of raw materials from foreign countries and diversify their sources;
- establish a special agency responsible for all trade negotiations and to counter foreign protectionism;
- develop techniques to enhance countertrade and transshipment trade; and
- establish a set of principles for the Central Bank to follow in its intervention in the foreign-exchange market to maintain an exchange rate favorable to Taiwan's trade.¹

The plan also contains provisions to encourage the private sector to increase R&D activities. Financial subsidies will be available for those who are engaged in the development of new products and tax deductions for R&D expenditures will be expanded. A fund will be established to promote

¹ Airgram, Taipei, "Taiwan's Four-year Economic Development Plan," June 18, 1986.

R&D activities with special attention focused on the following fields: energy, sciences, automation, biological techniques, hepatitis research, and food processing service.² Research projects on semiconductors and robotics will also be promoted.

Preferential tariffs

High tariffs are Taiwan's principal import barrier. The tariffs average 23 percent and range up to 67.5 percent ad valorem. U.S. exporters identified several examples of tariffs acting as significant import barriers, including fruit juices (55 percent), leather products (75 percent), and fresh citrus (50 percent).

The Ministry of Economic Affairs (MOEA) proposed in 1986 that Taiwan offer preferential tariff treatment to trading partners with which it has a large trade surplus. Reportedly, the scale of tariff cuts would be tied to the level of the trade imbalance. For example, if Taiwan's exports to a country exceed its imports from that country by 50 to 100 percent, tariffs would be reduced 5 percent across the board. If exports exceed imports by 100 to 200 percent, tariffs would be reduced by 10 percent; if exports exceed imports by 200

² Ibid.

Table 4-8
U.S. merchandise trade with Taiwan, by SITC¹ Nos. (Revision 2), 1984-86
(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	705,398	595,643	543,605
1	Beverages and tobacco	71,601	66,348	47,341
2	Crude materials—inedible, except fuel	1,005,588	885,419	1,050,742
3	Mineral fuels, lubricants, etc	268,761	172,219	269,649
4	Oils and fats—animal and vegetable	12,109	12,997	7,693
5	Chemicals	722,674	573,385	858,855
6	Manufactured goods classified by chief material	230,698	187,782	255,257
7	Machinery and transportation equipment	1,397,087	1,594,071	1,722,526
8	Miscellaneous manufactured articles	196,574	184,452	223,656
9	Commodities and transactions n.e.c	47,536	65,183	77,799
	Total	4,658,027	4,337,499	5,057,124
<i>U.S. Imports</i>				
0	Food and live animals	318,379	340,591	422,037
1	Beverages and tobacco	898	1,598	2,020
2	Crude materials—inedible, except fuel	39,147	46,283	40,557
3	Mineral fuels, lubricants, etc	44,836	32,616	30,352
4	Oils and fats—animal and vegetable	569	351	2,054
5	Chemicals	194,846	192,472	232,066
6	Manufactured goods classified by chief material	2,240,920	2,530,081	3,069,524
7	Machinery and transportation equipment	4,859,115	5,332,777	6,406,249
8	Miscellaneous manufactured articles	6,926,521	7,709,692	9,359,674
9	Commodities and transactions n.e.c	81,161	167,891	206,078
	Total	14,706,390	16,354,353	19,770,612

¹ Standard International Trade Classification.

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

Note: Because of rounding, figures may not add to the totals shown.

to 300 percent, tariffs would be cut by 20 percent; and if exports exceed imports by more than 300 percent, tariffs would be reduced by 30 percent. The trade dollar amounts used in determining the bilateral imbalance would be based on Taiwan's customs records, and all tariff cuts would be valid for 6 months. If the bilateral trade amounts to less than \$100 million, or if Taiwan's total trade shows a deficit, the measure would not apply.

Protection of intellectual property rights

Taiwan made substantial progress in advancing protection for intellectual property rights in 1986.¹ It revised copyright and trademark laws to provide better protection and increased penalties for infringements. Foreign firms were given access to Taiwan courts, and national treatment for foreign copyright works was affirmed. Legislation amending Taiwan's patent law and establishing a fair-trade law have been submitted to legislative Yuan and is expected to pass in 1987.²

U.S.-Taiwan Bilateral Trade Issues

Customs valuation

In August 1986, the President determined under section 301 that Taiwan's use of a duty-paying-list system to calculate customs duties violated a trade agreement, was unjustifiable, and constituted a burden on U.S. commerce.³

The Customs Valuation Code specifies how imports may be valued for purposes of calculating customs duties. Under the code, customs duties are calculated using the transaction value (normally the invoice price). The code, which became effective in 1981, allowed each developing country to delay its implementation for up to 5 years following the code's formal entry into force for it. Although Taiwan is not a signatory to either the GATT or the GATT Customs Valuation Code, it agreed through a bilateral exchange of letters to observe obligations substantially the same as those applicable under the code to developing countries. Taiwan should have implemented equivalent obligations toward the United States effective January 1, 1986, but failed to do so.⁴ In February 1986, Taiwan agreed to do so by July 1, 1986. However, the legislation Taiwan enacted effective July 1, provided that its customs authorities calculate duties on the basis of a duty-paying-list system (under which the value of imported items were to be determined administra-

tively), rather than "transaction value" as provided in the Customs Valuation Code.

In the August determination, the President determined to retaliate as long as Taiwan failed to meet its obligations. On August 11, 1986, Taiwan agreed to abolish the duty-paying-list system and enact new regulations that would conform to its obligations by September 1. On October 1, these new regulations took effect and the USTR accordingly announced no further action.

Beer, wine, and tobacco

In October 1986, the President determined under section 301 that practices by the authorities on Taiwan regarding the distribution and sales of U.S. beer, wine, and tobacco products constituted a restriction on U.S. commerce.⁵

In October 1985, the authorities on Taiwan agreed to provide, within 6 to 12 months, greater access to their beer, wine and tobacco products market for U.S. exports. Taiwan agreed to the following: (1) lifting the import ban on beer, (2) allowing U.S. products to be sold at all retail outlets where Taiwan products were sold, (3) permitting the retail prices of imports to be marked up at no greater rate than the prices for domestic products, and (4) allow market forces to determine the importation of these products.⁶

However, Taiwan continued to ban beer imports, allow higher taxes for imports of wine and tobacco than for domestic products (thereby making imports more expensive), and precluded imports from being sold at all retail outlets where domestic products were sold. The President directed the USTR to propose appropriate retaliatory actions.

On December 5, 1986, Taiwan agreed to lift the ban on beer imports; no longer required that the retail price of wine and tobacco be taxed at a higher rate than domestic products; and allowed U.S. products access to the more than 70,000 retail outlets where domestic products are sold. Taiwan also agreed that U.S. companies could operate in Taiwan and directly promote their products.

Performance requirements

In several cases, Taiwan has tied foreign investment proposals to minimum export performance requirements. These requirements have ranged from 5 to 50 percent of a new investment's output. Requirements have typically been negotiated with investors on a case-by-case basis. Taiwan also imposed a 50 percent local content requirement on color television receivers; 55 percent for video cassette recorders; 70 percent for heavy automobiles; and 90 percent for motorcycles.⁷

¹ For background information, see *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 197.

² Testimony of USTR Clayton Yeutter, before the Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce, U.S. House of Representatives, Sept. 26, 1986.

³ USTR, "Report to Congress Required by Section 306 of the Trade Act of 1974," July-December 1986, p. 7.

⁴ Ibid.

⁵ USTR, *Foreign Trade Barriers*, op. cit., p. 8.

⁶ Ibid.

⁷ Ibid., p. 251.

The United States has tried repeatedly to get Taiwan's authorities to abandon performance requirements. Taiwan did eliminate export performance requirements in all domestic sectors as well as on VCR's, color televisions, and motorcycles. However, in March 1986, the United States initiated a section 307 investigation into Taiwan's export performance requirements on foreign direct investment in the automobile sector.¹ The section 307 investigation was prompted when Taiwan granted Toyota the right to build an automobile plant in Taiwan subject to an export performance requirement that a certain percentage of Toyota's production in Taiwan, ranging from 12.5 percent initially to as much as 50 percent in the 1990's, must be exported. These exports would most likely be directed primarily at the United States. In September, Taiwan agreed to eliminate performance requirements from current investments, expansions of current investments, and future investments by mid-1987.²

Machine tools

Taiwan, one of the major suppliers of machine tools to the United States, was one of two nations agreeing in 1986 to voluntarily restrain its exports of machine tools to the United States.³ The 5-year agreement, effective January 1, 1987, rolls back Taiwan's share of the U.S. market of certain machine tools to levels prevailing in the early 1980's. The products covered by the agreement are numerically controlled lathes, non-numerically controlled lathes, milling machines, and machining centers.

Negotiations for the agreement were announced by the President in May after complaints from domestic manufacturers that imported machine tools had so battered the industry that it might be unable to meet wartime demand.⁴ Taiwan's accord was part of a broad administration program to limit machine tool imports from foreign suppliers.

Textiles

Taiwan is the largest supplier of textiles and apparel to the United States in terms of volume. In July 1986, the USTR announced a new comprehensive agreement with Taiwan regarding textile and apparel imports into the United States.

¹ Under section 307, the USTR rather than the President, has the authority to impose duties or other import restrictions, including exclusion from entry into the United States on products or services found to stem from performance clauses in local investment licenses.

² USTR, *Foreign Trade Barriers*, op. cit.

³ The United States also sought such agreements with West Germany, Japan, and Switzerland. See the sections on Japan and the EC in this chapter.

⁴ Reportedly, the President was reluctant to impose restraints based on national security; although the law permits such a ruling, it rarely has been used. *Asian*

The agreement modified and extended the prior textile agreement (scheduled to expire at the end of 1987) with Taiwan. The new agreement is scheduled to expire at the end of 1988.⁵

Taiwan's textile and apparel exports to the United States have grown an average of 15 percent annually since 1981. Under the agreement, Taiwan's exports will grow by only minimal amounts, about one-half of 1 percent a year retroactively from 1985 through 1988.⁶ Unlike a similar agreement negotiated with Hong Kong during 1986, Taiwan's agreement is scheduled to end on December 31, 1988, and does not provide for a second 3-year period with slightly higher growth rates. According to the Chief Textile Negotiator in the Office of the USTR, this is because Taiwan has prohibitively high tariffs on U.S. textile and apparel products.⁷ Taiwan's agreement extends coverage from cotton, wool, and man-made fibers controlled under the previous agreement to essentially all textiles including silk blends, linen, ramie, and other fibers.

REPUBLIC OF KOREA

The Economic Situation in 1986

After a lackluster economic performance in 1985, Korea returned to a high level of growth in 1986. The recovery that began in the third quarter of 1985 was sustained through strong export growth and continued increases in infrastructure investments. After posting a current account deficit of \$1.0 billion in the first 6 months of 1985, the first half of 1986 witnessed a current account surplus of \$0.5 billion. By the end of the third quarter, the surplus was \$2.5 billion, and by the end of the year, the surplus expanded to \$4.7 billion.⁸

This rapid improvement in Korea's current account was the country's most startling economic development in 1986. Korea has experienced double-digit economic growth in the past, but 1986 was a special year; with the exception of a small current account surplus of \$12 million in 1977, Korea has always run chronic deficits. The main reasons for the improvement were (1) yen

⁴—Continued. *Wall Street Journal*, "Taiwan to Limit Machine Tool Exports to U.S.," Dec. 15, 1986, p. 9.

⁵ In April 1987, Taiwan announced reduced tariffs on many textile and apparel products. As a result of these changes, the U.S. Chief Textile Negotiator extended Taiwan's textile agreement through December 31, 1989. The 1-year extension calls for a growth rate of less than 1 percent. Office of the U.S. Trade Representative, Press Release No. 13/87, Apr. 23, 1987.

⁶ Office of USTR, Press Release, "U.S. and Taiwan Reach Textile/Apparel Agreement," July 14, 1986.

⁷ Ibid.

⁸ Morgan Guaranty Trust Co., *World Financial Markets*, January 1987, p. 8.

appreciation, (2) lower international interest rates, and (3) lower oil prices.¹

The surplus enabled the Government to begin amortizing foreign debt without recourse to new borrowing, thus contributing to a reduction in the level of the country's foreign debt. Korea's gross foreign debt—at \$46.7 billion in January 1986—is the third largest in the developing world. By year's end, it improved to \$45 billion.²

The yen appreciation coincided with the coming on line of new capacities in consumer electronics and small automobiles, enabling Korea to make inroads into these markets traditionally dominated by Japanese suppliers, particularly in the United States and Europe. Korea's worldwide exports increased 23 percent in 1986.

Despite the economic growth achieved in 1986, there were some trouble spots in Korea's economy. Indeed, the successful year helped focus attention on some of the weaknesses that are part of Korea's "economic miracle." Per capita income was only \$2,300, about one-sixth that of the United States. Korea's dependence on Japan for semi-processed and intermediate goods for its export sector was underscored as Korea's deficit with Japan increased 95 percent in the first 9 months of the year compared with the deficit in 1985. Moreover, although Korea successfully penetrated European markets in 1986, its economic success continues to be closely related to the U.S. capacity to absorb imports. In 1986, the United States took 40 percent of Korea's imports, up from 38 percent in 1985.

Merchandise Trade With the United States

Korean exporters did well in 1986. As mentioned previously, the revaluation of the yen dramatically improved the competitiveness of Korean goods in third-country markets, notably the United States. A number of sophisticated industrial exports were particularly successful such as automobiles, video tape recorders, and personal computers. Exports of textiles, steel, and other consumer electronics goods were also successful during the year. However, former top foreign-exchange earners—overseas construction and shipbuilding—remained in a slump.

¹ According to *World Financial Markets*, p. 9, Korea's oil bill decreased from \$4.1 billion for the first 9 months of 1985 to \$2.7 billion in the first 9 months of 1986. It is estimated that, in the first 6 months of 1986, the decline in interest rates, from those prevailing at the end of 1985, saved Korea a total of \$100 million.

² According to *World Financial Markets*, p. 9, a goal of further debt reduction is built into the next 5-year economic plan. Korea projects continued current accounts surpluses of the present scale through 1991, to repay foreign debt and build up foreign assets. The plan targets a \$12 billion reduction in gross foreign debt by early 1991.

Korea is the seventh largest source of U.S. imports and the eighth largest U.S. export market. During the year, 40 percent of Korea's exports went to the United States, compared with 15 percent to Japan and 12 percent to the EC. Table 4-9 shows U.S. merchandise trade with Korea from 1984 to 1986. The U.S. deficit with Korea was \$6.9 billion in 1986, up from \$4.3 billion in 1985.

The leading products in U.S. exports to Korea in 1986 were electrical items such as tubes, transistors, and integrated circuits, whole cattle hides, transport equipment, and grains.

Korea's passenger automobile industry emerged as a leading export industry and the United States was largely responsible. In 1985, Korea sold only 65 cars to the United States; by mid-1986, over 100,000 units were sold here. Hyundai first began its assault on the U.S. auto market in the early part of the year, with an original target of 100,000 cars for the year. By yearend, over 165,000 units were sold in the United States.³ Other leading items imported to the United States from Korea were footwear, apparel, telecommunications equipment, and electrical machinery. (See tables C-11 and C-12 for details of the U.S.-Korean trade.)

Major Policy Developments Affecting Trade

Financial sector liberalization

During the year, the Korean Government reaffirmed its commitment to a long-term program of liberalization and deregulation in the financial sector. However, progress was slow and foreign banks were still denied national treatment.⁴ Restrictions on foreign bank operations include the following: (1) limited access to the Bank of Korea rediscount facility; (2) inability to invest in the financial services industry (such as short-term finance companies); (3) inability to extend asset-based financing secured by real property, or mortgages on vessels or aircraft; (4) restrictive definition of capital that artificially limits the extent of conducting business; (5) limited ability to open new branches, or own banking premises; and (6) limited de facto ability to act as a prime bank.⁵

³ Other Korean auto manufacturers have entered into fierce competition with Hyundai for a share of the subcompact and mid-sized market. In September, Daewoo's new automobile—part of a joint venture with GM—began selling in Korea and is expected to begin selling in the United States in 1987. Kia Motors is also gearing up to begin selling its subcompact (developed and produced in a joint venture with Ford) to the United States in 1987.

⁴ USTR, *Foreign Trade Barriers*, op. cit., p. 173.

⁵ In 1984, Korea announced a 2-year banking sector liberalization scheme to afford foreign bank branches national treatment. See *Operation of the Trade Agreements Program*, 37th Report, 1985, p. 202.

Table 4-9

U.S. merchandise trade with the Republic of Korea, by SITC¹ Nos. (Revision 2), 1984-86

(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	702,258	549,527	439,669
1	Beverages and tobacco	1,786	5,904	11,688
2	Crude materials—inedible, except fuel	1,484,797	1,383,691	1,577,248
3	Mineral fuels, lubricants, etc	271,810	386,242	230,126
4	Oils and fats—animal and vegetable	47,794	40,803	23,910
5	Chemicals	645,527	591,045	761,902
6	Manufactured goods classified by chief material	336,739	316,642	385,710
7	Machinery and transportation equipment	1,989,496	2,080,016	2,020,474
8	Miscellaneous manufactured articles	264,134	245,912	287,641
9	Commodities and transactions n.e.c	41,626	66,720	57,336
Total		5,785,966	5,666,503	5,795,704
<i>U.S. imports</i>				
0	Food and live animals	119,550	124,164	179,567
1	Beverages and tobacco	19,561	22,238	25,772
2	Crude materials—inedible, except fuel	8,776	10,432	12,840
3	Mineral fuels, lubricants, etc	4,885	79,129	41,187
4	Oils and fats—animal and vegetable	87	82	4
5	Chemicals	78,442	86,105	125,278
6	Manufactured goods classified by chief material	1,919,648	1,936,785	1,793,870
7	Machinery and transportation equipment	2,712,981	2,828,873	4,524,157
8	Miscellaneous manufactured articles	4,382,599	4,821,875	5,901,497
9	Commodities and transactions n.e.c	48,520	76,680	78,647
Total		9,295,050	9,986,363	12,682,819

¹ Standard International Trade Classification.

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

Note: Because of rounding, figures may not add to the totals shown.

In July, the Ministry of Finance announced that foreign bank branches that elect status as an "A" tier bank could have complete access to the Central Bank's rediscount facility. In return, these banks must make certain concessions, including giving up swap privileges and making 35 percent of their new loans to small and medium-sized businesses. Those banks electing "B" tier status could continue to enjoy access to the rediscount facility for export finance and would be required to lend only 25 percent of their funds to small and medium-sized businesses. In August, the Government announced that foreign banks, regardless of A or B status, could issue negotiable certificates of deposits in return for the permanent reduction of a comparable amount of swap privileges.

Restrictions on foreign banks' local currency operations requires the retention of their earnings in Korea rather than remittance abroad. To date, U.S. banks operating in Korea have brought about \$1 billion into the country to swap for Korean currency to conduct local business.¹

Commodity liberalization

On May 31, 1986, the Ministry of Trade and Industry announced Korea's annual trade plan for the period July 1986 to June 1987. The new plan grants automatic approval (AA) status to an additional 301 items. This means that formal nontariff barriers are removed and the products are "liberalized."² However, import licensing remains a major impediment to the sale of U.S. and other foreign exports to Korea. Import licenses for manufactured goods typically require the recommendation of the Korean industry association whose members compete with the imported goods. Certain food products are under a food-grain management program that takes precedence over the annual trade plan. Licensing restrictions are stringent for processed food and forestry products, and, since July 1982, the Ministry of Trade and Industry (MTI) has effectively banned imports of personal computers and peripheral equipment that can be produced locally.³ Local

² As a result of the increase in AA items, the total number of products on AA increased to 7,245 products based on the 8-digit CCCN import classification. A total of 670 CCCN items remain on the restricted list. State Department Airgram, "Foreign Economic Trends for Korea," Dec. 8, 1986.

³ See *Operation of the Trade Agreements Program*, 4th Report, 1985, p. 203.

¹ USTR, *Foreign Trade Barriers*, op. cit.

producers are encouraged through localization programs to increase the domestic content of leading exports; for example, financial assistance is provided to firms that switch from Japanese-made to Korean-made inputs in auto, trucks, ships, and electronics.¹ Beef, citrus fruit, and seafood imports remained subject to bans or quotas during the year.

U.S.-Korean economic consultations have met with some success in obtaining liberalization for some products. In the 1986-88 liberalization program, Korea moved, or will move, a number of items to its automatic approval for import list. This includes the following: minicomputers and personal computers (automatic approval in 1987); mid-sized and microcomputers and peripheral equipment (1988); nylon carpets (1986); soda ash (1986); soybean oil (1988); selected hand tools (1987); canned pork (1987); canned poultry meat (1987); television cameras and photographic cameras (1988); engine bearings (1988); canned peaches (1988); and canned fruit cocktail (1988).²

Tariffs

Korea's tariffs average about 20 percent. In the past, the country has imposed significant 40 to 60 percent "adjustment tariffs" on top of the general tariff for goods that had recently received automatic approval. In July 1986, however, Korea did not impose additional adjustment tariffs on newly liberalized items, and removed the special tariffs on various items.³

Korea's agricultural tariffs remained high in 1986, particularly on high value-added items. Of particular concern to U.S. exporters were tariffs on almonds (50 percent), canned peaches (50 percent), fruit cocktail (60 percent), raisins (50 percent), alfalfa feed products (20 percent), chocolate confectionary (40 percent), fresh citrus (50 percent), fruit juices (50 percent), lumber (20 percent), and wine (100 percent).⁴

U.S.-Korean Bilateral Trade Issues

On July 21, after months of negotiations, Korea signed an accord containing agreements that settled three longstanding bilateral trade disputes. Under the terms of the agreements, Korea agreed to relax its ban on the sale of foreign cigarettes, allow U.S. companies access to its tightly restricted fire and life insurance markets, and enact legislation within a year to protect foreign books, records, technology, and other products from piracy.

¹ Morgan Guaranty Trust Co., *World Financial Markets*, January 1987, p. 9.

² USTR, *Foreign Trade Barriers*, op. cit., p. 169.

³ *Ibid.*, p. 165.

⁴ *Ibid.*

Although intellectual property protection and access to the insurance market have been subjects of numerous U.S.-Korean consultations over the past few years, the newly concluded accord was the result of a more aggressive trade policy mandated by the President in 1985. Under that mandate, in September 1985, the USTR initiated a section 301 case against Korean trade practices affecting the insurance sector. In October 1985, the USTR initiated a case against inadequate protection of U.S. intellectual property in Korea. Without a resolution to the cases, the United States could have imposed retaliatory restrictions against Korean exports. The agreements are discussed below.

Cigarettes

The United States had been trying for years to gain access to the Korean cigarette market. Under the accord, U.S. and other foreign cigarettes were allowed to enter Korea's market in September. Prior to the accord, Korea's \$1.8 billion-a-year cigarette market was protected by a highly effective nontariff barrier—it was illegal for Koreans to possess foreign cigarettes. Korea agreed to repeal this restriction. Under the terms of the accord, Korea increased its imports of cigarettes by 40 million packs annually, or 1 percent of the Korean market, worth about \$15 million annually. With a 100 percent import tax, foreign brands sell for approximately \$1.60 a pack, compared with \$0.60 for domestic brands. Korea also agreed to introduce legislation to convert the Office of Monopoly, which controls the manufacture, distribution, and information of tobacco, into a public corporation capable of entering into joint ventures with foreign firms.

Insurance

In September 1985, a Section 301 case against Korean insurance practices was initiated to gain access for U.S. firms to Korea's \$5 billion insurance market. Prior to the agreement, compulsory fire insurance in Korea was reserved for a "fire pool" of 11 Korean underwriters. Life insurance was sold solely by six Korean companies. Under the accord, Korea agreed to license two U.S. nonlife firms currently operating in Korea (American Home Insurance Co. and Cigna Insurance Co.) to take part in the pool system and to begin underwriting compulsory life insurance as of July 31, 1986. Qualified U.S. companies will also be licensed to sell life insurance.

Intellectual property rights

Under the July accord, Korea agreed to improve its protection of copyright, patent, and trademark rights.

Copyrights

Korea will submit legislation on copyright protection to its national assembly by mid-1987 to take effect July 1987. Copyrights will be pro-4-44

ected for a term of life plus 50 years for individual authors and for a period of 50 years for works authorized by corporations. Retroactive protection will be applied to foreign products published since 1977. Korea will also accede to the Universal Copyright Convention. Under a separate law, effective July 1, 1987, software technology will be protected for a period of up to 50 years. Retroactive protection will be granted to software products developed since July 1980. Protection for sound recordings will be granted for 20 years, and their protection against unauthorized reproduction, importation, and distribution will be strengthened through stricter enforcement of Korea's Phonograms Law. Korea will also strengthen penalties against copyright infringement under the new copyright law so that the rights of both domestic and foreign copyright owners can be protected effectively.

Patents

Product patents will be protected in Korea beginning July 1, 1987. A bill to amend the patent law to include coverage for chemicals, pharmaceuticals, and their production processes was submitted to the National Assembly in September 1986. The protection period for patents will be 15 years, and provide for the granting of nonexclusive licenses only in those situations in which the dependent patent represents a substantial technical advance over the dominant patent. Patent protection for new microorganisms will be effective in mid-1987, and Korea will accede to the Budapest Treaty in 1987.

Trademarks

Under the July accord, Korea agreed to eliminate its previous requirement for technology inducement as a condition for accepting applications for trademark licenses. Thus, the trademark license will be permitted to continue beyond the life of any technology inducement agreement. Joint venture and/or raw material supply agreements will also no longer be necessary for trademark licensing. Korea repealed export requirements on goods covered by the licenses and lifted restrictions on royalty terms in licenses. Korea also agreed to adopt guidelines prohibiting domestic entities from requesting trademarks identical to, or resembling, those owned by foreign entities.

Quarantine on U.S. fresh citrus

In 1986, Korea announced a quarantine on fresh U.S. citrus based on its determination that California is infested with the Mediterranean fruit fly. This action was taken although the United States had not found evidence of fruit fly outbreak. Since oranges are denied access under Korea's import schedule, the quarantine's effects have been limited to lemons and grapefruit. As a result, shipments of California and Arizona lem-

ons can now enter Korea only if they have been treated. The only available treatment renders the lemons unmarketable. A Korean technical team was invited to the United States to review quarantine procedures, but at year's end the issue remained unresolved.

Textiles

Korea has agreed to phase out its import licensing system during the next 3 years, following negotiation of a new 4-year textile and apparel agreement. The agreement was announced in August and limits textile and apparel exports to the United States to an average growth of 0.8 percent from 1986 through 1989. Under the previous agreement, Korea's exports to the United States grew by an average of 8.6 percent annually from 1981 to 1986. The agreement extends coverage to silk blends, linen, ramie, and other vegetable fibers not covered by the former agreement.

BRAZIL

The Economic Situation in 1986

In 1986, the Government of Brazil continued to steer the economy toward sustained growth while managing the nation's \$108 billion foreign debt. Brazilian officials remained adamant during the year in refusing to institute the austerity measures the IMF demanded in exchange for financial support.¹ Officials argued that Brazil needed a policy of growth to meet pressing economic and social needs.

With a 1985 record of good economic performance, a large trade surplus, and virtual fulfillment of international commitments, the Brazilian administration hoped to negotiate in 1986 a long-term refinancing of the country's foreign debt. However, foreign commercial banks were reluctant to enter discussions in the absence of IMF support, agreeing to only short-term rollovers of their debt agreements with Brazil at existing interest levels.² Other Latin American debtors who have signed IMF programs, such as Mexico and Argentina, were successful in negotiating easier debt repayment terms.

The Brazilian economy entered a new era on February 28, 1986, when the Sarney administration launched the "cruzado plan." Under the plan, the Government replaced the cruzeiro with the cruzado, a new monetary unit that gave the plan its name. The exchange rate of the cruzado was set originally at \$13.8 to the U.S. dollar. To

¹ In February 1985, the IMF suspended credits to Brazil for noncompliance with the austerity policies to which they were committed under a 3-year agreement. Relations between the IMF and Brazil have not been reestablished since.

² On Feb. 20, 1987, Brazil announced an indefinite suspension of interest payments on its foreign debt in response to the banks' continued refusal to negotiate a repayment formula acceptable to them.

protect the cruzado, the Government ordered a general price and wage freeze, but not before raising wages by some 20 percent. The currency reform also halted indexation which had been practiced in Brazil since the mid-1960's.¹ Indexation is generally viewed as both the cause and effect of Brazil's chronic inflation.²

The cruzado plan was initially successful in its primary objective of breaking Brazil's chronic inflation while preserving economic growth. At the time of the currency reform, Brazil's inflation was galloping at an annual rate of about 400 percent. From March through December 1986, the part of the year following the announcement of the cruzado plan, the rate of inflation was reduced to about 21 percent. However, freezing prices at low levels relative to wages soon had its predictable consequences: soaring consumer demand and the resulting scarcity of producer and consumer goods. Another adverse effect was that producers, whose profits had been slashed by frozen prices, lost incentive to save and invest.

To remedy these problems, the Brazilian Government followed the original plan with a series of new measures on July 23, 1986. The July measures restrained consumption by special compulsory levies imposed on certain goods and services that made them more expensive. Revenues from the levies were directed into a "National Investment Fund" that was newly established to foster economic development. Other measures announced in July were aimed at increasing domestic savings and investment and attracting foreign capital.

However, uncontrollable consumer spending continued after July, threatening the success of the cruzado plan. On November 21, the Government introduced a sweeping array of still more adjustments. These included steep price increases for items such as automobiles (80 percent), gasoline (60 percent), and utilities. Also, in order to reduce Brazil's budget deficit, the Government announced that it would close 15 unprofitable State-owned companies, thereby laying off thousands of workers. In still another move in November, officials made the new currency subject to periodic devaluations. The cruzado's first devaluation (by 1.8 percent) had already taken place in October.³

Labor unions in Brazil responded with strong protests to the price increases and plant closings announced in November, whereas price controls, high interest rates, and a general atmosphere of

uncertainty unsettled the business community.⁴ The administration's party, the Brazilian Democratic Mobilization Party, which only a few days before the November measures enjoyed a major victory in Congressional and State Government elections, lost popularity.

In 1985, with its economy growing at a rate of 8.3 percent, Brazil became a model for economic policy among developing countries. In 1986, the surge of domestic demand following the February currency reform accelerated growth to some 12 percent as a 5-percent decline in agricultural production was offset by soaring industrial and construction activities.

However, such rapid growth masked the imbalances in Brazil's economy described above. The problems became increasingly obvious as the year drew to an end. When announcing austerity measures in November, Brazil's finance minister stated that economic development would have to be slowed to 5 or 6 percent in 1987.

Notably, the year also brought a setback to Brazil's drive for large merchandise trade surpluses. The 1986 trade surplus was only \$9.5 billion, compared with \$12.5 billion in 1985, and \$13 billion in 1984.⁵ Exports, which totaled \$21.8 billion dropped 15 percent compared with those in 1985. The decline was, in part, attributable to falling prices of Brazil's typical export commodities such as soybeans and petroleum derivatives, and the reduced availability of agricultural exports because of a prolonged drought. However, the loss of export revenues was also caused by the imbalance of supply and demand resulting from the cruzado plan, and the resulting shift of potential exports to local consumption.

Imports, which amounted to \$12.9 billion, were also down, but by only 2.2 percent, since Brazil's shrinking expenditures for imported oil were nearly offset by rising nonoil imports. Mainly because of its disappointing trade performance, Brazil also registered a deficit on current account amounting to \$2.5 billion for 1986. This account was in balance in 1985. To finance the difference between rising expenses and diminishing income, Brazil had to reduce its hard-currency reserves during the year to some \$5 billion or less from \$12 billion at the end of 1985.⁶

Despite corrective measures instituted in 1986 to encourage savings and investment, economic uncertainties depressed the level of new investments in Brazil, and triggered capital flight from the country. Moreover, 1986 was the first

¹ Indexation is the automatic adjustment of wages and interest rates to the rate of inflation.

² In response to new inflationary pressures, however, adjustments amounting to indexation were resumed in early 1987.

³ The end of 1986 and early 1987 witnessed further frequent devaluations of the cruzado and a new round of runaway inflation.

⁴ Early February 1987, the Government responded to the widespread discontent by lifting the freeze on most prices. The prices of only 61 staples, including milk, bread, and rice, remained frozen; the prices of some 300 other items were placed under Government controls.

⁵ From data published by the Bank of Brazil.

⁶ For a further discussion of Brazil's trading performance in 1986, see the subsection on "Major Policy Developments Affecting Trade."

year in decades for which the Central Bank of Brazil recorded a negative balance of investment flows.

Merchandise Trade With the United States

In 1986, the United States had a merchandise trade deficit with Brazil for the sixth consecutive year. However, this deficit narrowed to \$2.9 billion from the \$4.5 billion recorded in 1985. During the year, U.S. exports to Brazil continued to climb, whereas U.S. imports from that country declined for the first time in the 1980's. The United States is Brazil's principal trading partner. Brazil ranked 14th as a market for U.S. exports, and 11th as a source for imports in 1986.

U.S. exports to Brazil amounted to \$3.7 billion in 1986, up 22.5 percent from those in 1985 and thus setting a record since 1981 (table 4-10). U.S. products benefited from a shift in Brazil's import mix toward non-oil products and from greater local demand for a variety of items, fueled by the cruzado plan.¹ Exports expanded in all major product sectors except in the petroleum-related category (mineral oils and lubricants).

¹ See previous subsection.

Continued brisk demand for capital goods boosted U.S. machinery and transportation equipment exports to Brazil by 18.9 percent, following a 48 percent surge in 1985. These items have traditionally constituted the leading product category in this trade flow, accounting in 1986 for 43.1 percent of the total. Leading items in the group included aircraft and parts, office machinery, telecommunications equipment, and automotive products (see table C-13).

Sales of U.S. chemicals to Brazil—principally fertilizers and chemical mixtures and preparations—were up 61 percent from the value of sales in 1985. Chemicals are the second leading product category in U.S. exports to Brazil.

Food shortages brought on by the cruzado plan boosted U.S. sales to Brazil of items such as corn, rice, dried milk, and beef and veal. Food and live animals constituted the third-ranking product category in U.S. exports to Brazil, however, sales of wheat continued to decline (table C-13). Until 1986, wheat was traditionally the leading U.S. export item to Brazil. Exports in 1986 amounted to \$65.9 million, down by about one-fifth of their 1985 value. Tumbling exports reflected lower world market prices of wheat, and a bumper domestic crop in Brazil that reduced

Table 4-10
U.S. merchandise trade with Brazil, by SITC¹ Nos. (Revision 2), 1984-86
(In thousands of dollars)

SITC section No.	Description	1984	1985	1986
<i>U.S. exports</i>				
0	Food and live animals	448,723	408,080	441,442
1	Beverages and tobacco	675	650	1,348
2	Crude materials—inedible, except fuel	131,374	181,103	242,480
3	Mineral fuels, lubricants, etc	259,154	329,667	300,571
4	Oils and fats—animal and vegetable	35,104	2,121	19,192
5	Chemicals	524,453	468,320	754,089
6	Manufactured goods classified by chief material	104,933	111,048	123,110
7	Machinery and transportation equipment	920,109	1,360,394	1,616,673
8	Miscellaneous manufactured articles	131,093	157,857	181,736
9	Commodities and transactions n.e.c	29,625	39,542	66,341
	Total	2,585,245	3,058,782	3,746,982
<i>U.S. imports</i>				
0	Food and live animals	2,087,874	2,267,129	1,722,713
1	Beverages and tobacco	75,447	130,029	117,320
2	Crude materials—inedible, except fuel	239,428	225,571	238,766
3	Mineral fuels, lubricants, etc	729,746	698,237	378,904
4	Oils and fats—animal and vegetable	45,176	35,333	29,887
5	Chemicals	401,596	423,011	271,527
6	Manufactured goods classified by chief material	1,452,038	1,319,271	1,247,024
7	Machinery and transportation equipment	963,644	1,171,163	1,414,848
8	Miscellaneous manufactured articles	1,081,539	1,149,264	1,105,115
9	Commodities and transactions n.e.c	131,509	126,251	156,493
	Total	7,207,997	7,545,259	6,682,597

¹ Standard International Trade Classification.

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

Note: Because of rounding, figures may not add to the totals shown.

demand from outside sources. Continued efforts to diversify wheat sources were another important factor in curtailing Brazil's purchases of U.S. wheat. Argentina became the major beneficiary of this diversification. In July 1986, Brazil and Argentina concluded a bilateral grain agreement providing that through 1991 Brazil will purchase from Argentina specified amounts of wheat annually.

In 1986, coal replaced wheat as the leading U.S. export item to Brazil, even though coal shipments were also down. Coal is another item for which Brazil has been seeking the diversification of its suppliers. Brazilian steelmakers, who are also major coal users, prefer to purchase metallurgical coal from countries consuming Brazilian steel. Voluntary export restraints on Brazilian steel sales to the United States¹ have reportedly played a role in China's emergence as a major coal supplier to Brazilian steel producers. China is an important customer of Brazilian steel.²

U.S. imports from Brazil totaled \$6.7 billion in 1986, down 11.4 percent from those in 1985 (table 4-10). Imports dropped in several major product categories such as mineral fuels, food, and manufactured products other than machinery. The decline was largest in mineral fuel imports, reflecting sharply lower prices of crude petroleum and petroleum products during the year.

Despite its declining value, food continued to be the leading import category from Brazil. The decline in food imports was primarily attributable to coffee, the second leading U.S. import item from Brazil. In 1986, the volume of Brazilian coffee shipments to the U.S. market was reduced by almost one-half. This was caused by a prolonged drought in Brazil, which curtailed the availability of coffee exports and also pushed up coffee prices worldwide.³ Brazil also shipped smaller quantities of fruit juices to the United States in 1986 than in the previous year; by contrast, shipments of cocoa butter and cocoa beans were up.⁴

Among manufactures, imports from Brazil of goods classified by material continued to drop in 1986 from their 1984 peak. This downtrend was triggered by limitations imposed on Brazilian steel exports in the U.S.-Brazilian steel accord of October 1984.⁵ In 1986, imports of Brazil's basic

steel mill products dropped 33 percent from 1985. Imports of unalloyed tin from Brazil were also reduced to one-half, whereas imports of unwrought aluminum soared to record levels.

Footwear (classified among miscellaneous manufactures) dropped in 1986 from 1984 and 1985 levels but continued to be the leading import item from Brazil (table C-14). This trade was probably restrained by cost and price increases of Brazilian footwear and the diversion of supplies meant for export to the domestic market to meet shortages. Concern in Brazil about the threat of possible U.S. measures that would limit footwear imports might have been another export-restraining factor.⁶ Brazil ships about 80 percent of its exported footwear to the United States.⁷

Unlike the decline of most other U.S. imports from Brazil overall, imports of machinery and transportation items continued to expand in 1986, rising by 20.8 percent. Machinery and transportation items are the second largest U.S. import category from Brazil, consisting in 1986 mostly of motor vehicles and auto parts. Most of such items entered the United States duty free under the GSP.⁸

In 1986, merchandise valued at \$1.1 billion, or 16.6 percent of overall U.S. imports from Brazil, entered duty free under the GSP. Benefit levels will drop after July 1, 1987, as decisions based on the general review of the GSP program will begin to be implemented.⁹

Major Policy Developments Affecting Trade

The imbalance of supply and demand caused by the wage and price freeze of February 1986 affected Brazil's foreign trade in both directions. The intense consumer demand generated by the cruzado plan diverted to home markets exportable products, such as coffee, soybeans, petroleum derivatives, chemicals, steel, and textiles. At the same time, the shortage of domestic supplies boosted imports of producer and consumer goods. Even special food imports, including meat, milk, and grains, became necessary.¹⁰

Meanwhile, the Government of Brazil continued to defend its drive for generating large trade surpluses. In addressing the U.S. Congress

¹ See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 187.

² James Bruce, "Brazil Weighs Coal Suppliers," the *Journal of Commerce*, Jan. 13, 1987, p. 10A.

³ Because of higher prices, 1986 U.S. coffee imports from Brazil declined only 25 percent in value.

⁴ Brazil does not export fresh citrus to the United States because of the prevalence of citrus canker in that country, and does not export fresh or frozen meat because of foot-and-mouth disease.

⁵ See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 187.

⁶ U.S. import relief investigation on footwear ended in September 1985 without leading to the imposition of any restrictions on imports from Brazil or other sources.

⁷ Footwear items were among the 28 items from Brazil that lost eligibility under the U.S. GSP program, effective July 1, 1987. The loss of GSP benefits for Brazil and other countries was the result of a general GSP review completed in 1986. See the "General System of Preferences" in ch. 5.

⁸ Effective July 1, 1987, some automotive items will lose GSP eligibility.

⁹ See the "Generalized System of Preferences" in ch. 5.

¹⁰ See subsection on "Merchandise Trade With the United States" above.

in September 1986,¹ President Sarney repeated the argument that Brazil must maintain economic growth, and therefore needs a considerable excess of exports over imports to finance both the country's growth and its large debt-payment obligations.

Brazil maintains a wide range of import restrictions such as high tariffs, a prior licensing system administered by the Foreign Trade Department of the Bank of Brazil (CACEX), the general restriction of imports of items that can also be produced in Brazil (the Law of Similars), and a list of products barred from imports under any conditions.² Owing, in part, to its protective measures, Brazil is less dependent on imports than nearly any other nation in the world.³

Brazil also has many subsidy elements in its export incentive programs such as import duty reductions for exporters, income tax exemptions for export earnings, special financing for export trading companies, and subsidized loans to buyers of Brazilian goods (FINEX).⁴ However, the level of subsidization in Brazil appears to be declining, as evidenced by the recent record of findings in individual CVD duty investigations by the Commerce Department.⁵

In January 1985, Brazil's previous administration instituted measures to liberalize foreign trade. However, the role of these measures in reducing the country's 1986 merchandise trade surplus is believed to be small.⁶ Moreover, there are indications that, in response to unsatisfactory 1986 trade performance, Brazil is once again increasing protectionist policies.

U.S.-Brazilian Bilateral Trade Issues

Overview

Differences between the United States and Brazil concerning economic issues continued in 1986. The strain in economic relations resulted from the wide scope of trade restrictions applied by the Government of Brazil that contributed to the country's large surpluses in merchandise trade with the United States in recent years. In September 1986, in welcoming Brazil's President in Washington, President Reagan pointed out that ". . . no nation can expect to continue freely exporting to others if its domestic markets are closed." A major purpose of Mr. Sarney's Washington visit, and the principal theme in his

address to the U.S. Congress, was an appeal to U.S. and other creditors for easier debt-servicing terms.

Prior to 1986, the U.S.-Brazilian trade subgroup (a bilateral governmental grouping) served as a forum for discussing bilateral trade issues. No subgroup meetings were scheduled for 1986 because so little progress was made in the December 1985 session. Instead, the issues were discussed in several rounds of bilateral consultations.

Consultations in 1986 centered on Brazil's protectionist policies in the area of "informatics" and pharmaceutical products, and on Brazil's failure to provide adequate protection of intellectual property rights in these and other sectors.⁷ The United States argues that Brazil's policy of reserving the small computer market for domestic producers keeps out competitive U.S. products and is an important cause of the trade imbalance between the two countries.

Steel returned as an issue in 1986, with the Government of Brazil requesting a review of the bilaterally agreed restraints in effect on its semi-finished steel exports to the U.S. market. An accord concluded by the two countries in 1984 imposed limitations on Brazil's steel shipments to the United States.⁸

A comprehensive bilateral agreement during August 1985 on textile and apparel trade was in effect throughout 1986. The accord will expire on March 31, 1988.⁹ Brazil's fear of additional U.S. restraints on its textile, apparel, and footwear exports proved unwarranted in 1986. President Reagan vetoed restrictive legislation approved by the 99th U.S. Congress, which failed to override the veto.

In 1986, U.S. officials continued to question Brazil's trade and investment practices in the context of the GSP review that was completed during the year.¹⁰ The revised GSP legislation provides that the trade and investment policies of beneficiaries should be considered in future determinations of country eligibility and product-specific benefit levels. On January 2, 1987, President Reagan reduced duty-free benefits for Brazil under the GSP by 33 percent compared with 1985 levels. In part, this reduction reflects lack of progress on Brazil's part in providing market access and intellectual property rights protection.

¹ The President of Brazil addressed the U.S. Congress during a state visit to Washington on Sept. 9-13, 1986.

² In January 1987, Brazilian officials added some 2,500 items to the list of prohibited products in response to Brazil's poor trade performance in 1986.

³ For a discussion of Brazil's trade restrictions, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 183, and *37th Report, 1985*, p. 215.

⁴ *Ibid.*

⁵ According to Department of Commerce sources.

⁶ *Ibid.*

⁷ "Informatics" covers computers, telecommunications equipment and other products containing a digital component, and telecommunications and data processing services.

⁸ See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 187.

⁹ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 221.

¹⁰ See the "Generalized System of Preferences" in ch. 5.

Foreign investment

In July 1986, Brazil's Government declared its heightened interest in attracting foreign capital, and subsequently proposed specific incentives to attract investors from abroad.¹ Also, the Central Bank of Brazil made known its intention to issue new regulations to facilitate conversion of debt into equity investment and is expected to issue regulations soon to establish a mutual investment fund for foreign investors. It is believed that opportunities may improve in Brazil for portfolio investment, but many uncertainties remain about future Government policies affecting direct foreign investment.

Since 1983, the United States has intermittently raised its concerns about Brazil's restrictive investment policies at the U.S.-Brazilian trade subgroup meetings. In 1985, a joint report of the U.S.-Brazilian Investment Task Force documented the pertinent regulations and foreign investment performance in Brazil.² This task force did not meet in 1986.

Brazil limits the entry of foreign investors in several markets which are reserved for Brazilian nationals, such as the merchant marine, the information media, petroleum exploration, and refining. Foreign equity participation is subject to restrictions in other sectors such as informatics, aircraft manufacture, petrochemicals, mining, and a variety of services such as banking and insurance. Many U.S. investors consider Brazil's foreign investment climate unsatisfactory owing to factors such as insufficient intellectual property protection, price controls, remittance controls, import controls, and the imposition of local content and export performance requirements.

Informatics

During 1986, bilateral consultations took place between the Governments of the United States and Brazil on Brazil's market reserve policies for informatics. The consultations followed President Reagan's decision in September 1985 to order, along with cases involving other countries, an investigation under the authority of section 301 of the Trade Act of 1974. The purpose of this investigation was to determine whether or not Brazil's informatics law constitutes an unfair or unreasonable trade practice.³ The U.S. move was in response to Brazilian policies that severely

restrict U.S. trade and investment in the informatics sector and do not provide copyright protection for computer software.⁴

Brazil's informatics policies are designed to promote a national informatics industry. These policies have prevented many U.S. firms from participating in the Brazilian computer market. Many U.S. companies have been forced to curtail or close operations in Brazil. Some have terminated all or part of their Brazilian operations and others have felt compelled to transfer their technology to Brazilian firms.

The Government of Brazil instituted certain changes in 1986 in response to the pending section 301 case. Brazil agreed to implement some mechanisms to improve the administration of its informatics law and liberalized the importation of some previously restricted informatics products. Nonetheless, since Brazil has not adequately addressed U.S. complaints relating to investment and computer software, an impasse was reached in the 1986 consultations.

In October 1986, President Reagan deferred action until the end of the year in the hope that agreement could be reached by that time. In December, President Sarney sent his Congress legislation proposing better intellectual property protection for computer software, but this bill was found unsatisfactory by U.S. Government and industry copyright experts.

Nevertheless, Brazil did make concessions on the administration of the law and promised to institute certain import liberalizing provisions in the informatics area. In response, the United States extended the deadline in December and agreed to allow Brazil until June 30, 1987, to meet certain conditions. These conditions included the provision of adequate copyright protection for computer software;⁵ permission for U.S. firms to participate in joint ventures and to modernize and expand existing investments; and the implementation of the promised administrative reforms and import liberalizations.

Pharmaceuticals and fine chemicals

There were further indications in 1986 that Brazil intended to apply its market reserve policies to additional industries in its endeavor to attain self-sufficiency in high technology. A policy document prepared by the Brazilian Government in the fall of 1986 proposed that trade barriers should be extended to electronics, precision engineering, aerospace, pharmaceuticals, fine chemicals, and biogenetics. For some time, pharmaceuticals, like informatics, have been treated

¹ The recommended changes would give foreign investors greater flexibility and security. For example, foreign investors would be allowed to deposit hard currency brought into the country with Brazil's Central Bank and they would be authorized to draw interest. Further, investors would be protected against any currency devaluation, and they would be allowed to deposit receipts with the Central Bank in dollar equivalents.

² See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 222.

³ See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 220.

⁴ Passed in October 1984, Brazil's informatics law reserves the domestic market for nationally owned suppliers in designated areas through 1992.

⁵ In general, Brazil's copyright law is poorly enforced, leading to problems not only of software piracy, but also to unauthorized public performances of motion pictures, and piracy of cassettes and records, etc.

in a manner which the U.S. industry alleges is consistent with de facto market reserve policy.¹ Brazil's de facto market reserve policy and lack of patent protection in pharmaceuticals were discussed in bilateral consultations in November 1986. Other subjects covered were lack of profitability in the industry, and discriminatory registration procedures that stall new product requests.

Extension of the U.S.-Brazilian maritime agreement

In December 1986, the United States and Brazil agreed to a 3-year extension of their bilateral maritime agreement. With the U.S. Government demanding greater access for U.S. traders to price-competitive carriers to transport bilateral cargo, and with Brazil being reluctant to make the requested changes, previous extensions of this maritime accord were on a year-to-year basis only.²

The original U.S.-Brazilian maritime pact had been in effect since 1970 and was first renewed in 1983. The accord grew out of a 1969 measure of Brazil's Government (Decree No. 666) that all "government cargo" must be reserved for Brazilian flag vessels. Because of a broad definition of what constitutes government cargo, and the Government's strong role in Brazil's economy, the measure made an overwhelming share of U.S.-Brazilian ocean traffic subject to Brazilian cargo reservation. An exception was allowed under the measure for those trading partners with whom Brazil concluded a special cargo-reservation agreement.

¹ Some 85 percent of Brazil's pharmaceutical industry is currently controlled by U.S. and European transnationals.

² See also the *Operation of the Trade Agreements Program, 37th report, 1985, p. 222.*

The accord Brazil concluded with the United States provides for equal access to U.S. and Brazilian vessels to that part of bilateral trade Brazil considers government cargo. The agreement accords 50 percent to each partner in hauling southbound trade and 40 percent to each partner in hauling northbound trade. This arrangement rules out the participation of third-country carriers in southbound traffic, and allows 20-percent third-country participation in northbound traffic.

U.S. maritime carriers have generally favored the agreement with Brazil because it waived the Brazilian cargo reservation law and accorded them equal access in bilateral trade. U.S. traders (especially exporters), however, advocated that the accord be allowed to expire. Traders favored greater access to the cargo of the highly competitive third-country carriers that, they claimed, could reduce their freight rates.

The maritime accord, as renewed in December 1986, maintains the contested equal access clause for reserved cargoes moving between the two countries, and the implicit limitations for third-country competition. The United States accepted the 3-year renewal on this basis because of Brazil's commitment that the Government's shrinking presence in the economy would automatically curtail its share in bilateral cargo. Diminishing the Government's role through privatization is a declared goal of Brazil's current administration. It is also believed that the renewal was made possible by both parties' desire to avoid disruption and by the prospect of a more liberal marine code now under development in Brazil.

CHAPTER 5 ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

INTRODUCTION

This chapter reviews activities related to the administration of U.S. trade laws during 1986. Sections are included on U.S. actions under import relief and unfair trade laws. The import relief laws described herein are designed to safeguard U.S. industries from injurious and increasing levels of imports when the fairness of trade practices is not at issue. The unfair trade laws are designed to counter the effect of foreign imports benefiting from unfair trade practices, such as dumping, certain subsidies, or other practices as defined by domestic statutes. A section reviewing the administration of other import programs covers actions under laws regulating trade with respect to agricultural products and national security considerations, as well as the implementation of the Caribbean Basin Economic Recovery Act and the renewed U.S. Generalized System of Preferences (GSP). In addition, U.S. programs regulating imports of both textiles and steel are also covered in this chapter.

IMPORT RELIEF LAWS

Safeguard Actions

Temporary relief from imports may be provided to U.S. industries pursuant to section 201 of the Trade Act of 1974.¹ Section 201 is based on article XIX of the GATT, which permits a country to "escape" temporarily from its obligations with respect to a particular product when certain conditions exist. Under section 201, the Commission conducts investigations to determine whether or not an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the U.S. industry producing an article like or directly competitive with the imported article.² The Commission's findings, together with any dissenting or separate views, must be transmitted to the President.³ If the statutory conditions are found to exist, the Commission must find and recommend to the President the import relief, necessary to prevent or remedy injury, or, if it finds that the provision of adjustment assistance can remedy such injury, recom-

mend the provision of such assistance. The President must, within 60 days, proclaim relief unless he determines that import relief is not in the national economic interest.⁴ The President may provide relief in the form of an increase in, or imposition of, tariffs; the imposition of tariff-rate quotas;⁵ the modification or imposition of quotas; the negotiation of orderly marketing agreements with the supplying countries; or any combination of such actions.⁶

Import relief under section 201 may be granted for an initial period of up to 5 years, and may be extended by the President for up to 3 additional years.⁷ Under section 203 of the Trade Act of 1974, the Commission is authorized to conduct reviews and advise the President of the probable economic effect on the industry concerned of the extension, reduction, or termination of import relief in place under section 201.⁸

During 1986, section 201 relief continued in effect for heavyweight motorcycles and stainless and alloy tool steel, pursuant to Presidential actions taken in 1983.⁹ The Commission did not undertake or complete any section 203 investigations in 1986.¹⁰

The Commission completed five section 201 investigations in 1986: Wood Shakes and Shingles (Investigation No. TA-201-56); Electric Shavers and Parts (Investigation No. TA-201-57); Metal Castings (Investigation No. TA-201-58); Apple Juice (Investigation No. TA-201-59); and Steel Fork Arms (Investigation No. TA-201-60). Only in the wood shakes and shingles investigation, described below, did the Commission make an affirmative determination.

Wood shakes and shingles

On February 26, 1986, the Commission determined that wood shingles and shakes, provided for in item 200.85 of the Tariff Schedules of the United States, are being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic

⁴ See 19 U.S.C. § 2252(a)(1)(A).

⁵ A tariff-rate quota provides for an increased tariff to apply to subsequent imports when a certain quantity of imports is reached.

⁶ See 19 U.S.C. § 2252(a). There are statutory limitations on the amount of relief that the President is authorized to grant. See 19 U.S.C. § 2253(d).

⁷ See 19 U.S.C. §§ 2253(h)(1) and (3).

⁸ See 19 U.S.C. § 2253(i).

⁹ For further information on the 1983 Presidential actions, see the *Operation of the Trade Agreements Program, 35th Report, 1983*, USITC Publication 1535, p. 342.

¹⁰ In January 1987, the domestic stainless and alloy tool steel industry filed a petition with the Commission requesting that the Commission institute an investigation pursuant to section 203(i) in order that the Commission might advise the President as to the probable economic effect on the domestic industry concerned of the termination of the import relief presently in effect with respect to such steel. Such relief is scheduled to expire on July 19, 1987, unless extended by the President (Investigation No. TA-203-16).

¹ See 19 U.S.C. § 2251, as amended.

² See 19 U.S.C. § 2551(b)(1).

³ If the Commissioners voting in a sec. 201 investigation are equally divided with respect to the question of injury, then the determination agreed upon by either group of Commissioners may be considered by the President as the determination of the Commission. See 19 U.S.C. § 1330(d)(1).

industry producing wood shingles and shakes. Three Commissioners recommended that in order to remedy the serious injury caused to the domestic industry, the President impose a tariff of 35 percent ad valorem for a period of 5 years on imports of wood shingles and shakes of western red cedar. By proclamation of June 6, 1986, the President provided relief on such shingles and shakes in the form of a tariff for a 5-year period in the amount of 35 percent ad valorem for the first 30 months of the period, 20 percent ad valorem for months 31 through 54, and 8 percent ad valorem for months 55 through 60. The President also directed the U.S. Trade Representative to have the Commission provide an interim report after 30 months, outlining the probable economic effect on the domestic industry if import relief were ended at that time.

Market Disruption

Section 406 of the Trade Act of 1974 provides for investigations by the Commission to determine whether or not imports of an article originating in a Communist country are causing market disruption with respect to an article produced by a U.S. industry.¹ During 1986, the Commission did not conduct any section 406 investigations.

Adjustment Assistance

The Trade Adjustment Assistance Program—title II of the Trade Act of 1974—provides for adjustment assistance to workers, firms, and industries adversely affected by international import competition. The program—initially authorized through the Trade Expansion Act of 1962—is scheduled to expire September 30, 1991.² The program and certain eligibility standards were modified by the Omnibus Budget Reconciliation Act of 1981 and by the Deficit Reduction Act of 1984. The Consolidated Omnibus Budget

¹ Sec. 406 provides that “[m]arket disruption exists 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.” 19 U.S.C. § 2436(e)(2). If the Commission makes an affirmative determination, it must find and recommend to the President the relief necessary to prevent or remedy the market disruption found to exist. In general, if the Commission makes an affirmative determination, the President is authorized to provide relief in the same manner and amount as if the Commission had made an affirmative determination under sec. 201, except that the relief would be with respect to imports from the subject Communist country only.

² Authorization for the trade adjustment assistance program expired on Dec. 19, 1985, but the COBRA reinstated the program effective Apr. 7, 1986. The adjustment assistance provisions of the program were made retroactive to Dec. 19, 1985, and with the exception of financial assistance to firms, are scheduled to remain in effect through Sept. 30, 1991.

Reconciliation Act of 1985 (COBRA) discontinued financial assistance to firms effective April 7, 1986. Adjustment assistance to workers is administered by the Department of Labor through its Office of Employment and Training Administration in the form of cash benefits for direct trade readjustment allowances and service benefits that include allocations for job search, relocation, and training. Technical and financial assistance is provided to firms and industries in the form of trade adjustment grants administered by the Department of Commerce through its Office of International Trade Administration.³ Industrywide technical consultation provided through Commerce Department-sponsored programs is designed to improve the home market competitive ability of U.S. firms dislocated as a result of national policy to liberalize trade barriers.

Assistance to workers

The Department of Labor (Labor) instituted 1,752 investigations in fiscal year 1986 on the basis of petitions filed for eligibility to apply for trade adjustment assistance representing an increase of 71.4 percent from the 1,022 investigations instituted in fiscal 1985. The results of investigations completed or terminated in fiscal year 1986, including those instituted in the previous year, according to official statistics of the U.S. Department of Labor, were as shown in the following tabulation:

<i>Item</i>	<i>Number of investigations or petition</i>	<i>Estimated number of workers</i>
Complete certifications ...	593	81,428
Partial certifications	40	11,704
Petitions denied	783	69,626
Petitions terminated or withdrawn	34	6,872
Total	1,450	169,630

Despite lower rates of eligibility for assistance stemming in part from the Omnibus Budget Reconciliation Act (OBRA) of 1981 and subsequent Deficit Reduction Act of 1984,⁴ Labor expenditures in fiscal year 1986 on direct cash benefits to certified workers increased by a significant proportion to \$116.6 million. This figure represented a 233 percent increase from the \$35.0 million expenditure in fiscal year 1985. The increase, according to Labor officials,

³ Certified firms are eligible to apply for the technical services and financial assistance necessary to implement programs of economic recovery. Technical services include in-depth assistance in engineering, marketing, production methods, and financial management. Financial assistance—discontinued effective Apr. 7, 1986—includes both direct loans and loan guarantees.

⁴ The OBRA and Deficit Reduction Act made law changes designed to tighten the criterion used to determine eligibility. The principal change affecting petitions filed retroactive to Oct. 25, 1982, stipulated that increased imports must be determined to be a cause no less important than any other cause of worker separations as opposed to simply an important cause.

primarily reflects certification activity in the labor-intensive footwear and apparel sectors. In addition to direct financial assistance, Labor provided allocations in fiscal year 1986 for worker activities in the areas shown in the following tabulation:

<i>Item</i>	<i>Estimated number of workers</i>	<i>Estimated Expenditure</i>
Job search	1,400	\$302,324
Relocation allowances	1,100	2,430,096
Training	7,800	19,245,328
Total	10,300	21,977,748

Data for fiscal year 1986 indicate that an estimated 10,300 workers were provided with job relocation services, representing an increase of 2.7 percent from the 10,032 workers receiving such services in the previous year. Eighty-eight percent of all funds allocated to job relocation services in fiscal 1986 were directed to training programs, 11.1 percent to relocation allowances and 1.4 percent to job search programs. Special training and relocation programs initiated through Presidential proclamations of previous years continued in effect throughout fiscal year 1986 for workers dislocated as a result of import competition in the footwear, steel, and copper industries.

Assistance to firms and industries

The Department of Commerce (Commerce) through its Office of Industrial Trade Administration certified 178 firms as eligible to apply for trade adjustment assistance during fiscal year 1986, representing a decrease of 44.2 percent from the 319 firms certified in the previous fiscal year. Financial assistance—discontinued effective April 7, 1986, upon enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985—is no longer available. Therefore, the decrease in certifications represents less interest in the program because firms although entitled to trade adjustment assistance are less likely to apply for the limited aid currently available. The decrease according to Commerce officials also reflects a lapse in authorization for the trade adjustment assistance program during the period December 1985 through April 1986, which necessitated the suspension of petition processing. Firms in the primary metals, fabricated metals, machinery, and miscellaneous manufacturing sectors in fiscal year 1986 composed a substantially greater proportion of all firms certified. Approximately two-thirds of all certification activity took place in the industrial sectors represented above.¹ The International Trade Administration (ITA) approved the adjustment proposal of two certified firms in fiscal year 1986 and authorized financial assistance totaling \$900,000 in the form of

¹ Derived from official statistics of the U.S. Department of Commerce.

direct loans. Additional direct loans and loan guarantees were available but not used by the firms.² The ITA in fiscal 1986 also provided direct technical assistance valued at \$5.1 million through its Trade Adjustment Assistance Centers to 442 certified firms³ dislocated as a result of import competition.

Commerce awarded trade adjustment technical assistance grants totaling \$1.2 million to five industry associations. These associations represented die casters and producers of jewelry, electronics, gears, and auto parts.⁴ In addition to the assistance described above, the apparel industry received \$3.3 million directly through Congressional grants.

LAW AGAINST UNFAIR TRADE PRACTICES

U.S. law provides U.S. industries with remedies against certain unfair trade practices including (1) the importation of merchandise sold at less than fair value (LTFV) (i.e., dumped), (2) the importation of subsidized merchandise, and (3) the use of unfair methods of competition, such as patent infringement, in import trade. U.S. law also provides for the enforcement of rights under trade agreements and for the application of remedies against unfair trade practices of foreign governments that burden or restrict U.S. commerce. As a result of antidumping and countervailing duty (CVD) investigations undertaken in 1986 by the U.S. International Trade Commission and the Department of Commerce, 29 new antidumping orders and 13 new CVD orders were imposed. Of 20 Commission investigations into the alleged use of unfair methods of competition, 3 resulted in exclusion orders. Under section 301 provisions designed to address rights under trade agreements and to remedy certain unfair trade practices of foreign governments, the United States Trade Representative (USTR) instituted six new investigations in 1986 concerning the enlargement of the European Community (EC), Canadian softwood lumber, the Canadian ban on exports of fish, Argentine export taxes affecting soybeans, Taiwan customs valuation practices, and Taiwan export performance requirements.

² The maximum amount of monetary assistance authorized through Apr. 7, 1986 under the adjustment assistant program, \$1 million in direct grants and \$3 million in loan guarantees, is in many instances less than firms are capable of obtaining from private or internal sources. The cost of even a relatively small capital investment in most industries would exceed the amount of assistance previously available through the program.

³ This figure includes firms certified in years previous to fiscal year 1986.

⁴ Trade adjustment technical assistance programs initially funded in previous years continued in effect throughout fiscal year 1986 for industries that process wool and produce jewelry, electronics, industrial machinery, machine tools, apparel, die casters, auto parts, leather products, handbags, sporting goods, and foundry products.

Antidumping Actions

The antidumping law provides relief in the form of special additional duties that are intended to offset margins of dumping. Dumping duties are imposed when (1) the administering authority (under present law the U.S. Department of Commerce) determines that imports are being, or are likely to be, sold at LTFV in the United States, and (2) the U.S. International Trade Commission determines whether or not a U.S. industry is being materially injured or threatened with material injury, or that the establishment of an industry in the United States is being materially retarded, by reason of such sales at LTFV. In general, imports are considered to be sold at LTFV when the U.S. selling price is less than the home market price (or, in certain cases, the price in a third-country market or at a price below the cost of production). The dumping duty equals the difference between the LTFV price and the fair market price. In determining whether or not an article is being sold at LTFV, appropriate adjustments are made to reflect freight and shipping costs, normal import duties, tax rebates, etc. Investigations generally are conducted on the basis of a petition filed by or on behalf of an industry with Commerce and the U.S. International Trade Commission. Petitions are filed and investigations conducted under section 731 et seq. of the Tariff Act of 1930.¹

Both Commerce and the U.S. International Trade Commission conduct preliminary and final antidumping investigations.² Commerce completed 49 final antidumping investigations in 1986, a decrease from the 53 final investigations completed in 1985.³ Imported products under investigation included rock salt, photoalbums, ethyl alcohol, 64K dynamic random access memory (DRAM) semiconductors, and numerous iron

and steel products. Antidumping orders were imposed as a result of 29 of these investigations on a total of 14 products from 13 countries. The Commission completed 73 preliminary and 45 final antidumping injury investigations.⁴ Details of antidumping actions and orders, including suspension agreements in effect⁵ and revocations in 1986, are presented in appendix tables B-5 and B-6. The following tabulation is a summary of antidumping cases in 1986:

<i>Antidumping Cases</i>	<i>Number</i>
Petitions filed	71
Preliminary Commission negative determinations	11
Final Commerce determinations:	
Negative	2
Affirmative	43
Terminated	4
Final Commission determinations:	
Negative	9
Affirmative (includes partial affirmatives) .	30
Terminated	6
Suspension of investigations	2
Termination of petitions	10
Final antidumping orders	29

Countervailing Duty Actions

The U.S. CVD law is set forth in sections 303 and 701 et seq. (title VII) of the Tariff Act of 1930. It provides for the levying of special additional duties to countervail or offset foreign subsidies⁶ on products imported into the United States. In general, procedures for such investigations are similar to those of antidumping investigations. Petitions are filed with Commerce (the administering authority) and the U.S. International Trade Commission. Commerce must find a countervailable subsidy and the Commission must find the requisite injury caused by the subsidized imports before a CVD order can be issued. Investigations are conducted under section 701 of the Tariff Act if the subject article is imported from a country that has signed the GATT Code on Subsidies and Countervailing Duties,⁷ or has

¹ The present dumping law is contained in title VII of the Tariff Act of 1930 (19 U.S.C. § 1673 et seq.), which was enacted in the Trade Agreements Act of 1979. The 1979 provisions superseded the Antidumping Act, 1921.

² Upon the filing of a petition, the Commission has 45 days to make a preliminary determination concerning whether or not there is a reasonable indication of material injury or threat of material injury to an industry or material retardation of the establishment of an industry. If such determination is in the affirmative, Commerce then proceeds to investigate and make preliminary and final determinations concerning whether or not the imported product is being, or is likely to be, sold at LTFV. If Commerce makes an affirmative preliminary determination, the Commission makes its final injury determination within 120 days after receiving notice from Commerce of its affirmative preliminary determination, or 45 days after receiving notice of a final affirmative determination from Commerce, whichever occurs later. See 19 U.S.C. § 1673d(b)(2). However, if Commerce's preliminary determination is negative and its final determination is affirmative, the Commission has 75 days to make its determination after receiving notice of Commerce's final affirmative determination. See 19 U.S.C. § 1673d(b)(3).

³ These figures include investigations that resulted in determinations as well as investigations that were terminated before determinations were issued.

⁴ These figures include investigations that resulted in determinations as well as investigations that did not end with a determination because the investigations were terminated before determinations were issued.

⁵ An antidumping investigation can be suspended through a suspension agreement prior to a final determination by the Department of Commerce. Such suspensions may be effected if exporters accounting for substantially all of the imports of the merchandise under investigation agree either to eliminate the dumping, or to cease exports of the merchandise to the United States within 6 months after suspension of the investigation. In extraordinary circumstances, a suspension may be affected if exporters agree to revise prices to completely eliminate the injurious effect of the imports. The investigation is reinstated at the same stage as suspended should LTFV sales recur. See 19 U.S.C. § 1673c.

⁶ A subsidy is defined as a bounty or grant bestowed directly or indirectly by any country, dependency, colony, province, or other political subdivision on the manufacture, production, or export of products. See 19 U.S.C. §§ 1303(a)(1), 1677(5), and 1677-1(a).

⁷ Agreement on Interpretation and Application of art. VI, XVI, and XXIII of the General Agreement on Tariffs and Trade.

otherwise been designated a "country under the Agreement."¹ Investigations with respect to imports from other countries are conducted under section 303 of the Tariff Act. Such imports are subject to an injury test only if they enter free of duty.²

Commerce completed 24 final CVD investigations³ in 1986 compared with 36 completed in 1985. CVD orders were imposed as a result of 13 of these investigations on a total of 10 products from 9 countries. The Commission completed 26 preliminary and 12 final investigations on the issue of material injury, or threat thereof, as a result of subsidized imports.⁴ Details of CVD actions and outstanding orders, including suspension agreements in effect⁵ and revocations in 1986, are presented in tables B-7 and B-8. The following tabulation is a summary of CVD cases in 1986:

<i>CVD Cases</i>	<i>Number</i>
Petitions filed	29
Preliminary Commission negative determinations	4
Final Commerce determinations:	
Negative	3
Affirmative	18
Terminated	3
Final Commission determinations:	
Negative	2
Affirmative (includes partial affirmatives) .	7
Terminated	3
Suspension of investigations	1
Termination of petitions	6
Final CVD orders	13

¹ See 19 U.S.C. § 1671.

² Most major U.S. trading partners have signed the GATT Agreement on Subsidies and Countervailing Duties. Under section 303(a)(2), "[i]n the case of any imported article or merchandise which is free of duty, duties may be imposed under this section only if there are affirmative [injury] determinations by the Commission . . . except that such a determination shall not be required unless a determination of injury is required by the international obligations of the United States." 19 U.S.C. § 1303(a)(2).

³ This figure includes investigations that resulted in determinations as well as investigations that did not result in determinations because the investigations were terminated before determinations were issued.

⁴ *Ibid.*

⁵ A CVD investigation can be terminated through a suspension agreement prior to a final determination by Commerce on the issue of subsidization, if (1) the government of the subsidizing country, or exporters accounting for substantially all of the imports of the merchandise under investigation, agree to eliminate the subsidy, to completely offset the net subsidy, or to cease exports of the merchandise to the United States within 6 months after suspension of the investigation; or (2) extraordinary circumstances are present and the government or exporters described above agree to take action that will completely eliminate the injurious effect of the imports of the merchandise under investigation. The investigation is reinstated at the same stage where it was suspended if subsidization recurs. See 19 U.S.C. § 1671c.

Reviews of Outstanding Antidumping and Countervailing Duty Orders

Section 751 of the Tariff Act of 1930 requires Commerce (the administering authority) to review annually the outstanding antidumping and countervailing duty orders and suspension agreements in order to determine the amount of any net subsidy or dumping margin and, in addition, compliance with any suspension agreement, where a request for such review is received. Section 751 also requires Commerce and the Commission, as appropriate, to review outstanding determinations after receiving information or a petition that shows changed circumstances.⁶ Under section 751(a), the annual reviews must be conducted "at least once" during each 12-month period (commencing on the first anniversary of the action at issue) if a request for such review has been received by Commerce. Under section 751(b), a review of a final determination or a suspension agreement is conducted by Commerce (to determine if the unfair practice still exists) or the Commission (to determine if injury still exists) whenever Commerce or the Commission receives information or a request showing changed circumstances sufficient to warrant such review. Without good cause shown, however, no final determination or suspension agreement can be reviewed by the Commission within 24 months after the date of publication of notice of the determination. The party seeking revocation of an antidumping or CVD order or suspension agreement has the burden of persuasion before the Commission as to whether or not there are changed circumstances sufficient to warrant revocation.

The Commission completed one section 751 review of an outstanding antidumping order in 1986. On December 15, 1986, the Commission made a determination resulting in the revocation of a portion of a 1972 antidumping order covering the importation of fish netting of manmade fibers from Japan. The Commission determined that, because of changed circumstances, salmon gill fish netting of manmade fibers may be imported without causing or threatening material injury to an industry in the United States, or materially retarding the establishment of a domestic industry. Commerce, through its section 751 review procedures, revoked antidumping orders in 1986 on carbon steel plate from Japan and Korea, unrefined montan wax from East Germany, stainless steel sheet and strip from France and West Germany, tool steel from West Germany, and stainless steel wire rods from France. In each of these cases, except for unrefined montan wax from East Germany, the antidumping orders were revoked following the negotiation of voluntary restraint agreements (VRA's) with the subject countries.

⁶ See 19 U.S.C. § 1675. Note: The review is no longer mandatory under the amendments to the Trade and Tariff Act of 1984.

Commerce revoked four CVD orders in 1986 that governed certain carbon steel products from Austria, certain steel bars and shapes from Mexico, stainless steel plate from the United Kingdom, and welded carbon steel pipes from Yugoslavia. In addition, Commerce terminated a suspension agreement on carbon steel wire rope from South Africa.

The Commission did not complete any administrative reviews in 1986 under section 751 to determine whether or not revocation of a suspension agreement in effect would cause material injury, or threat thereof, or materially retard establishment of a U.S. industry.

Unfair Practices Investigations

Section 337 of the Tariff Act of 1930 authorizes the U.S. International Trade Commission, on the basis of a complaint, or on its own initiative, to conduct investigations with respect to unfair practices in import trade.¹ Section 337 declares unlawful unfair methods of competition or unfair acts in the importation of articles into the United States, or in their sale, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of an industry, or to restrain or monopolize trade or commerce in the United States. If the Commission determines that a violation exists, it can issue an order to exclude the subject imports from entry into the United States, or order the violating parties to cease and desist from the unlawful practices.² The President may disapprove a Commission order within 60 days of its issuance for "policy reasons." Unfair practices that involve the importation of dumped or subsidized merchandise must be pursued under antidumping and CVD provisions and not under section 337. The Commission is required to complete section 337 investigations within 12 months of publishing its notice of investigation, but may take up to 18 months to complete cases declared to be "more complicated." Most investigations, however, are completed within 12 months. In 1986, as in previous years, most complaints filed with the Commission alleged infringement of a U.S. patent by imported merchandise. Other complaints filed in 1986 alleged, among other things, trademark or copyright infringement, false advertising, false

¹ 19 U.S.C. § 1337, as amended.

² Under present Commission practice, proceedings are conducted before an administrative law judge in accord with the Administrative Procedure Act, 5 U.S.C. § 551 et seq. The administrative law judge conducts an evidentiary hearing and makes an initial determination, which is transmitted to the Commission. The Commission may adopt the determination by deciding not to review it, or it may choose to review it. If the Commission finds a violation, it must determine the appropriate remedy, the amount of any bond to be collected while its determination is pending before the President, and whether or not certain public-interest considerations preclude the issuance of any remedy.

designation of origin, and trade secret misappropriation.³

The Commission completed 20 investigations in 1986 under section 337. No violation of the statute was found in 6 of the 20 investigations completed. Three investigations resulted in the issuance of exclusion orders. Eleven investigations were terminated by the Commission prior to issuance of a determination regarding whether or not section 337 had been violated—9 on the basis of a settlement agreement (2 of these settlements also involved license agreements), and 2 on the basis of a consent order. Another investigation was concluded on the basis of one exclusion order, four cease and desist orders, and two consent orders. Commission activities involving section 337 actions in 1986 are presented in table B-9. Exclusion orders in effect as of the end of 1986 are presented in table B-10.

As of December 31, 1986, a total of 44 outstanding exclusion orders based on violations of section 337 were in effect. All but 13 of these involved patent violations. Table B-10 also lists the investigations that preceded the issuance of the orders.

Traditionally, the Commission has conducted investigations under section 603 of the Trade Act of 1974 to gather information necessary to determine whether or not a basis exists for instituting a section 337 investigation. The Commission is generally authorized under section 603 to conduct preliminary investigations to determine the scope and manner of its proceedings and to consolidate proceedings before it. No investigations under section 603 were conducted by the Commission in 1986.

Enforcement of Trade Agreements and Responses to Unfair Foreign Practices

Sections 301-307 of the Trade Act of 1974,⁴ as amended by the Trade and Tariff Act of 1984, give the President the authority and means to enforce U.S. rights under trade agreements, or to respond to any other unfair act, policy, or practice of a foreign country or instrumentality that burdens or restricts U.S. commerce. Unfair practices are those which are inconsistent with certain provisions, or otherwise deny U.S. benefits, of any trade agreement, or are unjustifiable or discriminatory and burden or restrict U.S. commerce. According to time limits imposed under sections 301 and 304, the President must take all appropriate and feasible action to enforce such rights or try to obtain the elimination of such act,

³ Other examples of unfair acts include trade dress misappropriation, refusal to deal or sell, passing or palming off, trademark dilution, false labeling, antitrust violations, and fraudulent inducement to enter into a licensing agreement.

⁴ 19 U.S.C. § 2411, et seq.

policy, or practice.¹ An interdepartmental committee headed by the USTR conducts these investigations (including hearings, if requested), usually on the basis of petitions alleging section 301-307 violations, but an investigation under section 302 may also be self-initiated by the USTR even if a petition is not filed.² If the foreign entity does not agree to change its practices, the President is empowered to (1) deny it the benefits of trade-agreement concessions, and (2) impose duties, fees, or other import restrictions on products and services, when appropriate.

A study conducted by the U.S. General Accounting Office (GAO) during 1986 analyzed the use of section 301 by examining cases and obtaining views of petitioners and Government agencies involved in the interagency review process. In a summary presented to the Senate Finance Committee, GAO reported that section 301 had gained only "limited success" in obtaining the removal of unfair trading practices. "Minimally effective" use of section 301 cases was blamed more on delays linked to lengthy and inefficient handling of disputes once taken to the GATT, rather than on faults with the law itself or the administration's implementation. The study recommended that serious efforts to reform the GATT dispute settlement process be undertaken in the Uruguay Round.³ Indeed, noting the importance petitioners placed on "political will," the study reported favorable reactions to the administration's stronger commitment to combating unfair foreign trade practices illustrated by the self-initiation of new cases and the acceleration of resolution efforts since 1985.⁴

Part of the President's September 1985 trade initiative included the resolve to be more aggressive in initiating section 301 cases.⁵ In 1985, the President directed the USTR to self-initiate the first four section 301 investigations; in 1986 the

President took action for the first time under section 301 in four cases, without a preceding formal investigation under section 302. Two private section 301 petitions were filed in 1986, one on Argentine export taxes affecting soybeans and soybean products and one on Canadian bans on exports to the United States of unprocessed herring and salmon. To demonstrate his continued resolve on trade issues, the President accelerated work on the cases, obtaining several settlements in 1986. Some of these were obtained in the same year that the cases were instituted. Table 5-1 provides a summary of the activity on section 301-307 cases during 1986 that is described in greater detail below.

Investigations were not instituted in 1986 on five of the petitions filed with the USTR. The reasons for not initiating investigations varied with each case.⁶ A petition filed by the Oklahoma Steel and Wire Co. complaining of high Mexican tariffs and import taxes on farm fence panels was withdrawn in January 1986 because of Mexican negotiations for accession to the GATT. GATT concessions were obtained from Mexico on this product. In response to a petition filed by a group of lawyers in April 1986 on restricted access to the Japanese legal services market, the USTR did not institute an investigation because of progress made in ongoing negotiations on the issue. Japan passed new legislation that partially liberalized practice rules for foreign legal consultants. No investigation was initiated in response to a petition filed in August 1986 by the Specialty Tubing Group and Stainless Steel Wire Task Force alleging Swedish domestic subsidies to producers of certain specialty steel product, because the same subsidies were subject to ongoing CVD investigations. Likewise, USTR did not initiate an investigation in response to a petition alleging Japanese market barriers to U.S. rice exports filed in September by the Rice Millers' Association. The USTR noted the administration's intention to pursue the matter under the Uruguay Round commitments on standstill and agriculture.

A fifth petition regarding preshipment inspection practices undertaken in the United States by an agent of five Latin American and Caribbean countries was filed in September by the Florida Exporters and Importers Association. Upon looking into the matter, the USTR found that preshipment inspections were practiced not only by the countries named in the petition (Ecuador, Guatemala, Jamaica, Paraguay, and Venezuela) but also by 19 other developing countries.

Noting concern, in particular, about the alleged "verification" of privately negotiated prices and the spreading use of the inspections, the

¹ Within this context, "commerce" includes services related to international trade, regardless of whether such services are related to specific products.

² The statute provides a number of procedures and time limits for action by the USTR. The USTR has 45 days from receipt of a petition to determine whether or not to initiate an investigation. Upon initiation, the use of international dispute settlement procedures is required in trade agreement cases, concurrent with the domestic investigation. In all cases, consultations are requested with the foreign country or instrumentality involved. If a case involves issues arising under a trade agreement, the United States employs the dispute settlement provisions of such agreements. The USTR must make a recommendation to the President within a specified number of months from the date of initiation.

³ Reform of dispute settlement procedures is a U.S. priority in the Uruguay Round. See section entitled "Launching the Uruguay Round" in ch. 1.

⁴ Statement by Allan Mendelowitz, Associate Director, National Security and International Affairs, U.S. General Accounting Office, before the Senate Committee on Finance, July 22, 1986. See, GAO, *Combatting Unfair Foreign Trade Practices*, March 1987.

⁵ See *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 9.

⁶ See USTR, "Report to Congress required by section 306 of the Trade Act of 1975," January-June 1986 and July-December 1986.

Table 5-1

Summary of activity on sec. 301 Investigations during 1986

<i>Doc. No./ date filed</i>	<i>Petitioner</i>	<i>Product or service/ country</i>	<i>Status at yearend 1986</i>
307-01 Mar. 1986	USTR initiated at President's direction.	Export performance requirements/ Taiwan.	In September 1986, Taiwan agreed to lift existing automotive export performance requirements by next summer and to apply no new requirements. Investigation terminated.
301-58 Dec. 1986	USTR initiated at President's direction.	Softwood lumber/ Canada.	On Dec. 30, 1986, the President proclaimed a temporary duty of 15% ad valorem pending Canada's collection of an export tax of the same amount, as agreed under the terms of a countervailing duty agreement. U.S. duty suspended Jan. 8, 1987, as Canadian duty in effect.
301-57 Oct. 1986	USTR initiated at President's direction.	Practices on beer, wine, and tobacco sales/ Taiwan.	USTR is preparing a retaliation list and consulting with Taiwan authorities.
301-56 Aug. 1986	USTR initiated at President's direction.	Customs valuation/ Taiwan.	Taiwan agreed to abolish its customs valuation duty-paying system on Oct. 1, 1986. Thus, proposed retaliatory measures not enacted.
301-55 Apr. 1986	Icicle Seafoods and Associated Processors.	Ban on unprocessed herring and salmon exports/ Canada.	USTR consulted with Canada under art. XXIII:1 of the GATT in September and October 1986. USTR will submit recommendations to the President within 30 days of the conclusion of the dispute settlement process.
301-54 Mar. 1986	USTR initiated at President's direction.	Assession of Spain and Portugal/EC.	In July 1986, USTR reached interim solution with the EC on Spanish import levy restrictions. Other outstanding issues largely resolved in early 1987.
301-53 Apr. 1986	National Soybean Processors Association.	Soybean and soybean product export taxes/ Argentina.	Consultations held with Argentina in August 1986. USTR must submit recommendations to the President by April 25, 1987.
301-52 Nov. 1985	USTR initiated at President's direction.	Protection of intellectual property rights/ Korea.	Agreement with Korea to improve protection of intellectual property rights announced in July 1986. In August 1986, investigation terminated and final agreement signed.
301-51 Sept. 1985	USTR initiated at President's direction.	Insurance practices/Korea.	Agreement with Korea to allow U.S. firms to underwrite life and nonlife insurance announced in July 1986. Investigation terminated in August 1986.
301-50 Sept. 1985	USTR initiated at President's direction.	Tobacco products/ Japan.	In October 1986, Japan agreed to reduce cigarette tariff to zero, eliminate deferral in excise tax payment, and terminate discriminatory distribution
301-48 June 1985	Semiconductor Industry Association.	Semiconductors/ Japan.	In July 1986, Japan agreed to increase access for U.S. firms to Japanese market and to seek to prevent dumping in U.S. and third-country markets. Final agreement signed in September.
301-49 Sept. 1985	USTR initiated at President's direction.	Informatics policy/Brazil.	In October 1986, the President directed the USTR to notify GATT of U.S. intention to suspend tariff concessions with respect to Brazil under art. XVIII.
301-47 Aug. 1984	Fertilizer Institute.	Triple super-phosphate/EC.	Consultations under the GATT Standards Code, started in December 1984. No further action in 1986.
301-42 Apr. 1983	National Soybean Processors Association	Soybean oil and meal/Spain.	Consultations have taken place. No further action reported in 1986
301-40 Apr. 1983	National Soybean Processors Association.	Soybean oil and meal/Brazil.	GATT Subsidies Code consultations initially held with consultations to confirm Brazil claim that barriers were eliminated. No action in 1986.
301-35 Oct. 1982	Footwear Industries of America, Inc.	Nonrubber footwear/Brazil.	In November 1985, Brazil's offered to liberalize its import surcharge and reduce tariffs. No further action reported in 1986.
301-34 July 1982	J.I. Case Co.	Front-end loaders/ Canada.	Following informal GATT consultations, the USTR returned to the petitioner for further information. No further action reported in 1986.

Table 5-1—Continued

Summary of activity on sec. 301 investigations during 1986

<i>Doc. No./ date filed</i>	<i>Petitioner</i>	<i>Product or service/ country</i>	<i>Status at yearend 1986</i>
301-23 Sept. 1981	National Broiler Council.	Poultry/ EC.	GATT Subsidies Code conciliation undertaken at outset of case. No action reported in 1986.
301-11 Nov. 1976	Florida Citrus Commission.	Citrus fruits and juices/ EC.	In August 1986, agreement reached in which EC would grant tariff concessions on citrus products and concessions on other products in exchange for some U.S. concessions. Retaliatory actions terminated.
301-6 Nov. 1975	Millers National Federation.	Wheat flour/EC.	GATT Subsidies Code panel declined to determine if EC violated code rules. Report not adopted by Code members.

USTR announced a five-point action plan to investigate and find means to alleviate concerns raised by the practice.¹ The action plan includes (1) bilateral consultations with the relevant governments, (2) pursuit of multilateral solutions under, for example, the Customs Valuation Code and the Customs Cooperation Council, (3) monitoring of preshipment inspections activities within the United States, (4) consideration of possible domestic action such as legislation or regulations, and (5) a request to the U.S. International Trade Commission to conduct a study of the practices and their consequences for U.S. commerce.² The petition was withdrawn in light of the action plan. However, the petitioner may refile the petition at any time if not satisfied with results of the plan.

Cases initiated in 1986

*EC enlargement*³

In March 1986, the President announced his intention to (1) impose quotas on EC products if the EC did not remove certain quantitative restrictions on Portuguese imports of oilseeds and grains; and (2) increase tariffs on EC products if the EC did not provide compensation for U.S. losses resulting from the EC's imposition of variable levies on corn and sorghum imports into Spain in breach of prior tariff commitments.

In May, the President imposed nonrestrictive quotas on certain EC imports in response to the EC's quantitative restrictions in Portugal.⁴ On July 2, the USTR reached an interim solution with the EC with regard to the import levy restrictions in Spain. That solution provided that any shortfall in U.S. corn and sorghum to Spain below a monthly average of 234,000 metric tons

through the remainder of 1986 would be compensated for through reduced import levy quotas in the EC. Since further 1986 negotiations with the EC did not yield sufficient compensation, the USTR announced in December that, unless the EC agreed to adequate compensation by the end of January, the United States would raise duties to 200 percent ad valorem on certain imports from the EC.⁵

*Canadian softwood lumber*⁶

On December 30, 1986, the Governments of Canada and the United States signed an agreement on trade in certain softwood lumber products.⁷ On the same date, the President exercised his authority under section 301 to impose a temporary additional duty of 15 percent ad valorem on imports of Canadian softwood lumber products.⁸ Because the Government of Canada was unable to collect an export charge on exports of certain softwood lumber products to the United States until at least January 8, 1987, the President deemed it necessary to enforce the rights of the United States under a trade agreement and expeditious action was required. Starting on December 31, 1986, the Government of the United States applied a 15 percent ad valorem surcharge to imports of certain softwood lumber products from Canada, and agreed to terminate such surcharge when the Government of Canada begins to collect the export charge as agreed to in the Memorandum of Understanding between the two

¹ "Yeutter announces actions on Preshipment Inspection Programs," USTR Press Release No. 86/44, Oct. 20, 1986.

² USITC Investigation No. 332-242, "The effect of preshipment inspection practices on U.S. commerce." Instituted on Dec. 16, 1986, the investigation is underway.

³ USTR Docket No. 301-54.

⁴ See 51 F.R. 18294, May 16, 1986.

⁵ On Jan. 30, 1987, the EC agreed to ensure annual imports of corn and sorghum into Spain of 2 million and 300,000 metric tons, respectively. It also agreed to rescind its requirement that 15 percent of the Portuguese grain market be reserved for sales from EC countries and to reduce duties on 26 other products. USTR, "Section 301 Table of Cases," February 1987. See also the "European Community" section of ch. 4 and the section of ch. 2 entitled "EC enlargement".

⁶ USTR Docket No. 301-58.

⁷ 52 F.R. 231, Jan. 2, 1987. As a result of the agreement, the petition was withdrawn triggering the U.S. Commerce Department to terminate the investigation.

⁸ 52 F.R. 229, Jan 2, 1987. The softwood lumber problem is also discussed in the "Canada" section of ch. 4.

Governments.¹ The duty was designed to remedy the deferral by Canada of an export tax agreed to as part of a settlement that terminated a CVD investigation by the United States.² Under the agreement reached between Canada and the United States, Canada was to begin imposing a 15 percent ad valorem tax on exports of certain softwood lumber products to the United States as of December 31, 1986. The real purpose of the action was to enforce the trade agreement while the Canadian authorities took the necessary domestic steps to implement the 15 percent export tax, which became effective January 8, 1987.

*Canadian ban on fish exports*³

Icicle Seafoods and nine other seafood processors filed a petition in April 1986 alleging that the Canadian prohibition of the export of unprocessed herring and salmon violates GATT article XI, covering quantitative restrictions, and provides Canadian processors with an unfair cost advantage that burdens U.S. exports in third-country markets. The USTR initiated an investigation in May 1986,⁴ and requested comments on certain economic issues relating to the investigation. Consultations between the USTR and Canadian officials were held under article XXIII:1 of the GATT in September and October.⁵ The USTR must submit a recommendation to the President within 30 days after concluding dispute settlement procedures.

*Argentine differential export taxes on soybeans and soybean products*⁶

The USTR initiated the investigation in April 1986 at the request of the National Soybean Processors Association.⁷ The Association's petition alleged that Argentina's differential export tax system in which export taxes for soybeans were higher than for soybean products operated in such a way as to distort trade by providing the Argentine soybean processing industry a guaranteed crushing margin, permitting Argentine crushers to capture ever increasing shares of the world export market. The petitioner argued that this advantage burdens U.S. exports to third-country markets. The USTR held consultations with Argentina in August 1986. The USTR must

submit recommendations to the President by April 24, 1987.

*Taiwan customs valuation practices*⁸

(See section below on "Cases resolved in 1986.")

*Taiwan export performance requirements*⁹

(See section below on "Cases resolved in 1986.")

Cases resolved in 1986

*EC citrus preferences*¹⁰

In a petition filed in November 1976, the Florida Citrus Commission alleged that EC preferential import duties on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries adversely affected U.S. citrus producers. The case, which had been considered by a GATT panel,¹¹ was finally resolved in 1986 following several months of retaliatory and counterretaliatory measures.¹²

In May 1985, following the EC's persistent refusal to implement the findings of the GATT panel, the USTR held a public hearing on proposed recommendations to the President. In June 1985, after receiving the USTR recommendations, the President determined that the EC practices were unreasonable and discriminatory and constituted a burden on U.S. commerce.¹³ A few days later, the President announced that retaliatory measures against imports of pasta from the EC would take effect in July.¹⁴ In response, the EC raised duties on lemons and walnuts imported from the United States. In July 1985, the EC and the United States suspended their duty increases to resume negotiations. The USTR announced that, by October 31, the EC would work to reduce the pasta export subsidies by 45 percent and to increase U.S. access to its citrus market. When these goals had not been obtained by the deadline, the United States made effective the previously imposed retaliatory duties on imports of EC pasta. As expected, the EC resumed its counterretaliatory duties. Finally, in August 1986, an agreement was reached whereby the EC would grant tariff concessions on citrus products and grant additional tariff reductions on almonds

¹ Bill C-47, the Canadian lumber export tax bill, passed the Senate on May 28, 1987, and was expected to be given royal assent the week of June 8, 1987. The bill formally implements the U.S./Canada Softwood Lumber Agreement and gives Revenue Canada the authority to enforce collection of the 15 percent federal export tax on lumber destined for U.S. markets.

² As a result of the agreement, the petition was withdrawn triggering the United States Commerce Department to terminate the investigation.

³ USTR Docket No. 301-55.

⁴ See 51 F.R. 19648, May 30, 1986.

⁵ See also the "Dispute settlement" section of ch. 2.

⁶ USTR Docket No. 301-53.

⁷ See 51 F.R. 16764, May 6, 1986.

⁸ USTR Docket No. 301-56.

⁹ USTR Docket No. 307-1.

¹⁰ USTR Docket No. 301-11.

¹¹ Following the 1979 Tokyo Round in which duty reduction was obtained only on fresh grapefruit, GATT consultation and conciliation efforts were pursued without results. The GATT Council established a panel in November 1982. The panel report, completed in 1984, did not specifically find that EC preferences violate GATT rules but agreed that U.S. exports had been adversely affected. See also the section on "Dispute Settlement" in ch. 2.

¹² See also "European Community" section of ch. 4.

¹³ See 50 F.R. 25685, June 21, 1985.

¹⁴ See 50 F.R. 26143, June 25, 1985.

and peanuts in return for certain U.S. tariff concessions.¹ As a result of the agreement, all retaliatory duties were terminated.²

*Japanese barriers to tobacco products*³

In September 1985, the USTR self-initiated an investigation of Japanese practices that restrict U.S. tobacco product exports to Japan. Among the practices named were high tariffs, restrictions against manufacturing, and distribution restrictions.⁴ After obtaining comments from U.S. industry, the USTR held consultations with Japan in February 1986. By October 1986, the United States and Japan had concluded an agreement under which Japan would suspend its tariff on cigarettes, eliminate the discriminatory deferral in excise tax payment, terminate discriminatory distribution practices, and adopt virtually automatic approval procedures.⁵ The President approved the agreement in October and suspended the investigation, directing that it be terminated upon full implementation of the agreement by Japan.⁶

*Japanese barriers to the domestic sale of foreign semiconductors*⁷

In June 1985, the Semiconductor Industry Association filed a petition with the USTR alleging that the Japanese Government had created a protective structure that acts as a major barrier to the sale of foreign semiconductors in Japan. The USTR initiated the investigation in July⁸ and held initial consultations in August 1985 with the Japanese. Further consultations were held throughout 1985 and 1986. In July 1986, the USTR negotiated an agreement with Japan under which Japan will increase access for U.S. firms to the Japanese market and prevent dumping of Japanese semiconductors in the U.S. and third-country markets.⁹ After the President approved the agreement and suspended the investigation,¹⁰ the USTR signed the final agreement. The first consultations under the agreement were held in November 1986.¹¹

Taiwan customs valuation practices

In August 1986, the President determined on his own motion that Taiwan's use of a duty-paying

system to calculate customs duties violated a trade agreement, was unjustifiable and unreasonable, and a burden or restriction on U.S. commerce.¹² He directed the USTR to propose appropriate measures for retaliation. By August, the Taiwan authorities agreed in an exchange of letters to take action by September 1, 1986, to abolish the duty-paying schedule as of October 1, 1986.¹³ On October 1, 1986, the new Taiwan regulations went into effect. The USTR confirmed that Taiwan had enacted the changes and advised the public that no retaliatory action would be necessary.¹⁴

*Taiwan beer, wine, and tobacco practices*¹⁵

In October 1986, the President determined on his own motion that certain policies and practices of Taiwan adversely affect the distribution and sale of U.S. beer, wine, and tobacco products in Taiwan.¹⁶ He decided to take proportional countermeasures so long as Taiwan continues these practices, and directed the USTR to draw up proposals for appropriate and feasible actions. The USTR began preparing a retaliation list and consulting with Taiwanese authorities. In December, however, Taiwan agreed to lift the ban on beer imports, eliminate requirements that the retail price of the foreign products be taxed at a higher rate than domestic products, and allow U.S. products to be sold at all retail outlets where Taiwan products are sold.¹⁷ As a result of the agreement, the USTR announced that the retaliation directed earlier by the President would not be proposed.¹⁸

Taiwan export performance requirements

In March 1986, at the direction of the President, the USTR self-initiated the first investigation under section 307—a case which concerns export performance requirements in the automotive sector.¹⁹ The USTR requested written public comment, and consulted with Taiwan authorities in June, August, and September. In September 1986, the USTR reached an agreement under which Taiwan would lift existing automotive export performance requirements by next summer; apply no new automotive export performance requirements; and grant the right for existing auto investments to be expanded with no new performance requirements.²⁰ Ambassador Yeutter described the agreement as a "significant victory in the investment area" that "sets a precedent for

¹ According to the USTR, "definitive implementation of the entire agreement is dependent on passage of legislation by Congress" to implement the U.S. tariff concessions. USTR, "Report to Congress required by section 306 of the Trade Act of 1975," July-December 1986, p. 11.

² See 51 F.R. 30146, Aug. 22, 1986.

³ USTR Docket No. 301-50.

⁴ See 50 F.R. 37609, Sept. 16, 1985.

⁵ See also "Japan" section of ch. 4.

⁶ See 51 F.R. 35995, Oct. 8, 1986.

⁷ USTR Docket No. 301-48.

⁸ See 50 F.R. 28866, July 16, 1985.

⁹ See also "Japan" section of ch. 4.

¹⁰ See 51 F.R. 27811, Aug. 4, 1986.

¹¹ USTR, "Report to Congress required by section 306 of the Trade Act of 1975," July-December 1986, p. 1.

¹² See 51 F.R. 28219, Aug. 6, 1986.

¹³ See also "Taiwan" section of ch. 4.

¹⁴ See 51 F.R. 37527, Oct. 22, 1986.

¹⁵ USTR Docket No. 301-57.

¹⁶ See 51 F.R. 39639, Oct. 30, 1986.

¹⁷ USTR, "Report to Congress required by section 306 of the Trade Act of 1974," July-December 1986, p. 8.

See also "Taiwan" section of ch. 4.

¹⁸ 51 F.R. 44958, Dec. 16, 1986.

¹⁹ See 51 F.R. 12008, Apr. 8, 1986.

²⁰ See also "Taiwan" section of ch. 4.

future negotiations.”¹ Based upon this agreement, the USTR terminated the investigation.²

*Korean insurance policies*³

In September 1985, the USTR self-initiated an investigation of Korean practices that restrict the ability of U.S. insurers to provide insurance services in the Korean market.⁴ The USTR held consultations with Korea throughout 1985 and 1986. In July, agreement was reached that Korea will increase access to the Korean insurance market by allowing U.S. firms to underwrite both life and non-life insurance. The United States and Korea also agreed to set up a consultative mechanism to discuss implementation of the agreement and other matters related to the Korean insurance market.⁵ In August, the investigation was terminated by the President, and the final agreement was signed.⁶

*Korean intellectual property rights*⁷

In October 1985, the President directed the USTR to initiate section 301 proceedings against unfair trade practices in Korea's intellectual property rights laws. The President stated that several aspects of Korean law appeared to deny effective protection for U.S. intellectual property. For example, the President noted, among other things, that Korea's patent law did not cover foodstuffs or chemical compounds and compositions, that protection for chemicals and pharmaceuticals is limited to process patents, and that works of U.S. authors were not protected under Korean copyright law.⁸ In November 1985, the USTR initiated the investigation.⁹ The USTR held consultations with Korea throughout 1985 and 1986. In July 1986, the White House announced that an agreement had been reached with Korea to improve protection of intellectual property rights.¹⁰ Korea agreed to lift certain restrictions immediately and to enact legislation covering copyrights, patents, and trademarks by mid-1987. In addition, Korea agreed to participate in a U.S.-Korean consultative mechanism to discuss implementation of the agreement and other intellectual property issues and to accede to relevant

international agreements.¹¹ In August, the President terminated the investigation¹² and the final agreement was signed.

Cases outstanding

*Canadian tax and customs measures on front-end loaders*¹³

No action has been reported on this case since 1982, although the case has not been formally terminated. In July 1982, J.I. Case Co. filed a petition alleging that Canada's regulations allowing remission of customs duties and sales tax on certain front-end loaders are unreasonable and discriminatory, burden and restrict U.S. commerce, and violate the GATT and the GATT Code on Subsidies and Countervailing Duties. After the petition was amended and refiled, the USTR initiated the investigation in October 1982. GATT article XXII consultations were held with Canada in December 1982.

*EC technical standards for fertilizers*¹⁴

No action was reported during 1986 on a petition filed in August 1984 by the Fertilizer Institute. The petitioner alleged that a technical standard for water solubility of triple superphosphate adopted by the EC is inconsistent with the provisions of the GATT Standards Code. Following preliminary consultations with the EC in 1984, the USTR requested further information from the petitioner. In December 1984, consultations were held under the Standards Code. During 1985, the USTR consulted further with the petitioner.

*EC export subsidies on wheat flour*¹⁵

No further developments occurred on this case during 1986; the GATT panel report on the matter remains unadopted. In November 1975, the Millers National Federation filed a petition alleging that the EC violated GATT article XVI:3 in using export subsidies to gain more than its equitable share of world trade in wheat flour. Dispute settlement under the GATT Subsidies Code began in September 1981. In early 1983, the conclusions of the Code panel charged with investigating the U.S. allegations were issued.¹⁶ Although the Code Committee considered the panel report several times in 1983, it could not agree to adopt the report.

¹ Testimony on "Unfair Trade Practices and U.S. Trade Policy" by Ambassador Clayton Yeutter before the U.S. House of Representatives Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, Sept. 26, 1986.

² See 51 F.R. 41558, Nov. 17, 1986.

³ USTR Docket No. 301-51.

⁴ See 50 F.R. 37609, Sept. 16, 1985.

⁵ USTR, "Report to Congress required by section 306 of the Trade Act of 1975," July-December 1986, p. 4. See also "Korea" section of ch. 4.

⁶ See 51 F.R. 29443, Aug. 18, 1986.

⁷ USTR Docket No. 301-52.

⁸ White House Press Release, Oct. 16, 1985.

⁹ See 50 F.R. 45883, Nov. 4, 1985.

¹⁰ See also "Korea" section of ch. 4.

¹¹ USTR, "Report to Congress required by section 306 of the Trade Act of 1975," July-December 1986, p. 5.

¹² See 51 F.R. 29445, Aug. 18, 1986.

¹³ USTR Docket No. 301-34.

¹⁴ USTR Docket No. 301-47.

¹⁵ USTR Docket No. 301-6.

¹⁶ The panel report found that the EC had become a significant exporter of wheat flour but did not make a finding as to whether the EC had obtained a "more than equitable share" of the market as a result of subsidies. Letter of comments from the USTR in "Current Issues in U.S. Participation in the Multilateral Trading System," U.S. General Accounting Office, Publication No. GAO/5-12 NSAID-85-118, p. 101, (1985).

EC and Brazilian export subsidies on poultry¹

No action was reported in 1986 on the case involving a petition filed in September 1981 by the National Broiler Council. The petitioner alleged that the EC violated GATT article XVI and the GATT Code on Subsidies and Countervailing Duties in using export subsidies that displace U.S. poultry exports to third-country markets. The President later directed that Brazilian subsidies also be examined.² Despite consultation and conciliation efforts undertaken from 1982 to 1984, the USTR was unable to report a resolution of this matter.

Brazilian informatics policies³

In September 1985, the USTR self-initiated an investigation into Brazil's informatics policy.⁴ The policy encompasses a variety of measures such as investment restrictions, subsidies, and import restrictions. Efforts in 1985 centered on obtaining information from U.S. industry. The first consultations with Brazil on its policies took place in February 1986.⁵ In October 1986, the President determined that Brazil's policies are unreasonable and extended the administrative deadline through December 31. At the same time, he directed the USTR to notify the GATT of the U.S. intention to suspend tariff concessions for Brazil under GATT article XVIII, and to effect the suspension when appropriate.⁶ Explaining that Brazil had undertaken some promising administrative reforms, the President decided on December 30, 1986, to terminate the part of the investigation dealing with Brazilian administrative procedures. The Brazilian reforms included simplification of the licensing process, the creation of an appeals process, and narrowing the scope of import restrictions. Noting insufficient progress in other areas, however, the President's December determination also directed the USTR to continue negotiations with Brazil to eliminate restrictions on U.S. investment in the informatics sector and obtain adequate protection of intellectual property rights.⁷

Brazilian import restrictions on nonrubber footwear⁸

Although Brazil offered to take certain liberalizing actions in late 1985, no further action on this case was reported in 1986. GATT article XXII consultations are described as pending by the USTR. In October 1982, the Footwear Industries of America, Inc., filed a petition alleging that Brazil's import restrictions on nonrubber

footwear are inconsistent with the GATT and are unreasonable and/or discriminatory and a burden on U.S. commerce. GATT consultations began in April 1983 and subsequent negotiations urged Brazil to liberalize market access for U.S. footwear exports. In November 1985, Brazil offered to liberalize its import surcharge and reduce tariffs.

Barriers to U.S. exports of soybean oil and meal

The USTR describes these cases on soybean products as pending, although no specific action was reported in 1986. In response to a petition filed by the National Soybean Processors Association concerning unfair practices that restrict U.S. exports of soybean oil and meal, the USTR initiated investigations against Brazil,⁹ Portugal,¹⁰ and Spain¹¹ in May 1983. Consultations were first held in 1983 and continued through 1985. GATT consultations to discuss Brazil's claim that it had eliminated subsidies on these products were also held with Spain and Portugal in 1983. In 1984, Portugal began to phase out the purchasing of foreign soy products by a state trading company and to allow private importing.

OTHER IMPORT ADMINISTRATION LAWS

Arrangement Regarding International Trade in Textiles

The Arrangement Regarding International Trade in Textiles, generally known as the MFA, regulates U.S. textile imports. In 1986, 83 percent of U.S. textile imports came from MFA signatories; 59 percent of imports from all countries were subject to restraint. Originally put into effect in 1974, the MFA has been extended three times, with the most recent extension of the MFA, commonly referred to as MFA IV, taking effect on August 1, 1986.¹² It is scheduled to expire 5 years later on July 31, 1991.¹³ It expands upon the coverage of previous agreements by including noncotton vegetable fibers and certain silk blends.

In the face of rising textile imports from low-cost producers, the MFA was established in 1974, and was extended in 1978, 1982, and 1986. The MFA was designed to promote the expansion and liberalization of world trade in textiles and at the same time avoid disruption of markets and production lines. Operating under the aegis of the GATT, it permits the regulation

¹ USTR Docket No. 301-23.

² See 47 F.R. 30699.

³ See USTR Docket No. 301-49.

⁴ See 50 F.R. 37608, Sept. 16, 1985.

⁵ See also "Brazil" section of ch. 4.

⁶ See 51 F.R. 35993, Oct. 8, 1986.

⁷ 52 F.R. 1619, Jan. 15, 1986.

⁸ USTR Docket No. 301-35.

⁹ USTR Docket No. 301-40.

¹⁰ USTR Docket No. 301-41.

¹¹ USTR Docket No. 301-42.

¹² For a complete discussion of the MFA extension, see ch. 1.

¹³ Forty-three signatories, including the EC as a single signatory, participated in the negotiation of MFA IV. As of May 18, 1987, 36 countries signed MFA IV.

of trade in textiles by providing the framework for negotiation of bilateral agreements between textile importing countries and suppliers.

Table 5-2 lists the status of quantitative limitations on textile imports into the United States in

effect at year's end 1986. Imports from 40 countries or territories were subject to quantitative limits, with those from 31 countries subject to bilateral agreements negotiated under the provisions of the MFA. Bilateral agreements were also negotiated with five nonparticipants in the MFA—

Table 5-2

Status of quantitative limitations on U.S. imports of textiles under the MFA, as of Dec. 10, 1986

Country	<i>Current limitation on import trade</i>		<i>Expiration of current agreement or quota</i>
	<i>For 12 months beginning—¹</i>	<i>Quantity restrained²</i>	
		<i>Million square yard equivalents</i>	
Bangladesh	1/2/86	93.5	1/31/88
Brazil	4/1/86	269.0	3/31/88
Bulgaria	5/1/86	.6	4/30/89
China	1/1/86	942.1	12/31/87
Colombia	7/1/86	114.3	12/31/86
Costa Rica	1/1/86	11.3	12/31/87
Czechoslovakia	6/1/86	.7	5/31/89
Dominican Republic	6/1/86	48.6	5/31/88
East Germany	9/30/86	.6	9/29/87
Egypt	1/1/86	63.3	12/31/87
Guatemala	1/1/86	5.4	12/31/88
Haiti	1/1/86	74.2	12/31/86
Hong Kong	1/1/86	1,135.6	12/31/91
Hungary	1/1/86	4.3	12/31/87
India	1/1/86	155.3	12/31/91
Indonesia	7/1/86	307.1	6/30/88
Jamaica	9/1/86	19.6	12/31/89
Japan	1/1/86	282.4	12/31/89
Korea	1/1/86	1,120.3	12/31/89
Macau	1/1/86	72.3	12/31/88
Malaysia	1/1/86	169.3	12/31/89
Maldives	9/29/86	.8	9/28/88
Mauritius	10/1/86	26.3	9/30/90
Mexico	1/1/86	278.2	12/31/87
Nepal	1/1/86	17.1	12/31/86
Pakistan	1/1/86	263.7	12/31/86
Peru	5/1/86	119.9	4/30/89
Philippines	1/1/86	376.3	12/31/86
Poland	1/1/86	73.6	12/31/89
Romania ³	1/1/86	25.9	12/31/89
.....	1/1/86	63.2	12/31/87
Singapore	1/1/86	187.7	12/31/90
South Africa ⁴	9/1/86	21.8	8/31/88
Sri Lanka	6/1/86	118.1	5/31/88
Taiwan	1/1/86	1,612.0	12/31/89
Thailand	1/1/86	253.3	12/31/88
Trinidad/Tobago ⁵	10/1/86	10.0	12/31/87
Turkey	1/1/86	121.0	6/30/88
Uruguay	(⁶)	8.6	6/30/87
Yugoslavia	1/1/86	39.0	12/31/86

¹ The starting date for the 12-month restraint period may vary according to the product category.

² Agreements with 5 countries—Brazil, Macau, Pakistan, the Philippines, and Poland—have overall aggregate limits that are shown in this table. For all other countries, the figure shown represents the sum of limits established on specified groups or categories.

³ Two separate bilateral restraint agreements were concluded with Romania, the first covering wool and manmade fiber categories, and the second covering cotton categories.

⁴ Public Law 99-440 officially negated the bilateral agreement with South Africa.

⁵ Restraints are for a 15-month period ending December 31, 1987.

⁶ Agreement years vary by category.

Source: U.S. Department of Commerce, Performance Report, Dec. 10, 1986, and various *Federal Register* notices.

Costa Rica, Guatemala, Taiwan, Mauritius, and Nepal—under the authority of section 204 of the Agricultural Act of 1956. These bilateral agreements, like those negotiated with MFA members, enable the United States to set aggregate limits on textile imports into the United States from a particular country and/or to set limits on imports of specific product categories or groups of categories.¹ U.S. bilateral agreements generally cover almost all imports of textile products made of cotton, wool, and manmade fibers; some cover the new MFA IV fibers as well. In addition, those with a relatively small but growing number of countries—including Hong Kong, Taiwan, and Korea—also cover previously uncontrolled products, namely those of silk blends and vegetable fibers. In 1986, the agreement with Jamaica was upgraded from a consultative agreement to one which set quotas on certain products while establishing virtually unlimited guaranteed access to the U.S. market for certain products assembled in Jamaica from fabrics made and cut in the United States. A similar agreement, providing both quotas and guaranteed access levels, was reached with Trinidad and Tobago. The limits on imports from Japan were unilaterally imposed by the United States when the two countries were unable to negotiate renewal of the bilateral accord that had expired on December 31, 1985.

Agricultural Adjustment Act

The U.S. International Trade Commission, at the direction of the President, conducts investigations under section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) to determine the effects of imports on price-support or production-adjustment programs of the U.S. Department of Agriculture (USDA). The President, following receipt of the Commission's report, may impose quotas or fees, (such quotas not to restrict imports to less than half of the quantity of imports during a previous representative period and such fees not to exceed 50 percent ad valorem) to protect the USDA program in question. When the Secretary of Agriculture determines that an emergency exists, the President may take action before the Commission's investigation and report. Such emergency action continues in effect during the pendency of the above proceedings.

No section 22 investigations were instituted by the Commission in 1986. The Commission's reports on the section 22 investigations involving sugar (Inv. No. 22-49) and sugar-containing articles (Inv. No. 22-48) were transmitted to the President on September 15, 1986 and October 15, 1986, respectively. At the close of 1986, the

¹ The U.S. Department of Commerce, Office of Textiles, has the responsibility for monitoring the agreements. In this capacity, it acts on behalf of the interagency Committee for the Implementation of Textile Agreements (CITA).

President had not acted on the Commission's recommendations. The reports remained confidential, and the President's emergency actions with respect to sugar and sugar-containing articles temporarily established in 1985 continued in effect.²

Quantitative limits imposed in previous years under the authority of section 22 remained in place throughout calendar year 1986 on cotton of certain specified staple lengths, cotton waste, and certain cotton products; peanuts; certain dairy products; and sugar, certain sugar syrups, and sugar-containing articles. With respect to all of the above-described products, the United States has in effect various price-support, production-adjustment, or market-control programs designed to achieve the necessary balances between market supplies and consumer demand.

Generalized System of Preferences

The U.S. GSP is a temporary tariff preference scheme designed to offer nonreciprocal duty-free treatment for designated articles of developing countries in order to help beneficiary developing countries become more competitive in U.S. markets and to diversify their economic structures away from production of primary goods. Nineteen other industrial countries also maintain GSP programs. The U.S. GSP scheme is administered by the USTR.

The current GSP, in effect since January 4, 1985, is an amended form of the original program and is scheduled to expire on July 4, 1993. The original GSP scheme was established under the Trade Act of 1974 for a period of 10 years. The renewed GSP, which is the result of amendments by the Trade and Tariff Act of 1984, provides for a general review of the program by January 1987. Determinations of benefit levels based on this review will enter into force on July 1, 1987.³

From July 1, 1986, through July 1987, earlier benefit levels are to be in effect, subject to the most recent annual changes announced by

² For further details, see *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 246-249.

³ On Jan. 2, 1987, the administration announced the results of its 2-year general review. According to the announcement, the duty-free status of 193 import items will be removed, affecting primarily 8 advanced developing countries—Taiwan, Brazil, Mexico, South Korea, Hong Kong, Singapore, Yugoslavia, and Argentina. After the results of the review are implemented, the level of benefits for advanced developing countries will drop by an estimated \$2 billion, or almost 23 percent, below 1985 levels. Meanwhile, the administration also enhanced GSP benefits for 95 products from 10 countries. Overall, the changes resulted in the redirection of GSP benefits in favor of countries with greater need. In revising the program, the administration took into account the competitiveness of a particular country's industry, the volume of exports, and trade practices and the treatment of workers in a particular country.

the USTR on March 31, 1986.¹ Notably, these changes were not based on customary annual review procedures as the general review of the GSP was conducted simultaneously to the end of 1986. The principal difference was that the latest changes were not based on petitions by interested parties as was the case in prior years.

The following are modifications in product coverage in effect since July 1986. Under the statutory "competitive need" provision, products accounting for \$13 billion in 1985 imports were removed from the GSP list. In comparison, removals based on competitiveness amounted to \$13.8 billion in 1985. Of the \$13 billion, products accounting for \$840 million were removed for the first time.²

Product coverage may also be modified by the President under discretionary authority to "graduate" countries for particular products.³ In 1986, the President "graduated" (i.e. removed from the list of eligible articles or countries) \$2.4 billion in 1985 imports from duty-free treatment under this authority. This compares with 1.8 billion dollars worth of graduations in the previous round of changes. The value of the articles that were removed accounts for 93.6 percent of all 1985 shipments that were eligible for redesignation. By the same token, the President redesignated items valued at \$167 million that were previously excluded from GSP duty-free treatment, or 6.4 percent of the total value eligible for redesignation.

Exclusions from eligibility under both statutory and discretionary provisions totaled \$15.4 billion (based on 1985 trade). For the third consecutive year in the 11-year history of the GSP, the value of these exclusions has exceeded the value of imports actually receiving GSP treatment (\$13.3 billion in 1985).

In 1986, 140 countries and territories were eligible for duty-free GSP treatment on about 3,000 articles, with manufactures and semimanufactures accounting for a large share. Imports under the program amounted to

¹ In operating the GSP program, the interagency Trade Policy Staff Committee, chaired by a representative of the USTR, conducts annual reviews in which petitions are received from foreign governments, U.S. producers, and importers for modification in the list of items eligible for GSP duty-free treatment. The review also includes application of the competitive-need criteria, which can result in products of certain beneficiary countries being excluded from, or reinstated to, eligibility for GSP treatment.

² The so-called competitive need provisions of the GSP law state that if, in any calendar year, imports of an eligible product from an eligible country either (1) exceed a given dollar amount (\$69.6 million in 1985) or (2) account for more than 50 percent of total U.S. imports of that product for that year, then imports of that product from that country cannot receive duty-free treatment under GSP in the following GSP year.

³ Graduation is recognition that a beneficiary country does not currently need GSP treatment for particular products in order to be competitive.

\$13.9 billion; they were responsible for 3.8 percent of overall U.S. imports and 11.7 percent of all GSP-eligible imports during the year (table 5-3).

Seven advanced beneficiary countries (ABC's) supplied 78.7 percent of all U.S. imports that received duty-free treatment under the GSP. These leading GSP beneficiaries were Taiwan, Korea, Hong Kong, Mexico, Brazil, Israel, and Singapore. GSP imports from these ABC's collectively amounted to \$11 billion. Middle-income beneficiaries supplied 20.9 percent of the total, and low-income beneficiaries supplied 0.4 percent of the total.

Table 5-4 shows the amount of duty-free imports under GSP separately for the seven ABC's, and the ratio of such imports to the GSP eligible and total U.S. imports from each of these countries in 1986. These leading ABC beneficiaries are unchanged in recent years. In 1986, Taiwan continued to be number one among the GSP eligibles in terms of the value of its shipments to the United States. Duty-free U.S. imports from Taiwan under GSP amounted to \$3.8 billion, and they were responsible for 27 percent of total 1986 U.S. imports under the program. The share of imports entering under GSP provisions to the overall imports from each of these seven ABC's ranged from 19 percent for Taiwan to 7.6 percent for Mexico. Mexico's low GSP share is accounted for by the dominance of petroleum in composition of U.S. imports from that country. Petroleum is not a GSP-eligible article.

Based on the five-digit TSUS classification system, office machines and magnetic recording equipment accounted for the largest value among all GSP-eligible articles entering the United States under GSP in 1986 (table B-11). Sugar, which was the leading GSP item in prior years, ranked only third in 1986. Table B-12 lists GSP-eligible imports by two-digit divisions of the Standard International Trade Classification (SITC) system, showing also the percentage of duty-free imports in total U.S. imports for the articles in question. Table B-13 gives the same information by divisions of the Standard Industrial Classification (SIC) system.

Caribbean Basin Economic Recovery Act (CBERA)

Nineteen eighty-six marked the third year of operation of the Caribbean Basin Initiative (CBI). The CBI was authorized by the CBERA,⁴ which was signed into law in August 1983; the program became operative by Presidential proclamation on January 1, 1984. A 12-year program, the CBI is designed to foster economic development in the Caribbean Basin by providing a combination of

⁴ Public Law 98-67, title II.

Table 5-3

U.S. Imports¹ for consumption² from GSP beneficiary countries by development status,³ 1986

Item	Advanced GSP beneficiaries	Middle- income GSP beneficiaries	Low- income GSP beneficiaries	Total, all beneficiary countries	Total all countries
Total imports 1,000 dollars ..	\$72,178,253	\$35,066,564	\$974,280	\$108,219,097	\$367,466,540
GSP-eligible products do ..	29,811,973	4,640,148	207,423	34,659,544	119,573,208
Duty free under GSP do ..	10,967,856	2,896,583	52,314	13,916,753	13,916,753
Competitive-need exclusions do ..	15,463,705	899,852	0	16,363,557	16,363,557
Other do ..	3,380,413	843,712	155,109	4,379,234	89,292,898
Noneligible product imports . do ..	42,366,280	30,426,417	766,857	73,559,554	247,893,332
Ratio of:					
GSP-eligible imports to total imports percent ..	41.3	13.2	21.3	32.0	32.5
GSP duty-free imports to GSP eligible imports do ..	36.8	62.4	25.2	40.2	11.6
Competitive-need exclusions to GSP-eligible imports . . do ..	51.9	19.4	0.0	47.2	13.7
Other imports to GSP-eligible imports do ..	11.3	18.2	74.8	12.6	74.7
GSP duty free to total imports do ..	15.2	8.3	5.4	12.9	3.8
Country group share of total GSP duty-free imports . . . do ..	78.8	20.8	0.4	100.0	100.0
Country group share of total competitive-need exclusions do ..	94.5	5.5	0.0	100.0	100.0

¹ Customs-value basis.² In this and other tables in this section, U.S. import data exclude entries into the U.S. Virgin Islands, which totaled \$1.2 billion in 1986. This is consistent with the concept of U.S. imports used in the GSP program for the competitive-need determinations.³ For the purposes of this table, advanced GSP beneficiaries include Taiwan, Korea, Brazil, Mexico, Hong Kong, Israel, and Singapore. The low-income GSP beneficiary category includes the 26 countries designated as least developed developing countries in headnote 3(d) of the Tariff Schedules of the United States. The middle-income category includes the other 107 eligible countries.

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

Table 5-4

U.S. Imports for consumption under the GSP from advanced beneficiary countries, 1986

Rank	Source	Total value	U.S. imports of GSP-eligible articles	Ratio of eligible to total	GSP imports	Share of GSP to eligible	Share of GSP to total	Country share of GSP total
		Million dollars	Million dollars	Percent	Million dollars	Percent	Percent	Percent
1	Taiwan	19,768	10,854	54.9	3,762	34.7	19.0	27.0
2	Korea	12,682	4,684	36.9	2,220	47.4	17.5	16.0
3	Hong Kong . .	8,848	3,557	40.2	1,424	40.0	16.1	10.2
4	Mexico	17,072	6,505	38.1	1,301	20.0	7.6	9.4
5	Brazil	6,681	1,902	28.5	1,109	58.3	16.6	8.0
6	Singapore . . .	4,713	1,445	30.7	730	50.5	15.5	5.2
7	Israel	2,414	866	35.9	421	48.7	17.5	3.0
	Top 7	72,178	29,812	41.3	10,968	36.8	15.2	78.8
	World	367,467	34,660	9.4	13,917	40.2	3.8	100.0

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

trade preferences, aid, and investment incentives to eligible countries.¹

The centerpiece of the CBERA is a one-way trade preference program that allows duty-free

¹ For a discussion of the CBI and its implications, see the section entitled "Caribbean Basin Initiative," *Operation of the Trade Agreements Program, 35th Report, 1983, p. 25.*

access of eligible products to the U.S. market, provided 35 percent of their value is added in a Caribbean Basin country participating in the program. CBERA preferences constitute one of three major duty-free or duty-reduction programs available to Caribbean Basin countries from the United States. The other two, which have been

in effect for years, are the GSP¹ and duty provisions of TSUS items 806.30 and 807.00. Item 807.00 provides an exclusion from U.S. duties for the value of U.S. components in imported products that have been assembled in a foreign country and then returned to the United States. Item 806.30 provides similar treatment for certain metal products exported to a foreign country for processing and then returned to the United States. Table B-14 separately lists imports from the Caribbean region under these programs in 1986.

The President of the United States initially designated 20 countries for CBERA trade benefits. In March 1985, the Bahamas became the 21st beneficiary country. On April 11, 1986, Aruba, which became independent of the Netherlands Antilles on January 1, 1986, was separately designated as a CBERA beneficiary, the 22d,

¹ For a discussion of the GSP, see the previous section in this chapter.

retroactive to January 1, 1986. The list of all designated and nondesignated Caribbean countries and U.S. imports from these countries during 1982-86 are shown in table 5-5.²

In 1986, total U.S. imports from the Caribbean Basin amounted to \$6.2 billion. This was down 9.7 percent from such imports in 1985, representing the third consecutive annual decline. The downtrend reflects, to a large degree, the shrinking value of Caribbean crude oil and refined oil products shipped to the United States. Imports of oil and oil products, which in 1984 still accounted for nearly one-half of all U.S. imports from the region, were responsible for only 22 percent in 1986. Oil and oil products are not eligible for duty-free treatment under the CBERA (or any

² For a description of the criteria that the President must consider in designating a country eligible for CBI benefits, see *Operation of the Trade Agreements Program, 35th Report, 1983*, pp. 27-28.

Table 5-5

U.S. imports for consumption from the Caribbean Basin, by countries, designated or nondesignated under the CBERA, 1982-86

(Customs-value basis, in thousands of dollars)

Country	1982	1983	1984	1985	1986
<i>Designated:</i>					
Antigua	4,890	8,809	7,898	24,695	11,849
Aruba ¹	-	-	-	-	1,797
Bahamas	1,045,217	1,676,394	1,154,282	626,084	440,985
Barbados	106,631	202,047	252,598	202,194	108,991
Belize	38,464	27,315	42,843	46,951	50,181
British Virgin Islands	892	880	1,335	11,902	5,904
Costa Rica	358,127	386,520	468,633	489,294	646,508
Dominica	2,372	242	86	14,161	15,185
Dominican Republic	622,510	806,520	994,427	965,847	1,058,927
El Salvador	310,022	358,898	381,391	395,658	371,761
Grenada	401	211	766	1,309	2,987
Guatemala	330,142	374,692	446,267	399,617	614,708
Haiti	309,860	337,483	377,413	386,697	368,369
Honduras	359,553	364,742	393,769	370,219	430,906
Jamaica	278,108	262,360	396,949	267,016	297,891
Montserrat	749	924	989	3,620	3,472
Netherlands Antilles ²	2,106,750	2,274,510	2,024,367	793,162	453,333
Panama	250,764	336,086	311,627	393,605	352,206
St. Christopher-Nevis-Anguilla ³	11,557	18,758	23,135	16,258	22,278
St. Lucia	4,703	4,700	7,397	13,796	12,269
St. Vincent and Grenadines	1,394	4,276	2,958	9,643	7,836
Trinidad and Tobago	1,628,392	1,317,534	1,360,106	1,255,498	786,405
Total	7,771,498	8,763,900	8,649,235	6,687,226	6,064,745
<i>Nondesignated:</i>					
Anguilla ⁴	-	-	-	-	89
Cayman Islands	14,830	8,607	6,212	10,950	14,611
Guyana	70,655	67,332	74,417	46,010	62,928
Nicaragua	86,875	99,013	58,064	41,003	1,071
Suriname	60,147	63,147	104,636	60,091	38,591
Turks and Caicos Islands	3,556	3,965	3,935	4,649	4,792
Total	236,062	242,065	247,264	162,703	122,082
Grand Total	8,007,561	9,005,965	8,896,499	6,849,928	6,186,826

¹ During 1982-85 and Jan.-May 1986, import statistics treated Aruba as part of the Netherlands Antilles.

² See footnote 1.

³ Before 1986, U.S. import statistics treated St. Christopher, Nevis, and Anguilla as 1 entity. Therefore, although Anguilla has not been designated as a beneficiary country, it was treated as such in pre-1986 data.

⁴ See footnote 3.

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

other preferential program). Discounting crude and refined oil products, U.S. imports from the Caribbean edged up only slightly in 1986. In addition to oil, products ineligible for CBERA preferences include textiles and apparel, footwear, luggage, handbags, and leather wearing apparel. The 1986 imports of these excluded categories are shown in table B-15.

Prior to the year under review, President Reagan stated his intention to provide more liberal quota treatment for textiles and apparel imports from CBERA-eligible countries. Acting on this promise, on February 20, 1986, the President announced a "special access program" to liberalize quotas for CBERA countries for imports of apparel and made-up textiles such as bed linens. The program is designed to provide greater access to the U.S. market for products that CBERA countries ship under TSUS item 807.00 and that have been assembled with fabric produced and cut in the United States. CBERA countries have been invited to enter bilateral agreements with the United States under which guaranteed access will be permitted for their exports of apparel and textile products that qualify.¹ These guaranteed

¹ To date, the countries that have entered into a bilateral textile agreement with the United States under the program are the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago.

access levels will be separate from quotas applicable to those products that were not assembled solely from U.S.-made and U.S.-cut fabric.²

Duty-free imports entering under CBERA preferences, shown in table 5-6, totaled \$689.8 million in 1986, or 11.4 percent of overall U.S. imports from the eligible countries. This compares with \$497.6 million, or 7.3 percent in 1985. Sugar was the leading product imported under CBERA provisions during the year, followed by beef and industrial products such as chemicals, electrical articles, and jewelry. The list of major CBERA imports includes tobacco, coffee, fruits, and vegetables.

Since the CBI was first proposed in February 1982, the United States has steadily increased economic assistance to the region. U.S. aid focuses on improving the business climate within the area, facilitating private investment and export-led growth. The CBERA program also contains special incentives to increase the area's revenues from tourism, allowing U.S. firms to deduct from their taxes convention expenses incurred in CBERA beneficiary countries.

² See also *Imports under Items 806.30 and 807.00 of the Tariff Schedules of the United States, 1982-85*, December 1986, USITC Publication 1920, p. 4-4.

Table 5-6

Leading Items in U.S imports for consumption entered under CBERA provisions by descending duty-free value, 1986

(Customs value, in thousands of dollars)

TSUS Item No.	Description	Total U.S. Imports for consumption from CBERA countries	Duty-free under CBERA	Percent of CBERA duty-free to total CBERA	Leading source
155.20	Sugars, sirups, and molasses	205,591	124,851	60.7	Dominican Republic
106.10	Beef and veal, fresh, chilled	128,488	121,184	94.3	Costa Rica
412.22	Analgesics, antipyretic	138,069	50,993	36.9	Bahamas
685.90	Electrical switch	67,666	27,099	40.0	Haiti
427.88	Ethyl alcohol for nonbeverage	27,669	25,092	90.7	Jamaica
170.70	Cigars each valued 23 cents	32,440	18,820	58.0	Dominican Republic
734.56	Baseball equipment and parts	37,709	17,114	45.4	Haiti
148.96	Pineapples, fresh, in packages	17,285	13,446	77.8	Costa Rica
606.79	Deformed concrete reinforcing bars of iron or steel.	13,187	12,371	93.8	Dominican Republic
740.15	Jewelry etc. and parts	12,031	11,137	92.6	Dominican Republic
685.80	Electrical capacitors	27,477	10,244	37.3	El Salvador
170.35	Cigarette leaf, not mixed	11,471	9,284	80.9	Guatemala
607.17	Wire rods of iron or steel	10,665	7,908	74.1	Trinidad & Tobago
110.35	Fresh fish, whole	16,047	7,728	48.2	Costa Rica
165.29	Fruit juices, not mixed, orange	8,398	7,498	89.3	Belize
686.10	Resistors, fixed	16,341	7,415	45.4	Costa Rica
169.14	Rum (including cana paraguaya)	7,614	7,171	94.2	Belize
136.00	Dasheens, fresh, chilled	7,568	6,657	88.0	Dominican Republic
160.10	Coffee, crude, roasted or ground	1,000,981	6,057	0.6	Guatemala
148.30	Melons fresh, except cantaloupes	7,713	5,984	77.6	Guatemala
	Total, above items	1,794,410	498,053	27.8	
	Total, all items from CBERA countries	6,064,745	689,776	11.4	

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

Meat Import Act of 1979

The Meat Import Act of 1979—successor to the Meat Act of 1964—became effective on January 1, 1981. The act requires the President to impose quotas on imports of certain meats, mainly fresh, chilled, or frozen beef if the USDA estimates that annual imports of such meats will equal or exceed a specified level. This level is based on U.S. production of meat during the current and previous 4 calendar years. Included in the formula is a “counter-cyclical factor” that increases the maximum level of imports permitted if U.S. domestic per capita supplies are inadequate and decreases the allowable level in the event of domestic surpluses. The USDA under the act is responsible for issuing annual estimates of anticipated imports of meat and for monitoring imports and U.S. production of the covered categories of meat. No quotas have been imposed under the immediate act. Imports during the period 1980 through 1986 have remained under the trigger level mandating imposition of quantitative restrictions. In 1982 and 1983, imports threatened to exceed the respective annual trigger levels of 1,300 million and 1,231 million pounds; however, VRA’s scheduled to remain in effect through December 31 of each of those years were reached limiting imports from Australia, New Zealand, and Canada, thus avoiding possible imposition of quotas. The Meat Act of 1964—based on a similar but different formula—also provided authority to the President to impose quotas on imports of meat.

The USDA, in December 1985, estimated that imports of quota meat in 1986 would amount to 1,395 million pounds, approximately 45 million pounds below the “trigger” level of 1,440 million pounds mandating imposition of quantitative limitations. Actual imports of meat subject to the Act and distributed by source totaled 1,386 million pounds in 1986:

Source	Quantity (million pounds)
Australia	716.8
New Zealand	362.2
Canada	169.9
Honduras	20.8
Costa Rica	68.5
Guam3
Guatemala	7.7
European Community	6.3
El Salvador6
Panama1
Dominican Republic	25.1
Belize2
Sweden	7.0
Total	1,385.5

The total of 1,386 million pounds was significantly below both the trigger level and the USDA’s original estimate; therefore, no quotas were imposed, or VRA’s negotiated on the covered categories of meats during calendar year

1986. On December 31, 1986, the USDA estimated that in the absence of restraints, 1987 meat imports subject to the law would total 1,400 million pounds, 40 million pounds less than the 1987 trigger level of 1,440 million pounds that would automatically mandate quantitative restrictions.

National Security Import Restrictions

Section 232 of the Trade Expansion Act of 1962 authorizes the President on the basis of a formal investigation and report by the Secretary of Commerce to regulate the importation of commodities that threaten to impair the national security of the United States. Unless the President reverses the Secretary’s finding, he must take whatever action he considers necessary to control imports of the contested article, thus precluding impairment to U.S. national security. Previous to the enactment of the Trade Expansion Act, the President had similar authority to regulate imports in the interest of national security under predecessor statutes, i.e., the Trade Agreements Extension Act of 1958, section 8. Prior to 1986, authority was used by the President only to impose quotas and fees on imports of petroleum and petroleum products.

On May 20, 1986, following formal investigation proceedings on imports of “metal-cutting and metal-forming machine tools,” the Secretary of Commerce advised the President that increasing dependence on imported machine tools originating mainly in Japan and Taiwan could potentially erode U.S. capabilities to produce critical product lines. The Secretary noted that in 1984, there had been a previous finding by the USDA that indicated machine tool imports posed a significant threat to U.S. national security. Accordingly, the President directed that discussions be held with the Governments of Japan, Taiwan, West Germany, and Switzerland—the four largest suppliers of machine tools to the United States—aimed at establishing voluntary export restraints in critical product lines. The Governments of Japan and Taiwan—the key countries involved in the discussions—agreed in 1986 to limit unilaterally for 5 years machine-tool exports to the United States.¹ The President further directed that a “domestic action plan”—developed by the Departments of Commerce and Defense—be implemented to support the U.S. industry’s modernization efforts. The Reagan administration anticipates the agreements will enable the U.S. industry to preserve its critical production capabilities and at the same time increase the domestic market share. Comparable agreements covering imports of machine

¹ The arrangements specifically cover machining centers; computer-controlled and noncomputer controlled lathes; computer-controlled and noncomputer-controlled punching and shearing machines; and milling machines.

tools may be reached in 1987 with the Governments of West Germany and Switzerland.¹

The embargo on imports of crude oil originating in the Libyan Arab Jamahiriya imposed on December 22, 1983, through Presidential Proclamation No. 5141 continued in place throughout 1986. Libyan policies and actions aided and abetted through proceeds from the exportation of oil to the United States were initially declared to be adverse to the U.S. national security in 1982.

The Steel Import Program

Background of voluntary restraint arrangement program

On September 18, 1984, the President determined, following a section 201 (escape clause) investigation conducted by the Commission, that import relief for the steel industry was not in the national economic interest (49 F.R. 36813). The President outlined instead a nine-point program designed to assist the domestic steel industry in competing with imports.² Under this program, the President directed the USTR to negotiate voluntary restraint VRA's to cover the period from October 1, 1984, through September 30, 1989 (and to self-initiate unfair trade petitions, if necessary), with countries "whose exports to the United States increased significantly in recent years due to an unfair surge in imports." As a result of the President's program, finished steel products were expected to fall to a more normal level of 18.5 percent of the domestic market. Imports of semifinished steel would be limited to about 1.7 million tons annually.

Current status of the program

As of January 1987, VRA's have been concluded with 17 countries and the EC, excluding Spain and Portugal, which negotiated separate agreements (see table 5-7): The agreements are in the form of market share arrangements and quotas, or a combination thereof. The agreements, tailored to each country, vary in the number of individual product categories subject to limitation.

In December 1986, Taiwan announced a unilateral export restraint of steel products to the United States of 20,000 to 25,000 net tons per month through 1987. In the case of South

Africa, most iron and steel products covered under the VRA are subject to total embargo imposed by the comprehensive Anti-Apartheid Act of 1986.³ The VRA remains in effect, however, so steel products not subject to the embargo, which include fabricated structural steel and pipe conduit, continue to be subject to the limitations of the VRA. In December 1985, the 1982 Arrangement Concerning Trade in Certain Steel Products between the European Coal and Steel Community and the United States (the arrangement) and the Pipe and Tube Arrangement were extended to coincide with the scheduled expiration of the VRA's on September 30, 1989. The arrangement, modified in September 1986, limits EC exports of finished steel products to about 5.5 percent of U.S. apparent consumption and semifinished steel to 800,000 tons during 1986; this includes a 200,000-ton quota granted to British Steel Corp. under special provision.⁴

³ Executive Order 12571 of Oct. 27, 1986, 51 F.R. 39505, and 51 F.R. 41911.

⁴ For a more detailed discussion of the U.S.-EC semifinished steel agreement, see the ch. 4 section on the EC.

Table 5-7
Countries subject to VRA's and their respective limits, 1986

Country	Overall limits ¹	Semifinished steel ²
Australia	0.18 percent	50,000 tons
Austria	0.23 percent	(³)
Brazil	0.80 percent	700,000 tons
EC ⁴	5.50 percent	800,000 tons
Czechoslovakia ..	40,000 tons	(³)
East Germany ..	97,500 tons	(³)
Finland	0.224 percent	15,000 tons
Hungary	34,000 tons	(³)
Japan	5.80 percent	100,000 tons
Mexico	0.36 percent	100,000 tons
Poland	90,000 tons	(³)
Portugal	40,000 tons	(³)
Romania	105,000 tons	(³)
South Africa	0.42 percent	100,000 tons
South Korea	1.90 percent	50,000 tons
Spain	0.67 percent	50,000 tons
Venezuela	227,600 tons	60,000 tons
Yugoslavia	25,200 tons	(³)

¹ Excluding semifinished steel for all countries except Austria.

² Percentage reflects imports as a percent of U.S. apparent consumption. Tonnage is in short tons.

³ No explicit semifinished steel provisions.

⁴ Under an agreement reached in September 1986, EC exports of semifinished steel will be restricted to 800,000 tons during 1986; this includes a 200,000 ton quota granted to British Steel Corp. under special provision.

Source: USITC, *Monthly Reports on the Status of the Steel Industry*, January 1987, pp. I-vii.

¹ For other discussions of the machine tool issue, see the ch. 4 sections on Japan and the EC. Sec. 232 has traditionally been used by the President to impose quotas and fees on imports of petroleum and petroleum products.

² For additional details on the steel import program, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, July 1985, pp. 16-26.

APPENDIX A

MINISTERIAL DECLARATION ON THE URUGUAY ROUND

MINISTERIAL DECLARATION ON THE URUGUAY ROUND

Ministers, meeting on the occasion of the Special Session of Contracting Parties at Punta del Este, have decided to launch Multilateral Trade Negotiations (the Uruguay Round). To this end, they have adopted the following Declaration. The Multilateral Trade Negotiations (MTN) will be open to the participation of countries as indicated in Parts I and II of this Declaration. A Trade Negotiations Committee is established to carry out the negotiations. The Trade Negotiations Committee shall hold its first meeting not later than 31 October 1986. It shall meet as appropriate at Ministerial Level. The Multilateral Trade Negotiations will be concluded within four years.

Part I

NEGOTIATIONS ON TRADE IN GOODS

The CONTRACTING PARTIES meeting at Ministerial level

- | | |
|----------------------|--|
| DETERMINED | to halt and reverse protectionism and to remove distortions to trade |
| DETERMINED | also to preserve the basic principles and to further the objectives of the GATT |
| DETERMINED | also to develop a more open, viable and durable multilateral trading system |
| CONVINCED
MINDFUL | that such action would promote growth and development of the negative effects of prolonged financial and monetary instability in the world economy, the indebtedness of a large number of less developed contracting parties and considering the linkage between trade, money, finance and development |
| DECIDE | to enter into Multilateral Trade Negotiations on trade in goods within the framework and under the aegis of the General Agreement on Tariffs and Trade. |

A. OBJECTIVES

Negotiations shall aim to:

- (i) bring about further liberalization and expansion of world trade to the benefit of all countries, especially less-developed contracting parties, including the improvement of access to markets by the reduction and elimination of tariffs, quantitative restrictions and other non-tariff measures and obstacles;
- (ii) strengthen the role of GATT, improve the multilateral trading system based on the principles and rules of the GATT and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral disciplines;
- (iii) increase the responsiveness of the GATT system to the evolving international economic environment, through facilitating necessary structural adjustment, enhancing the relationship of the GATT with the relevant international organizations and taking account of changes in trade patterns and prospects,

including the growing importance of trade in high technology products, serious difficulties in commodity markets and the importance of an improved trading environment providing, *inter alia*, for the ability of indebted countries to meet their financial obligations;

- (iv) foster concurrent cooperative action at the national and international levels to strengthen the inter-relationship between trade policies and other economic policies affecting growth and development, and to contribute towards continued, effective and determined efforts to improve the functioning of the international monetary system and the flow of financial and real investment resources to developing countries.

B. GENERAL PRINCIPLES GOVERNING NEGOTIATIONS

- (i) Negotiations shall be conducted in a transparent manner, and consistent with the objectives and commitments agreed in this Declaration and with the principles of the General Agreement in order to ensure mutual advantage and increased benefits to all participants.
- (ii) The launching, the conduct and the implementation of the outcome of the negotiations shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations.
- (iii) Balanced concessions should be sought within broad trading areas and subjects to be negotiated in order to avoid unwarranted cross-sectoral demands.
- (iv) Contracting Parties agree that the principle of differential and more favorable treatment embodied in Part IV and other relevant provisions of the General Agreement and in the decision of the Contracting Parties of 28 November 1979 on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries applies to the negotiations. In the implementation of standstill and roll-back, particular care should be given to avoiding disruptive effects on the trade of less-developed contracting parties.
- (v) The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed Contracting Parties shall, therefore, not seek, neither shall less-developed Contracting Parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs.
- (vi) Less-developed contracting parties expect that their capacity to make contributions or negotiated concessions or take other mutually agreed action under the provisions and procedures of the General Agreement would improve with the pro-

gressive development of their economies and improvement in their trade situation and they would accordingly expect to participate more fully in the framework of rights and obligations under the General Agreement.

- (vii) Special attention shall be given to the particular situation and problems of the least-developed countries and to the need to encourage positive measures to facilitate expansion of their trading opportunities. Expedient implementation of the relevant provisions of the 1982 Ministerial Declaration concerning the least-developed countries shall also be given appropriate attention.

C. STANDSTILL AND ROLLBACK

Commencing immediately and continuing until the formal completion of the negotiations, each participant agrees to apply the following commitments:

Standstill

- (i) not to take any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement or the instruments negotiated within the framework of GATT or under its auspices;
- (ii) not to take any trade restrictive or distorting measures in the legitimate exercise of its GATT rights, that would go beyond that which is necessary to remedy specific situations, as provided for in the General Agreement and the instruments referred to in (i) above;
- (iii) not to take any trade measures in such a manner as to improve its negotiating positions.

Rollback

- (i) that all trade restrictive or distorting measures inconsistent with the provisions of the General Agreement or instruments negotiated within the framework of GATT or under its auspices, shall be phased out or brought into conformity within an agreed timeframe not later than by the date of the formal completion of the negotiations, taking into account multilateral agreements, undertakings and understandings, including strengthened rules and disciplines, reached in pursuance of the objective of the negotiations;
- (ii) there shall be progressive implementation of this commitment on an equitable basis in consultations among participants concerned, including all affected participants. This commitment shall take account of the concerns expressed by any participant about measures directly affecting its trade interests;
- (iii) there shall be no GATT concessions requested for the elimination of these measures.

Surveillance of Standstill and Rollback

Each participant agrees that the implementation of these commitments on standstill and rollback shall be subject to multilateral surveillance so as to

ensure that these commitments are being met. The Trade Negotiations Committee will decide on the appropriate mechanisms to carry out the surveillance, including periodic reviews and evaluations. Any participant may bring to the attention of the appropriate surveillance mechanism any actions or omissions it believes to be relevant to the fulfillment of these commitments. These notifications should be addressed to the GATT secretariat which may also provide further relevant information.

D. SUBJECTS FOR NEGOTIATIONS

Tariffs

Negotiations shall aim, by appropriate methods, to reduce or, as appropriate, eliminate tariffs including the reduction or elimination of high tariffs and tariff escalation. Emphasis shall be given to the expansion of the scope of tariff concessions among all participants.

Non-Tariff Measures

Negotiations shall aim to reduce or eliminate non-tariff measures, including quantitative restrictions, without prejudice to any action to be taken in fulfillment of the rollback commitments.

Tropical Products

Negotiations shall aim at the fullest liberalization of trade in tropical products, including in their processed and semi-processed forms and shall cover both tariffs and all non-tariff measures affecting trade in these products.

Contracting Parties recognize the importance of trade in tropical products to a large number of less-developed Contracting Parties and agree that negotiations in this area shall receive special attention, including the timing of the negotiations and the implementation of the results as provided for in B(ii).

Natural Resource-Based Products

Negotiations shall aim to achieve the fullest liberalization of trade in natural resource-based products, including in their processed and semi-processed forms. The negotiations shall aim to reduce or eliminate tariff and non-tariff measures, including tariff escalation.

Textiles and Clothing

Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objective of further liberalization of trade.

Agriculture

Contracting Parties agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalances and instability in world agricultural markets.

Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by:

- (i) improving market access through, *inter alia*, the reduction of import barriers;
- (ii) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes;
- (iii) minimizing the adverse effects that sanitary and phytosanitary regulations and barriers can have on trade in agriculture, taking into account the relevant international agreements.

In order to achieve the above objectives, the negotiating group having primary responsibility for all aspects of agriculture will use the recommendations adopted by the Contracting Parties at their Fortieth Session, which were developed in accordance with the GATT 1982 Ministerial programme and take account of the approaches suggested in the work of the Committee on Trade in Agriculture without prejudice to other alternatives that might achieve the objectives of the negotiations.

GATT Articles

Participants shall review existing GATT articles, provisions and disciplines as requested by interested Contracting Parties, and, as appropriate, undertake negotiations.

Safeguards

- (i) a comprehensive agreement on safeguards is of particular importance to the strengthening of the GATT system and to progress in the MTN's.
- (ii) The agreement on safeguards:
 - shall be based on the basic principles of the General Agreement;
 - shall contain, *inter alia*, the following elements: transparency, coverage, objective criteria for action including the concept of serious injury or threat thereof, temporary nature, degenerativity and structural adjustment, compensation and retaliation, notifications, consultation, multilateral surveillance and dispute settlement; and
 - shall clarify and reinforce the disciplines of the General Agreement and should apply to all Contracting Parties.

MTN Agreements and Arrangements

Negotiations shall aim to improve, clarify or expand, as appropriate, agreements and arrangements negotiated in the Tokyo Round of Multilateral Negotiations.

Subsidies and Countervailing Measures

Negotiations on subsidies and countervailing measures shall be based on a review of Articles VI and XVI and the MTN agreement on subsidies and countervailing measures with the objective of improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade. A negotiating group will be established to deal with these issues.

Dispute Settlement

In order to ensure prompt and effective resolution of disputes to the benefit of all Contracting Parties, negotiations shall aim to improve and strengthen the rules and the procedures of the dispute settlement process, while recognizing the contribution that would be made by more effective and enforceable GATT rules and disciplines. Negotiations shall include the development of adequate arrangements for overseeing and monitoring of the procedures that would facilitate compliance with adopted recommendations.

Trade Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods

In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines.

Negotiations shall aim to develop a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in GATT.

These negotiations shall be without prejudice to other complementary initiatives that may be taken in the World Intellectual Property Organization and elsewhere to deal with these matters.

Trade-Related Investment Measures

Following an examination of the operation of GATT Articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade.

E. FUNCTIONING OF THE GATT SYSTEM

Negotiations shall aim to develop understandings and arrangements:

- (i) to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system;
- (ii) to improve the overall effectiveness and decision-making of the GATT as an institution, including, *inter alia*, through involvement of Ministers;
- (iii) to increase the contribution of the GATT to achieving greater coherence in global economic policy-making through strengthening its relationship with other international organizations responsible for monetary and financial matters.

F. PARTICIPATION

(a) Negotiations will be open to:

- (1) all Contracting Parties;
- (2) countries having acceded provisionally;
- (3) countries applying the GATT on a *de facto* basis having announced, not later than 30 April 1987, their intention to accede to the GATT and to participate in the negotiations;

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- (4) countries that have already informed the Contracting Parties, at a regular meeting of the Council of Representatives, of their intention to negotiate the terms of their membership as a contracting party; and
- (5) developing countries that have, by 30 April 1987, initiated procedures for accession to the GATT, with the intention of negotiating the terms of their accession during the course of the negotiations.

(b) Participation in negotiations relating to the amendment or application of GATT provisions or the negotiation of new provisions will, however, be open only to contracting parties.

G. ORGANIZATION OF THE NEGOTIATIONS

A group of Negotiations on Goods (GNG) is established to carry out the programme of negotiations contained in this part of the Declaration. The GNG shall, *inter alia*:

- (i) elaborate and put into effect detailed trade negotiating plans prior to 19 December 1986;
- (ii) designate the appropriate mechanism for surveillance of commitments to standstill and rollback;
- (iii) establish negotiating groups as required. Because of the inter-relationship of some issues and taking fully into account the general principles governing the negotiations as stated in B(iii) above, it is recognized that aspects of one issue may be discussed in more than one negotiating group. Therefore each negotiating group should as required take into account relevant aspects emerging in other groups;
- (iv) also decide upon inclusion of additional subject matters in the negotiations;
- (v) co-ordinate the work of the negotiating groups and supervise the progress of the negotiations. As a guideline not more than two negotiating groups should meet at the same time;
- (vi) the GNG shall report to the Trade Negotiations Committee.

In order to ensure effective application of differential and more favourable treatment the GNG shall, before the formal completion of the negotiations, conduct an evaluation of the results attained therein in terms of the Objectives and the General Principles Governing Negotiations as set out in the Declaration, taking into account all issues of interest to less-developed Contracting Parties.

PART II

NEGOTIATIONS ON TRADE IN SERVICES

Ministers also decided, as part of the Multilateral Trade Negotiations, to launch negotiations on trade in services.

Negotiations in this area shall aim to establish a multilateral framework of principles and rules for trade in services, including elaboration of possible disciplines for individual sectors, with a view to expansion of such trade under conditions of transparency and progressive liberalization and as a means

of promoting economic growth of all trading partners and the development of developing countries. Such framework shall respect the policy objectives of national laws and regulations applying to services and shall take into account the work of relevant international organizations.

GATT procedures and practices shall apply to these negotiations. A group on Negotiations on Services is established to deal with these matters. Participation in the negotiations under this part of the Declaration will be open to the same countries as under Part I. GATT secretariat support will be provided, with technical support from other organizations as decided by the Group on Negotiations on Services.

The Group on Negotiations on Services shall report to the Trade Negotiations Committee.

IMPLEMENTATION OF RESULTS UNDER PARTS I AND II

When the results of the Multilateral Trade Negotiations in all areas have been established, Ministers meeting also on the occasion of a Special Session of Contracting Parties shall decide regarding the international implementation of the respective results.

APPENDIX B
STATISTICAL TABLES

Table B-1
Countervailing duty actions reported by signatories to the GATT Committee on Subsidies and Countervailing Measures, 1986

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
Australia	Brazil	Hand hacksaw blades	11-18-85	6-3-86	5-19-86 Undertaking
	New Zealand	Hand hacksaw blades	3-19-85	8-9-85	3-6-86 Undertaking
	New Zealand	Refrigerators display	12-20-84	8-9-85	
	New Zealand	Stainless steel tubing	8-31-84	8-9-85	
	New Zealand	Waterbed heaters	1-10-85	1-2-86	4-14-86 No injury
	New Zealand	Frozen peas	1-21-86		
Canada	EC	Frozen boneless beef	10-18-85	3-27-86	2-26-86 Undertaking
	Brazil	Carbon steel seamless pipe	8-13-86	11-10-86	
	EC	Boneless beef	10-18-85	3-27-86	7-25-86 Definitive duty
	EC	Dry pasta	7-02-86	9-30-86	
	Spain	Wide Flange steel beams	03-06-86		8-29-86 Definitive duty
	United States	Grain corn	7-2-86	11-7-86	
Chile	Argentina	Steel bars, rods (including wire rod), and	1-15-86		1-10-86 no injury
	Brazil	Steel bars, rods (including wire rod), and	1-15-86		3-19-86 no injury
	Brazil	Low-density polyethylene	10-10-85		3-19-86 no injury
	Brazil	Low-density polyethylene	10-10-85		3-20-86 no injury
	Brazil	Tubes and pipes of high-density polyethylene	11-29-85		4-12-85 no injury
	China	Polyester/cotton cloth	3-19-86		6-16-86 no injury
	East Germany	Matches	1-15-86		
	Korea	Polyester/cotton cloth	3-19-86		
	Mexico	Instant dry yeast sheets	12-9-85		
	Portugal	Drawn flat glass	9-20-85		5-22-86 Definitive duty

Source: Compiled from documents of the GATT Committee on Subsidies and Countervailing Measures.

Table B-2

Antidumping actions reported by signatories to the GATT Committee on Antidumping Practices, 1986

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
Australia	Argentina	Cold rolled hoop, strip, sheet and coil iron and steel	12-22-86		12-15-86 No injury
	Austria	Ring mechanisms loose leaf	5-22-86	4-15-86	9-29-86 No dumping
	Belgium	Ethylene glycol monobutyl ether	1-28-86		6-26-86 No injury
	Belgium	Stainless steel flat products	2-17-86		8-7-86 Price undertakings
	Brazil	Hand hacksaw blades	11-18-85	6-3-86	
	Brazil	Frozen conc. orange juice	9-10-86	11-17-86	
	Brazil	Galvanized hoop, strip, sheet and coil iron and steel	12-22-86		
	Brazil	Passenger car tires	2-7-86	7-16-86	
	Brazil	Electric motors A.C. three phase	2-13-85	8-22-85	
	Canada	Steel alloy chains	12-10-86		
	Canada	Urea	7-15-86	8-22-86	
	China	Electric motors A.C. three phase	3-12-85		
	China	Industrial nitrocellulose	9-29-86		
	China	Levamisole Hydrochloride	7-15-86		9-17-86 Other
	China	Passenger car tires	2-7-86	7-16-86	
	China	Woven worsted fabrics	9-16-86		
	Czechoslovakia	Electric motors A.C. three phase	2-13-85	8-22-85	
	Czechoslovakia	Parts of certain electric motors	10-15-86		
	Czechoslovakia	Passenger car tires	2-7-86	7-16-86	
	Denmark	Canned ham	4-12-85	12-6-85	3-14-86 Definitive duty
	Federal Republic of Germany	Air circuit breakers	7-25-85		12-16-85 Other
	Federal Republic of Germany	2, 4D and salts and esters	7-22-85	10-24-85	3-13-86 No injury
	Federal Republic of Germany	Passenger car tires	2-7-86	7-16-86	
	Federal Republic of Germany	Stainless steel flat products	2-17-86		6-26-86 No dumping
	Federal Republic of Germany	Dental surgery furniture and dental apparatus	7-10-86		
	Federal Republic of Germany	Industrial nitrocellulose	9-29-86		
	Federal Republic of Germany	Parts of certain electric motors	10-15-86		
	Federal Republic of Germany	Steel alloy chains and fittings	12-10-86		
	France	Air circuit breakers	6-18-85	11-5-85	9-22-86 Definitive duty
	France	Passenger car tires	2-7-86	7-16-86	
	France	Replacement spark plugs	12-12-85	3-3-86	7-2-86 No injury
	France	Industrial nitrocellulose	9-29-86		
	France	Pigments flushed	9-22-86		
	Finland	P.V.C. general purpose homopolymer	9-3-85	10-24-85	4-1-86 Definitive duty
	Hong Kong	Celling sweep fans	3-11-86	6-25-86	
	Israel	Linear alkylbenzene sulphonic acid	2-21-86		12-12-86 No injury
	Italy	Air circuit breakers	7-25-85	12-16-85	9-22-86 Definitive duty

Table B-2—Continued

Antidumping actions reported by signatories to the GATT Committee on Antidumping Practices, 1986

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
Australia	Italy	Electric filament lamps	2-11-86	4-17-86	10-10-86 No injury
	Italy	PVC General purpose homopolymer	12-24-84	4-4-85	3-27-86 No dumping
	Italy	Steel alloy chains	12-10-86		
	Japan	Air circuit breakers	6-18-85	11-5-85	9-22-87 Definitive duty
	Japan	Cold-rolled steel sheet and coil and galvanized steel sheet and coil.	4-22-85	8-13-85	6-10-86 Price undertakings
	Japan	Welded carbon steel pipe and rectangular hollow sections.	6-18-85	12-6-85	12-15-86 No injury
	Japan	Dental surgery furniture and dental apparatus	7-10-86		
	Korea	Bright steel bars	7-8-85	9-6-85	2-24-86 No dumping
	Korea	Linear alkylbenzene sulphonic acid	2-21-86		12-12-86 No injury
	Korea	Normal butyl alcohol	9-12-85		5-2-86 No injury
	Korea	Stainless steel flat products	2-17-86		6-26-86 No injury
	Korea	Welded carbon steel pipe	6-18-85	12-6-85	12-15-86 No injury
	Malaysia	Urea	7-15-86		
	Netherlands	Propylene oxide-based polyether polyols	2-24-86		
	Netherlands	Hydraulic brake fluid	5-21-86		
	New Zealand	Frozen peas	1-21-86		
	New Zealand	Porcelain enameled steel baths	3-14-85	8-9-85	7-8-86 No injury
	New Zealand	Frozen peas	2-5-86	8-21-86	
	New Zealand	Hand hacksaw blades	3-19-85	8-9-85	11-28-85 Price undertakings
	New Zealand	Waterbed heaters	9-24-85	1-2-86	5-19-86 Price undertakings
	China	Electric Motors A.C. three phase	2-13-85	8-22-85	4-14-86 No injury
	China	Passenger car tires	2-7-86		
	Philippines	Diammonium phosphate	11-28-85		
	Poland	Air circuit breakers	7-25-85		
	Poland	Electric motors A.C. three phase	2-13-85	8-22-85	
	Poland	Parts of certain electric motors	10-15-86		
	Gatar	Polyethylene low density	8-13-86		
	Romania	PVC general purpose homopolymer	5-14-86	8-14-86	2-10-86
	Singapore	Monoethylene glycol	6-13-86	6-13-86	2-24-86 No injury
	South Africa	Bright steel bars	7-8-85	9-6-85	1-28-86 Price undertakings
	South Africa	Uncoated wood-free paper	5-31-85	8-1-85	
	Spain	Passenger car tires	2-7-86	7-16-86	
	Spain	Stainless steel flat products	2-17-86		
	Taiwan	Bright steel bars	7-8-85	9-6-85	6-26-86 No injury
	Taiwan	Cold-rolled steel sheet and coil	4-22-85	8-13-85	2-24-86 No injury
	Taiwan	Diethylene glycol	8-23-85	11-6-85	4-14-86 No injury
	Taiwan	Castors	8-11-86		5-2-86 No injury
	Taiwan	Ethyl acetate	9-29-86		
	Taiwan	Di-octyl phthalate	8-22-84	2-22-85	4-2-86 No dumping
	Taiwan	Parts of certain electric motors	10-15-86		11-21-86 Other
	Taiwan	Linear alkylbenzene sulphonic acid	2-21-86		12-12 No injury
	Taiwan	Passenger car tires	2-7-86	7-16-86	
	Taiwan	Electric motors A.C. three phase	2-13-85	8-22-85	

Table B-2—Continued
Antidumping actions reported by signatories to the GATT Committee on Antidumping Practices, 1986

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
Australia	Thailand	Passenger car tires	2-7-86	7-16-86	
	Turkey	Passenger car tires	2-7-86	7-16-86	
	United Kingdom	Electric motors A.C. three phase	2-13-85	8-22-85	
		Hydraulic brake fluid	5-21-86		
		Passenger car tires	2-7-86	7-16-86	
		Propylene oxide-based polyether polyols	2-24-86		7-8-86 No injury
		Stainless steel flat products	2-17-86		6-26-86 No injury
		Electric motors A.C. three phase	2-13-85	8-22-85	
		Almonds	2-24-86		6-25-86 No injury
		Certain nylon polyamide yarn	3-19-86		
		Film laminate	2-20-85	6-11-85	
		Propylene oxide-based polyether polyols	2-24-86	7-8-86	
	United States	Acetoxy silicon sealants	10-10-85		
		Dental surgery furniture and dental apparatus	7-10-86		6-6-86 No dumping
		Hypodermic needles	10-2-86		
		Silicon sealants (neutral cure)	9-29-86		
		Urea	7-15-86		
		Linear alkybenzene sulphonic acid	2-21-86		
		Replacement spark plugs	12-12-85	3-3-86	
		Barbed wire	4-1-86		
Alloy tool steel bars, plates, and forgings		11-25-86		12-12-86 No injury	
Artificial graphite electrodes		4-30-86	7-29-86	7-2-86 No injury	
Canada	Carbon and alloy steel plate	4-21-86		9-17-86 Definitive duty	
	Twelve gauge shotshells	10-2-86			
	Stainless steel plate	11-25-86		11-26-86 Definitive duty	
	Tillage tools	10-29-86		9-30-86 Definitive duty	
	Synthetic baler twine	9-26-86		12-24-86 Definitive duty	
	Carbon and alloy steel plate	4-21-86			
	Barbed wire	4-1-86		9-30-86 Definitive duty	
	Stainless steel bars and wire	11-25-86		9-17-86 Definitive duty	
	Alloy tool steel bars, plates, and forgings	11-25-86			
	Photo albums with self-adhesive leaves	9-20-85	10-17-85		
China	Waterproof rubber footwear	10-17-86		2-14-86 Definitive duty	
	Paint brushes	4-16-86			
	Twelve gauge shotshells	3-6-86		10-2-86 Definitive duty	
	Carbon and alloy steel plate	4-21-86		8-15-86 Definitive duty	
	Waterproof rubber footwear	10-17-86		9-30-86 Definitive duty	
	Alpine ski poles	3-27-86		7-31-86 Definitive duty	
	Carbon and alloy steel plate	4-21-86		9-30-86 Definitive duty	
	Twelve gauge shotshells	10-2-86		12-24-86 Definitive duty	
	Stainless steel strip, plate, bars and wire	11-25-86			
	Waterproof rubber footwear	10-17-86			
France	Twelve gauge shotshells	3-6-86		8-15-86 Definitive duty	
	Twelve gauge shotshells	9-12-85		3-27-86 Definitive duty	
	Twelve gauge shotshells	3-27-86		7-31-86 Definitive duty	
	Twelve gauge shotshells	9-12-85		3-27-86 Definitive duty	
	Twelve gauge shotshells	3-27-86		7-31-86 Definitive duty	
	Twelve gauge shotshells	9-12-85		3-27-86 Definitive duty	
	Twelve gauge shotshells	3-27-86		7-31-86 Definitive duty	
	Twelve gauge shotshells	9-12-85		3-27-86 Definitive duty	
	Twelve gauge shotshells	3-27-86		7-31-86 Definitive duty	
	Twelve gauge shotshells	9-12-85		3-27-86 Definitive duty	

Table B-2—Continued

Antidumping actions reported by signatories to the GATT Committee on Antidumping Practices, 1986

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
Canada	Italy	Organic pigments	5-29-86		9-30-86 Definitive duty
	Italy	Twelve gauge shotshells	10-20-86		12-24-86 Definitive duty
	Italy	Stainless steel plate	11-25-86		
	Japan	Needles and Syringes	11-8-85		1-6-86 No injury
	Japan	Artificial graphite electrode	4-30-86	7-29-86	11-26-86 Definitive duty
	Japan	Oil and gas well casing	8-20-86		11-18-86 Price undertakings
	Japan	Microwave ovens	5-20-86		9-26-86 Definitive duty
	Japan	Stainless steel plate, sheet, bars and wire	11-25-86		
	Japan	Alloy tool steel bars, plates and forgings	11-25-86		
	Japan	Porcelain insulators	11-7-86		
	Korea	Color Televisions	9-3-85	11-29-85	3-27-86 No injury
	Korea	Oil and gas well casing	9-20-85	12-17-85	4-17-86 Definitive duty
	Korea	Spandex filament yarn	2-13-86		5-14-86 No dumping
	Korea	ABS resin	3-19-86	6-17-86	10-15-86 Definitive duty
	Korea	Drywall screws	8-1-86	10-23-86	
	Korea	Carbon steel welded pipe	7-25-86		
	Korea	Vinyl coated fabric	5-5-86		9-2-86 Definitive duty
	Korea	Microwave ovens	2-20-86		9-26-86 Definitive duty
	Korea	Carbon and alloy steel plate	4-21-86		9-30-86 Definitive duty
	Korea	Barbed wire	4-1-86		9-17-86 Definitive duty
	Korea	Waterproof rubber footwear	10-17-86		
	Korea	Photo albums with self-adhesive leaves	5-6-86		11-19-86 Definitive duty
	Korea	Stainless steel bars and wire	11-25-86		
	Korea	Alloy tool steel bars, plates and forgings	11-25-86		
	Malaysia	Waterproof rubber footwear	10-17-86		
	Netherlands	Carbon and alloy steel plate	4-21-86		9-30-86 Definitive duty
	Poland	Twelve gauge shotshells	3-6-86		8-15-86 Definitive duty
	Poland	Barbed wire	4-1-86		9-17-86 Definitive duty
	Poland	Waterproof rubber footwear	10-17-86		
	Portugal	Synthetic baler twine	10-6-86		
	Republic of	Carbon and alloy steel plate	4-21-86		9-30-86 Definitive duty
	South Africa.				
	Republic of	Stainless steel plate and sheet	11-25-86		
	South Africa.				
	Romania	Carbon and alloy steel plate	4-21-86		9-30-86 Definitive duty
	Spain	Carbon and alloy steel plate	4-21-86		9-30-86 Definitive duty
	Sweden	Artificial graphite electrodes	4-30-86	7-29-86	11-26-86 Definitive duty
	Sweden	Gasoline powered chain saws	10-24-86		
	Sweden	Stainless steel plate	11-25-86		
	Sweden	Alloy tool steel bars, plates and forgings	11-25-86		
	Taiwan	Drywall screws	12-20-85	3-12-86	7-10-86 Definitive duty
	Taiwan	Drywall screws	12-20-85	3-12-86	
	Taiwan	Waterproof rubber footwear	10-17-86		3-27-86 Definitive duty
	United Kingdom	Twelve gauge shotshells	9-12-85	12-4-85	9-30-86 Definitive duty
	United Kingdom	Carbon and alloy steel plate	4-21-86		

Table B-2—Continued

Antidumping actions reported by signatories to the GATT Committee on Antidumping Practices, 1985

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
Canada	United Kingdom	Twelve gauge shotshells	10-2-86		12-24-86 Definitive duty
	United Kingdom	Stainless steel plate	11-25-86		
	United Kingdom	Alloy tool steel bars, plates, and forgings	11-25-86		
	United States	Potatoes	10-18-85	12-20-85	4-18-86 Definitive duty
	United States	Absorbent clay	11-14-86		
	United States	Artificial graphite electrodes	4-30-86	7-29-86	11-26-86 Definitive duty
	United States	Gasoline powered chain saws	10-24-86		
	United States	Pressure cleaners	6-16-86		
	United States	Tile backer board	10-8-86		
	United States	Yellow onions	10-14-86		
	United States	Soda ash	5-30-86		
	United States	Plate colls	10-16-86		
	United States	Vehicle washing equipment	11-27-86		
	United States	Porcelain insulators	11-7-86		
	United States	Soda ash	12-1-86		
	United States	Oil and gas well casing	9-20-85		
	United States	Needles and syringes	11-8-85		
	United States	Artificial graphite electrodes	4-30-86	12-17-85	4-17-86 Definitive duty 1-6-86 No injury
	United States	Pressure cleaners	6-16-86		
	U.S.S.R.	Twelve gauge shotshells	3-6-86		
	West Germany	Gasoline powered chain saws	10-24-86		
	West Germany	Oil and gas well casing	8-20-86		
	West Germany	Organic pigments	5-29-86		
	West Germany	Carbon and ally steel plate	4-21-86		
	West Germany	Stainless steel plate, sheet, strip, bars wire.	11-25-86		
	West Germany	Alloy tool steel bars, plates, and forgings	11-25-86		
	West Germany	Mold Steel	11-25-86		
EC	Yugoslavia	Waterproof rubber footwear	10-17-86		
	Austria	Kraftliner (R)	5-7-86		
	Brazil	Ferro-silico-calcium tube and pipe fitting	9-30-86		
	Canada	Kraftliner (R)	5-7-86		
	Czechoslovakia	Potassium permanganate	3-18-86		
	Czechoslovakia	Certain categories of glass	8-8-85	8-5-86	2-28-86 Price undertakings
	Czechoslovakia	Potassium permanganate			
	Czechoslovakia	Copper sulphate	8-9-86		
	Czechoslovakia	Multi-phase electric motors			
	Czechoslovakia	Urea			
	Finland	Fiber building board	10-11-86	10-1-86	
	Hungary	Certain categories of glass	1-9-85		
	Hungary	Copper sulphate	3-14-85		
	Hungary	Artificial corundum	8-9-86		
	Hungary	Multi-phase electric motors	10-1-86		
	Japan	Electronic typewriters (one exporter)	6-19-85		
	Japan	Electronic typewriters (one exporter)			
	Japan	Certain electronic scales	9-3-83	10-16-85	9-23-86 Price undertakings 2-15-86 No dumping 10-4-86 Price undertakings

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Table B-2—Continued

Antidumping actions reported by signatories to the GATT Committee on Antidumping Practices, 1986

Reporting country	Country of origin	Product	Initiation date	Provisional measures	Date and final outcome
EC	Japan	Housed bearing units		8-7-86	
	Japan	Photocopiers		8-26-86	
	Japan	Microwave ovens	12-18-86		
	Japan	Tube and pipe fittings			11-8-86 Other
	Korea	Stainless steel household cooking ware	5-23-85		3-19-86 No injury
	Korea	Inner tubes and new tyre cases for bicycles	5-30-86		
	Korea	Microwave ovens	12-18-86		
	Norway	Silicon carbide			10-10-86 Price undertakings
	Poland	Ball bearings and tapered roller bearings	3-23-85		7-23-85 Case withdrawn
	Poland	Ball bearings and tapered roller bearings	9-19-85		4-18-86 No injury
	Poland	Copper sulphate	8-9-86		
	Poland	Artificial corundum			9-23-86
	Poland	Portland cement			7-25-86 No injury
	Poland	Silicon carbide		10-10-86	
	Poland	Silicon carbide		10-1-86	
	Poland	Multi-phase electric motors			
	Romania	Certain categories of glass	3-14-85		2-28-86 Price undertakings
	Romania	Ball bearings and tapered roller bearings	3-23-85		4-18-86 No injury
	Romania	Certain acrylic fibers			9-24-86 Price undertakings
	Romania	Multi-phase electric motors			
	Romania	Synthetic textile fibres	5-24-86		
	Singapore	Microwave ovens	12-18-86		
	Sweden	Fiber building board	1-9-85		
	Sweden	Certain clogs	2-19-85		2-25-86 Price undertakings
	Sweden	Certain clogs			2-7-86 Definitive duty
	Sweden	Kraftliner (R)	5-7-86		Price undertakings
	Switzerland	Hardboard	2-19-85		6-12-86 Price undertakings
	United States	Kraftliner (R)	5-7-86		
	United States	Vinyl acetate monomer	7-2-86		
	United States	Certain chemical fertilizers	8-30-86		
	United States	Styrene monomer	9-12-86		
	United States	Hardboard	2-19-85		
	Yugoslavia	Certain sheets and plates, of iron or steel			6-12-86 Price undertakings
	Yugoslavia	Certain deep freezers			12-31-86 Price undertakings
	Yugoslavia	Urea		9-6-86	9-11-86 Price undertakings
	Yugoslavia	Multi-phase electric motors	10-11-86		
	Yugoslavia	Portland cement	11-8-86		
	Yugoslavia	Tube and pipe fittings			7-25-86 No injury
	Yugoslavia	Certain categories of glass	3-14-85		
	Yugoslavia	Copper sulphate (R)	11-7-85		2-28-86 Price undertakings
	Yugoslavia	Certain sheets and plates of iron or steel	2-19-86		4-30-86 Definitive duty
	Yugoslavia	Synthetic textile fibres	5-24-86		
	Yugoslavia	Dicumyl peroxide	5-6-86		
	Yugoslavia	Dicumyl peroxide	5-6-86		12-18-86 Price undertakings
	Yugoslavia	Dicumyl peroxide	5-6-86		12-18-86 Price undertakings
	Yugoslavia	Acetaldehyde	5-6-86		12-18-86 No injury
	Yugoslavia	Dicumyl peroxide	5-6-86		
	China				
	Japan				
	Taiwan				

Source: Compiled from documents of the Committee on Antidumping Practices, General Agreement on Tariffs and Trade.

Table B-3
Leading items in U.S. domestic exports to Israel in 1984, 1985, and 1986
(F.a.s. value, in thousands of dollars)

<i>Schedule B</i> Item No.	Description	1984	1985	1986
694.65	Aircraft, parts	297,801	263,012	226,384
175.41	Soybeans, other	96,892	85,897	80,574
520.33	Diamonds, over 0.5 carat, cut	17,328	28,320	79,897
676.55	Parts of office mach, other	55,997	62,569	68,953
130.65	Wheat	86,212	61,586	63,527
676.28	Digital cpu's	57,652	71,438	57,331
685.60	Radio navigation aids	89,932	67,253	56,030
685.90	Electrical switches	113,984	74,934	42,327
687.60	Electronic tubes, not TV	36,502	33,414	39,808
685.27	Radiotelegraphics, other	16,522	36,462	39,692
660.52	Parts of piston-type engines	37,810	47,853	38,142
130.40	Grain sorghum	73,644	50,690	33,142
130.34	Corn, seed for planting purposes	16,269	32,387	31,444
676.27	Digital machines	17,179	37,186	29,644
688.40	Electrical articles, n.s.p.f	28,458	23,863	26,285
678.50	Machines, n.s.p.f	28,342	20,677	26,181
660.54	Parts of comp-ignition engines	14,084	19,534	25,420
252.78	Unbleached kraft packaging paper	20,931	15,952	22,675
682.60	Generators	21,652	10,361	21,147
712.50	Instrument for measuring electrical	21,501	18,736	19,261
660.10	Steam boilers	22,084	16,888	17,693
818.80	Shipments valued \$10,000 and under	15,223	14,412	17,165
684.62	Telephone apparatus	20,824	24,658	15,868
818.90	General merchandise less than \$500	17,988	19,853	15,866
521.31	Coal	12,740	19,592	14,713
818.10	Re-exports	9,931	9,355	14,523
710.10	Navigational instruments	4,052	11,085	13,883
708.54	Binoculars	6,291	19,300	13,717
250.02	Chem wood pulp	6,849	12,656	12,072
692.29	Chassis, parts	18,411	26,445	11,876
	Total	1,283,086	1,236,367	1,175,239
	Total, all items exported to Israel	1,927,094	1,808,005	1,751,780

Source: Compiled from official statistics of the U.S. Department of Commerce.
Note.—Trade does not include special category exports.

Table B-4

Leading items in U.S. imports for consumption from Israel in 1984, 1985, and 1986

(Customs value, in thousands of dollars)

TSUSA No.	Description	1984	1985	1986
520.32	Diamonds not over 1/2 carat, cut not set, suitable for jewelry.	399,547	448,227	542,689
520.33	Diamonds over 1/2 carat, cut, not set suitable for jewelry.	259,524	340,924	429,017
694.67	Parts nec, not of civil aircraft	24,443	34,018	78,993
800.00	U.S. goods returned	46,973	53,970	55,023
694.41	Airplanes and parts thereof of civil aircraft and spacecraft.	85,345	34,519	54,799
740.13	Other necklaces and neck	45,314	51,893	52,874
688.42	Electric synchros and transducers	0	40,402	52,574
740.14	Jewelry of precious metals	51,991	45,750	44,090
676.30	Office machines, n.s.p.f	32,025	54,593	29,820
660.73	Parts for internal combustion	8,195	13,183	24,257
740.70	Chains of precious metals	4,242	13,739	21,786
660.71	Parts for internal combustion	9,472	11,548	20,716
708.89	Optical appliances and optical	8,225	10,524	19,547
480.50	Potassium chloride	38,575	30,920	18,427
709.15	Electro-surgical apparatus, an	1,457	14,245	16,770
712.49	Electric measuring equipment	4,789	8,812	16,735
772.51	Pneumatic tires, other	16,547	15,464	15,790
684.59	Telephonic apparatus, other	0	1,470	14,818
730.99	Other ammunitions of war	955	6,438	14,690
740.15	Jewelry, etc. and parts of	9,213	21,629	14,565
709.17	Electro-medical apparatus and	33,766	29,537	14,428
520.38	Emeralds, cut but not set	19,565	11,461	14,110
709.63	X-ray apparatus and parts, other	41,915	30,368	13,325
684.57	Telephone switching apparatus	0	8,710	13,217
712.05	Electrical optical measuring	5,100	9,390	12,468
520.11	Natural precious and semiprecious	4,925	8,529	12,328
676.54	Parts of automatic data-processing machines and units thereof.	0	0	12,013
475.10	Crude petroleum 25 degrees A.P.I. or more	0	0	11,900
685.70	Bells, sirens etc	9,228	9,911	11,772
692.32	Chassis, bodies, etc, other	14,138	11,843	11,436
	Total	1,175,468	1,372,016	1,664,979
	Total, all items imported from Israel	1,748,684	2,119,862	2,414,609

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

Table B-5

Antidumping cases active in 1986 filed under authority of title VII of the Tariff Act of 1930 by Final Outcome and USITC Investigation No. Code used for outcome: Affirmative (A) Partial Affirmative (P) Negative (N) Suspension Agreement (S) Terminated (T)

USITC Investigation No.	Product description	Country of origin	Date original petition filed	Preliminary determination Commission ITA ¹	Final determination ITA ¹ Commission	Date of final action ²
Affirmative						
731-TA-244	Natural bristle paint brushes	China	2/19/85	A	A	1/27/86
731-TA-247	Low-fuming brazing copper wire and rod	South Africa	2/19/85	A	A	1/17/86
731-TA-252	Welded carbon steel pipe and tube	Thailand	2/28/85	A	A	2/21/86
731-TA-259	Offshore platform jackets	Korea	4/18/85	A	A	5/14/86
731-TA-260	Offshore platform jackets	Japan	4/18/85	A	A	5/14/86
731-TA-262	Iron construction castings	Brazil	5/13/85	A	A	4/25/86
731-TA-263	Iron construction castings	Canada	5/13/85	A	A	4/25/86
731-TA-264	Iron construction castings	India	5/13/85	A	A	4/25/86
731-TA-265	Iron construction castings	China	5/13/85	A	A	4/25/86
731-TA-266	Steel wire nails	China	6/5/85	A	A	5/8/86
731-TA-270	64K Dynamic random access memory (DRAMs) components.	Japan	6/5/85	A	A	6/6/86
731-TA-271	Welded carbon steel pipe and tube	India	7/16/85	A	A	4/29/86
731-TA-273	Welded carbon steel pipe and tube	Turkey	7/16/85	A	P	4/29/86
731-TA-276	Oil country tubular goods	Canada	7/22/85	A	A	6/2/86
731-TA-277	Oil country tubular goods	Taiwan	7/22/85	A	A	6/2/86
731-TA-278	Malleable cast-iron pipe fittings	Brazil	7/31/85	A	A	5/12/86
731-TA-279	Malleable cast-iron pipe fittings	Korea	7/31/85	A	A	5/12/86
731-TA-280	Malleable cast-iron pipe fittings	Taiwan	7/31/85	A	A	5/12/86
731-TA-282	Petroleum wax candles	China	9/4/85	A	A	8/21/86
731-TA-287	In-shell pistachio nuts	Iran	9/26/85	A	A	7/8/86
731-TA-296	Welded carbon steel light-walled rectangular pipe and tube.	Singapore	11/13/85	A	A	11/3/86
731-TA-297	Porcelain-on-steel cookware	Mexico	12/4/85	A	A	11/17/86
731-TA-298	Porcelain-on-steel cookware	China	12/4/85	A	A	11/17/86
731-TA-299	Porcelain-on-steel cookware	Taiwan	12/4/85	A	A	11/17/86
731-TA-308	Butt-weld pipe fittings	Brazil	2/24/86	A	A	12/8/86
731-TA-310	Butt-weld pipe fittings	Taiwan	2/24/86	A	A	12/8/86
731-TA-311	Brass sheet and strip	Brazil	3/10/86	A	A	12/22/86
731-TA-312	Brass sheet and strip	Canada	3/10/86	A	A	12/22/86
731-TA-315	Brass sheet and strip	Korea	3/10/86	A	A	12/22/86
Negative						
731-TA-211	Welded carbon steel pipe and tube	Taiwan	12/18/84	A	A	1/17/86
731-TA-236	Hydrogenated castor oil	Brazil	12/27/84	A	A	1/27/86
731-TA-239	Rock salt	Canada	1/28/85	A	A	1/10/86
731-TA-248	Ethyl alcohol	Brazil	2/25/85	A	A	3/11/86
731-TA-254	Heavy-walled rectangular welded carbon steel pipe and tube.	Canada	3/25/85	A	A	2/4/86
731-TA-269	Nylon impression fabric	Japan	6/11/85	A	N	4/28/86
731-TA-272	Welded carbon steel line pipe and tube	Taiwan	7/16/85	A	A	1/29/86

See footnotes at end of table.

Table B-5—Continued
Antidumping cases active in 1986 filed under authority of title VII of the Tariff Act of 1930 by Final Outcome and USITC Investigation No.
Code used for outcome: Affirmative (A) Partial Affirmative (P) Negative (N) Suspension Agreement (S) Terminated (T)

USITC Investigation No.	Product description	Country of origin	Date original petition filed	Preliminary determination Commission	ITA ¹	Final determination Commission	ITA ¹	Date of final action ²
			Negative					
731-TA-289 ^a	Welded steel wire fabric for concrete reinforcement.	Italy	10/24/85	N	-	-	-	1/6/86
731-TA-290 ^a	Welded steel wire fabric for concrete reinforcement.	Mexico	10/24/85	N	-	-	-	1/6/86
731-TA-291 ^a	Welded steel wire fabric for concrete reinforcement.	Venezuela	10/24/85	N	-	-	-	1/6/86
731-TA-292	Welded carbon steel standard pipe and tube.	China	11/13/85	A	A	A	N	8/25/86
731-TA-293	Welded carbon steel standard pipe and tube.	Philippines	11/13/85	A	A	A	N	11/3/86
731-TA-294	Welded carbon steel standard pipe and tube.	Singapore	11/13/85	A	A	A	N	11/3/86
731-TA-356	Portland hydraulic cement	Colombia	10/30/86	N	-	-	-	12/15/86
731-TA-357	Portland hydraulic cement	France	10/30/86	N	-	-	-	12/15/86
731-TA-358	Portland hydraulic cement	Greece	10/30/86	N	-	-	-	12/15/86
731-TA-359	Portland hydraulic cement	Japan	10/30/86	N	-	-	-	12/15/86
731-TA-360	Portland hydraulic cement	Mexico	10/30/86	N	-	-	-	12/15/86
731-TA-361	Portland hydraulic cement	Korea	10/30/86	N	-	-	-	12/15/86
731-TA-362	Portland hydraulic cement	Spain	10/30/86	N	-	-	-	12/15/86
731-TA-363	Portland hydraulic cement	Venezuela	10/30/86	N	-	-	-	12/15/86
			Suspended⁴					
731-TA-288	Erasable programmable read only memories (EPROM's).	Japan	9/30/85	A	A	A	A	8/1/86
731-TA-300	256K Dynamic random access memory components (DRAM's).	Japan	12/11/85	A	A	S	S	8/7/86
			Terminated					
731-TA-237	12-Hydroxystearic acid	Brazil	12/27/84	A	A	N	T	1/3/86
731-TA-249	Oil country tubular goods	Austria	2/28/85	A	A	T	T	1/2/86
731-TA-268	Steel wire nails	Yugoslavia	6/5/85	A	A	T	T	1/30/86
731-TA-274	Carbon steel pipe and tube	Yugoslavia	7/16/85	P	A	A	T	4/4/86
731-TA-275	Oil country tubular goods	Argentina	7/22/85	A	N	T	T	5/30/86
731-TA-281	Nonmalleable cast-iron pipe fittings	Taiwan	7/31/85	A	A	T	T	5/12/86
731-TA-286	Anhydrous sodium metasilicate	United Kingdom	9/16/85	A	A	T	T	6/25/86
731-TA-301 ^a	Butt-weld pipe fittings	Brazil	1/16/86	T	-	-	-	2/25/86
731-TA-302 ^a	Butt-weld pipe fittings	Japan	1/16/86	T	-	-	-	2/25/86
731-TA-303 ^a	Butt-weld pipe fittings	Taiwan	1/16/86	T	-	-	-	2/25/86
731-TA-306	Glyoxal	West Germany	2/12/86	T	-	-	-	2/25/86
731-TA-307	Glyoxal	France	1/12/86	T	-	-	-	2/25/86
731-TA-350	Forged steel crankshafts	Brazil	10/9/86	T	-	-	-	10/30/86

See footnotes at end of table.

Table B-5—Continued
Antidumping cases active in 1986 filed under authority of title VII of the Tariff Act of 1930 by Final Outcome and USITC Investigated No.

USITC Investigated No.	Product description	Country of origin	Date original petition filed	Code used for outcome: Affirmative (A) Partial Affirmative (P) Negative (N) Suspension Agreement (S) Terminated (T)		Date of final action ²
				Preliminary determination Commission	Final determination ITA ¹ Commission	
731-TA-167 ^e	Table wine	France	1/27/84	A	-	-
731-TA-168 ^e	Table wine	Italy	1/27/84	A	-	-
731-TA-200 ⁷	Radial ply tires	Korea	7/20/84	A	-	-
731-TA-304	Top-of-the-stove stainless steel cookware	Korea	1/22/86	A	A	-
731-TA-305	Top-of-the-stove stainless steel cookware	Taiwan	1/22/86	A	A	-
731-TA-309	Butt-weld pipe fittings	Japan	2/24/86	A	A	-
731-TA-313	Brass sheet and strip	France	3/10/86	A	A	-
731-TA-314	Brass sheet and strip	Italy	3/10/86	A	A	-
731-TA-316	Brass sheet and strip	Sweden	3/10/86	A	A	-
731-TA-317	Brass sheet and strip	West Germany	3/10/86	A	A	-
731-TA-318	Oil country tubular goods	Israel	3/12/86	A	A	-
731-TA-319	Window operators	El Salvador	3/19/86	A	A	-
731-TA-320	Mirrors	Belgium	4/1/86	A	A	-
731-TA-321	Mirrors	West Germany	4/1/86	A	A	-
731-TA-322	Mirrors	Italy	4/1/86	A	A	-
731-TA-323	Mirrors	Japan	4/1/86	A	A	-
731-TA-324	Mirrors	Portugal	4/1/86	A	A	-
731-TA-325	Mirrors	United Kingdom	4/1/86	A	A	-
731-TA-326	Frozen concentrated orange juice	Brazil	5/9/86	A	A	-
731-TA-327	Fresh cut flowers	Canada	5/21/86	A	A	-
731-TA-328	Fresh cut flowers	Chile	5/21/86	A	A	-
731-TA-329	Fresh cut flowers	Colombia	5/21/86	A	A	-
731-TA-330	Fresh cut flowers	Costa Rica	5/21/86	A	A	-
731-TA-331	Fresh cut flowers	Ecuador	5/21/86	A	A	-
731-TA-332	Fresh cut flowers	Kenya	5/21/86	A	A	-
731-TA-333	Fresh cut flowers	Mexico	5/21/86	A	A	-
731-TA-334	Fresh cut flowers	Peru	5/21/86	A	A	-
731-TA-335	Tubeless steel disk wheels	Brazil	5/23/86	A	A	-
731-TA-336	Porcelain-on-steel cookware	Spain	6/30/86	A	A	-
731-TA-337	Paint filters	Brazil	7/15/86	A	A	-
731-TA-338	Urea	East Germany	7/16/86	A	A	-
731-TA-339	Urea	Romania	7/16/86	A	A	-
731-TA-340	Urea	U.S.S.R.	7/16/86	A	A	-
731-TA-341	Tapered roller bearings	Hungary	8/25/86	A	A	-
731-TA-342	Tapered roller bearings	Italy	8/25/86	A	A	-
731-TA-343	Tapered roller bearings	Japan	8/25/86	A	A	-
731-TA-344	Tapered roller bearings	China	8/25/86	A	A	-
731-TA-345	Tapered roller bearings	Romania	8/25/86	A	A	-
731-TA-346	Tapered roller bearings	Yugoslavia	8/25/86	A	A	-

See footnotes at end of table.

Table B-5—Continued

Antidumping cases active in 1986 filed under authority of title VII of the Tariff Act of 1930 by Final Outcome and USITC Investigation No.
Code used for outcome: Affirmative (A) Partial Affirmative (P) Negative (N) Suspension Agreement (S) Terminated (T)

USITC Investigation No.	Product description	Country of origin	Date original petition filed	Preliminary determination Commission	ITA ¹	Final determination Commission	ITA ¹	Date of final action ²
In Progress								
731-TA-347	Malleable cast-iron pipe fittings	Japan	8/29/86	A	-	-	-	-
731-TA-348	Malleable cast-iron pipe fittings	Thailand	8/29/86	A	-	-	-	-
731-TA-349	Welded carbon steel pipe and tube	Taiwan	10/2/86	A	-	-	-	-
731-TA-351	Forged steel crankshafts	West Germany	10/9/86	A	-	-	-	-
731-TA-352	Forged steel crankshafts	Japan	10/9/86	A	-	-	-	-
731-TA-353	Forged steel crankshafts	United Kingdom	10/9/86	A	-	-	-	-
731-TA-354	Stainless steel pipe and tube	Sweden	10/20/86	A	-	-	-	-
731-TA-355	Silica filament fabric	Japan	10/27/86	A	-	-	-	-
731-TA-364	Acetylsalicylic acid	Turkey	10/31/86	A	-	-	-	-
731-TA-365	Industrial phosphoric acid	Belgium	11/5/86	A	-	-	-	-
731-TA-366	Industrial phosphoric acid	Israel	11/5/86	A	-	-	-	-
731-TA-367	Color picture tubes	Canada	11/26/86	-	-	-	-	-
731-TA-368	Color picture tubes	Japan	11/26/86	-	-	-	-	-
731-TA-369	Color picture tubes	Korea	11/26/86	-	-	-	-	-
731-TA-370	Color picture tubes	Singapore	11/26/86	-	-	-	-	-
731-TA-371	Fabric and expanded neoprene laminate	Taiwan	12/23/86	-	-	-	-	-

¹ U.S. Department of Commerce, Office of International Trade Administration.

² For cases in which the final action was taken by the ITA, the date shown is the Federal Register notice date of that decision.

³ Terminated before preliminary finding. Replaced by investigation Nos. 731-TA-289(A), 731-TA-290(A), and 731-TA-291(A).

⁴ Effective August 1986, the Department of Commerce terminated these investigations through suspension agreements prior to final determinations on the issue of price discrimination after the Government of Japan agreed to unilaterally limit its exports of semiconductor memory devices (DRAM's and EPROM's) to the United States. Commerce's action—based on assurances from the Japanese producer that it would adjust its prices to prevent sales to the United States at less than fair value—was taken notwithstanding the completion of proceedings with respect to EPROM's. An antidumping order on EPROM's will not be issued as long as conditions of the Agreement are met. For a discussion of the background and operation of these restraints, see ch. IV of this report.

⁵ Terminated before preliminary finding. Replaced by investigations Nos. 731-TA-308, 731-TA-309, and 731-TA-310.

⁶ Remanded by court order for reevaluation effective Dec. 12, 1985. Original petition filed Jan. 27, 1984.

⁷ Remanded by court order for reevaluation effective Dec. 26, 1985. Original petition filed July 20, 1984.

Source: U.S. International Trade Commission, Office of Economics, Casis Database Information System.

Table B-6

Antidumping orders and findings in effect as of Dec. 31, 1986

Country and commodity	Effective date of original action ¹
<i>Argentina:</i>	
Carbon steel wire rod	Nov. 23, 1984.
Barbed wire	Nov. 13, 1983.
<i>Australia:</i>	
Canned bartlett pears	Mar. 23, 1973.
<i>Austria:</i>	
Railway track equipment	Feb. 17, 1978.
<i>Belgium:</i>	
Sugar	June 13, 1979.
<i>Brazil:</i>	
Pipe fittings	May 21, 1986.
Construction castings	May 9, 1986.
<i>Canada:</i>	
Oil country tubular goods	July 16, 1986.
Construction castings	Mar. 5, 1986.
Salted codfish	July 8, 1985.
Raspberries	June 24, 1985.
Choline chloride	Nov. 19, 1984.
Sugar and syrups	Apr. 9, 1980.
Paving equipment	Sept. 7, 1977.
Racing plate	Feb. 27, 1974.
Elemental sulphur	Dec. 17, 1973.
Potato granules	Sept. 27, 1972.
Pig Iron	July 24, 1971.
Steel jacks	Sept. 13, 1966.
Steel bars and shapes	Sept. 25, 1964.
Steel reinforcing bars	Apr. 21, 1964.
<i>Chile:</i>	
Sodium nitrate	Mar. 25, 1983.
<i>China:</i>	
Cooking ware	Dec. 2, 1986.
Candles	Aug. 28, 1986.
Nails	May 21, 1986.
Construction castings	May 9, 1986.
Paint brushes	Feb. 14, 1986.
Barium chloride	Oct. 17, 1984.
Chloropicrin	Mar. 22, 1984.
Potassium permanganate	Jan. 31, 1984.
Shop towel	Oct. 4, 1983.
Printcloth	Sept. 16, 1983.
<i>Dominican Republic:</i>	
Portland cement	May 4, 1963.
<i>Finland:</i>	
Condenser paper	Sept. 21, 1979.
Rayon staple fiber	Mar. 21, 1979.
<i>France:</i>	
Nitrocellulose	Aug. 10, 1983.
Sorbitol	Apr. 9, 1982.
Anhydrous sodium metasilicate	Jan. 7, 1981.
Sugar	June 13, 1979.
Rayon staple fiber	Mar. 21, 1979.
Large power transformers	June 14, 1972.
<i>Hong Kong:</i>	
Photo albums	Dec. 16, 1985.
<i>India:</i>	
Pipes and tubes	May 12, 1986.
Construction castings	May 9, 1986.
<i>Iran:</i>	
Pistachio nuts	July 17, 1986.

See footnote at end of table.

Table B-6—Continued

Antidumping orders and findings in effect as of Dec. 31, 1986

Country and commodity	Effective date of original action ¹
<i>Italy:</i>	
Brass fire protection equipment	Mar. 1, 1985.
Woodwind pads	Sept. 21, 1984.
Strontium nitrate	June 25, 1981.
Spun acrylic yarn	Apr. 8, 1980.
Rayon staple fiber	June 13, 1979.
Pressure sensitive tape	Oct. 21, 1977.
Large power transformers	June 14, 1972.
Clear sheet glass	Dec. 9, 1971.
<i>Japan:</i>	
64K DRAM's	June 16, 1986.
Jackets and piles	May 21, 1986.
Cellular mobile telephones	Dec. 19, 1985.
Calcium hypochlorite	Apr. 18, 1985.
Cell-site transceivers	Jan. 3, 1985.
Titanium sponge	Nov. 30, 1984.
Cyanuric acid	Apr. 27, 1984.
Dichloroisocyanurates	Apr. 27, 1984.
Trichloroisocyanuric acid	Apr. 27, 1984.
Pagers	Aug. 16, 1983.
High-powered amplifiers	July 20, 1982.
Large electric motors	Dec. 24, 1980.
Portable electric typewriters	May 9, 1980.
Spun acrylic yarn	Apr. 8, 1980.
Steel wire strand	Dec. 18, 1978.
Impression fabric	May 25, 1978.
Swimming pools	Sept. 2, 1977.
Melamine	Feb. 2, 1977.
Acrylic sheet	Aug. 30, 1976.
Birch 3-ply doorskins	Feb. 18, 1976.
Calcium pantothenate	Jan. 17, 1974.
Expanded metal	Jan. 16, 1974.
Polychloroprene rubber	Dec. 6, 1973.
Steel wire rope	Oct. 15, 1973.
Synthetic methionine	July 23, 1973.
Roller chain	Apr. 12, 1973.
Bicycle speedometers	Nov. 22, 1972.
Cadmium	Aug. 4, 1972.
Large power transformers	June 14, 1972.
Fish netting	June 9, 1972.
Ferrite cores	Mar. 13, 1971.
Television receiving sets	Mar. 10, 1971.
Tuners	Dec. 12, 1970.
<i>Mexico:</i>	
Cooking ware	Dec. 2, 1986.
Elemental sulphur	June 28, 1972.
<i>Netherlands:</i>	
Animal glue	Dec. 22, 1977.
<i>New Zealand:</i>	
Brazing copper wire and rod	Dec. 4, 1985.
<i>South Africa:</i>	
Brazing copper wire rod	Jan. 29, 1986.
<i>South Korea:</i>	
Pipe fittings	May 23, 1986.
Jackets and piles	May 21, 1986.
Photo albums	Dec. 16, 1985.
Television receiving sets	Apr. 30, 1984.
Bicycle tires and tubes	Apr. 13, 1979.
<i>Singapore:</i>	
Rectangular pipes and tubes	Nov. 14, 1986.

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See footnote at end of table.

Table B-6—Continued

Antidumping orders and findings in effect as of Dec. 31, 1986

Country and commodity	Effective date of original action ¹
<i>Spain:</i>	
Potassium permanganate	Jan. 9, 1984.
<i>Sweden:</i>	
Staples	Dec. 20, 1983.
Staplers	Dec. 20, 1983.
Animal glue	Dec. 22, 1977.
Stainless steel plate	June 8, 1973.
<i>Taiwan:</i>	
Cooking ware	Dec. 2, 1986.
Oil country tubular goods	June 18, 1986.
Pipe fittings	May 23, 1986.
Bicycle tires and tubes	June 12, 1984.
Circular pipes and tubes	May 7, 1984.
Television receiving sets	Apr. 30, 1984.
Fireplace mesh panels	June 7, 1982.
Carbon steel plate	June 13, 1979.
Polyvinylchloride sheet and film	June 30, 1978.
Clear sheet glass	Aug. 21, 1971.
<i>Thailand:</i>	
Circular welded pipes and tubes ...	Mar. 11, 1986.
<i>Trinidad and Tobago:</i>	
Carbon steel wire rods	Nov. 16, 1983.
<i>Turkey:</i>	
Pipes and tubes	May 15, 1986.
<i>United Kingdom:</i>	
Diamond tips	Apr. 1, 1972.
<i>U.S.S.R.:</i>	
Titanium sponge	Aug. 28, 1968.
<i>West Germany:</i>	
Barium carbonate	Nov. 22, 1972.
Sugar	June 25, 1981.
Sugar	June 13, 1979.
Animal glue	Dec. 22, 1977.
Drycleaning machinery	Nov. 2, 1972.
<i>Yugoslavia:</i>	
Animal glue	Dec. 22, 1977.

Table B-6—Continued

Antidumping orders and findings in effect as of Dec. 31, 1986

Country and commodity	Effective date of original action ¹
Revocations in 1986	
<i>East Germany:</i>	
Unrefined mountain wax	Sept. 10, 1981.
<i>France:</i>	
Stainless steel (sheet and strip) ...	June 22, 1983.
Stainless steel wire rods	Aug. 28, 1973.
<i>Japan:</i>	
Carbon steel plate	May 30, 1984.
<i>South Korea:</i>	
Carbon steel plate	Aug. 22, 1984.
<i>West Germany:</i>	
Stainless steel	Dec. 23, 1983.
Tool steel	July 25, 1983.
Suspension agreements in effect	
<i>Canada:</i>	
Sheet piling	Sept. 14, 1982.
<i>Hungary:</i>	
Axles	Jan. 4, 1982.
<i>Japan:</i>	
Erasable programmable read-only memory chips	Aug. 1, 1986.
265 K dynamic random access memory chips	Aug. 1, 1986.
Small motors	Nov. 6, 1980.

¹ The U.S. Department of Commerce completes a periodic review of outstanding antidumping orders and suspensions agreements, upon request, to determine if the amount of the net margin of underselling has changed. If a change has occurred, the imposed antidumping duties are adjusted accordingly. The results of the periodic review must be published together with a formal notice of any antidumping duty to be assessed, estimated duty to be deposited, or investigation to be resumed.

Source: International Trade Administration of the U.S. Department of Commerce.

Table B-7—Continued
Countervailing duty cases active in 1986 filed under authority of section 303 or title VII of the Tariff Act of 1930 by final outcome and USITC Investigation No.

USITC Investigation No.	Product description	Country of origin	Date original petition filed ¹	Code used for outcome:		Preliminary determination Commission	Final determination ITA ² Commission	Date of final action ³
				A	P			
701-TA-210 ⁷	Table wine	France	1/27/84			A	-	-
701-TA-211 ⁷	Table wine	Italy	1/27/84			A	-	-
701-TA-267	Top-of-the-stove stainless steel cookware	Korea	1/21/86			A	A	-
701-TA-268	Top-of-the-stove stainless steel cookware	Taiwan	1/21/86			A	A	-
701-TA-270	Brass sheet and strip	France	3/10/86			A	A	-
701-TA-271	Oil country tubular goods	Israel	3/12/86			A	A	-
701-TA-272	Window operators	El Salvador	3/19/86			A	A	-
701-TA-274	Softwood lumber	Canada	5/19/86			A	-	-
701-TA-275	Fresh cut flowers	Canada	5/21/86			A	-	-
701-TA-276	Fresh cut flowers	Chile	5/21/86			A	-	-
701-TA-277	Fresh cut flowers	Israel	5/21/86			A	-	-
701-TA-278	Fresh cut flowers	Netherlands	5/21/86			A	-	-
701-TA-279	Porcelain-on-steel cookware	Spain	6/30/86			A	-	-
701-TA-280	Paint filters	Brazil	7/15/86			A	-	-
701-TA-281	Stainless steel pipe and tube	Sweden	9/4/86			A	-	-
701-TA-282	Forged steel crankshafts	Brazil	10/9/86			A	-	-
701-TA-283	Acetylsalicylic acid	Turkey	10/31/86			A	-	-
701-TA-284	Bicycle tires and tubes	Korea	10/23/86			-	-	-
701-TA-285	Phosphoric acid	Belgium	11/5/86			A	-	-
701-TA-286	Phosphoric acid	Israel	11/5/86			A	-	-
303-TA-17 ⁸	Fresh cut flowers	Kenya	5/21/86			A	-	-
303-TA-18 ⁸	Fresh cut flowers	Peru	5/21/86			A	-	-

¹ The date of the *Federal Register* notice announcing the initiation of the investigation by the Department of Commerce is listed for cases in which no petition is filed with the Commission.

² U.S. Department of Commerce, International Trade Administration.

³ For cases in which the final action was taken by the ITA, the date shown is the *Federal Register* notice date of that decision.

⁴ Cases involving imports from countries not entitled to a material injury test under U.S. countervailing duty statutes do not come before the Commission and therefore have no Commission case numbers or determinations.

⁵ Terminated before preliminary finding. Replaced by investigation Nos. 701-TA-261(A), 701-TA-263(A), and 701-TA-264(A).

⁶ The Department of Commerce effective Jan. 9, 1986, terminated this investigation through a suspension agreement prior to its final determination on the issue of subsidization. Commerce's action was based on assurances that the Canadian Government would renounce subsidy benefits. For a discussion of the operation of this arrangement, see ch. IV of this report.

⁷ Remanded by court order for reevaluation effective Dec. 12, 1985. Original petition filed Jan. 27, 1984.

⁸ The Commission does not conduct an "injury test" on imports from countries not otherwise entitled to this test if the subject imports enter the United States duty free. The legislative basis for these determinations is contained in certain provisions under sec. 303 (19 U.S.C. 1303).

Source: U.S. International Trade Commission, Office of Economics, Casis Database Information System.

Note.—The International Trade Commission conducts preliminary and final investigations under sec. 701 if the imports originate in a country that has signed the International Subsidies Code or undertaken comparable obligations. Similarly, it conducts preliminary and final investigations under sec. 303 if the imports enter the United States free of duty and the international obligations of the United States so require. Most of the major free-world trading nations have signed the Code. With respect to dutiable imports from those countries which have neither signed the Code or undertaken substantially equivalent obligations, countervailing duties may be imposed after an affirmative finding by the Department of Commerce under sec. 303 of the Tariff Act of 1930 without an injury investigation by the U.S. International Trade Commission. Exceptions are granted in instances in which the exporting country becomes a signatory to the Code or an equivalent agreement, during the pendency of the investigation.

Table B-8

Countervailing orders and findings in effect as of Dec. 31, 1986

Country and commodity	Effective date of original action ¹
<i>Argentina:</i>	
Textiles and apparel	Mar. 12, 1985.
Oil country tubular goods	Nov. 22, 1984.
Cold-rolled steel sheet	Apr. 26, 1984.
Footwear	Jan. 17, 1979.
Wool	Apr. 4, 1983.
Leather wearing apparel	Mar. 17, 1983.
Woolen garments	Nov. 16, 1978.
<i>Brazil:</i>	
Castings	May 15, 1986.
Agricultural tillage tools	Oct. 22, 1985.
Pig iron	Apr. 4, 1980.
Cotton yarn	Mar. 15, 1977.
Scissors and shears	Feb. 11, 1977.
Certain castor oil products	Mar. 16, 1976.
<i>Canada:</i>	
Oil country tubular goods	June 16, 1986.
Groundfish	May 15, 1986.
Live swine	Aug. 15, 1985.
<i>European Community:</i>	
Sugar ²	July 31, 1978.
<i>France:</i>	
Nitrocellulose	Mar. 22, 1983.
<i>India:</i>	
Certain iron-metal castings	Oct. 6, 1980.
Certain fasteners	July 21, 1980.
<i>Iran:</i>	
Roasted pistachios	Oct. 7, 1986.
Pistachios (nonroasted)	Apr. 11, 1986.
<i>Israel:</i>	
Fresh cut roses	Sept. 4, 1980.
<i>Italy:</i>	
Forged under-carriages	Jan. 4, 1984.
<i>Mexico:</i>	
Porcelain cooking ware	Dec. 12, 1986.
Textile mill products	Mar. 18, 1985.
Auto glass	Jan. 14, 1985.
Lime	Sept. 11, 1984.
Bars, rebars, and shapes	Aug. 17, 1984.
Bricks	May 8, 1984.
Portland hydraulic cement and cement clinker	Sept. 21, 1983.
Carbon black	June 20, 1983.
Iron-metal castings	Mar. 2, 1983.
Toy balloons and playballs	Dec. 27, 1982.
Litharge, red lead, and lead stabilizers	Dec. 6, 1982.
Ceramic tile	May 10, 1981.
Leather wearing apparel	Apr. 10, 1981.
<i>New Zealand:</i>	
Carbon steel wire rod	Apr. 7, 1986.
Lamb meat	Sept. 17, 1985.
Copper rod and wire	Aug. 5, 1985.
<i>Pakistan:</i>	
Cotton shop towels	Mar. 9, 1984.
<i>Peru:</i>	
Rebars	Nov. 27, 1985.
Textiles and apparel	Mar. 12, 1985.
Cotton sheeting and sateen	Feb. 1, 1983.
Cotton yarn	Feb. 1, 1983.

See footnote at end of table.

Table B-8—Continued

Countervailing orders and findings in effect as of Dec. 31, 1986

Country and commodity	Effective date of original action ¹
<i>Philippines:</i>	
Canned tuna	Oct. 30, 1983.
<i>Saudi Arabia:</i>	
Carbon steel wire rod	Feb. 3, 1986.
<i>South Africa:</i>	
Ferrocchrome	Mar. 11, 1981.
<i>South Korea:</i>	
Offshore platforms	May 21, 1986.
Bicycle tires and tubes	Oct. 6, 1983.
<i>Spain:</i>	
Carbon steel wire rod	Dec. 10, 1984.
Stainless steel wire rod	Jan. 3, 1983.
<i>Sri Lanka:</i>	
Textiles and apparel	Mar. 12, 1985.
<i>Sweden:</i>	
Certain carbon steel	Oct. 11, 1985.
Viscose rayon staple fiber	May 15, 1979.
<i>Thailand:</i>	
Rice	Apr. 10, 1986.
Pipes and tubes	Aug. 14, 1985.
Certain apparel	Mar. 12, 1985.
<i>Trinidad and Tobago:</i>	
Carbon steel wire rod	Jan. 4, 1984.
<i>Turkey:</i>	
Pipe and tube	Apr. 7, 1986.
<i>United Kingdom:</i>	
Stainless steel plate	June 23, 1983.
<i>Uruguay:</i>	
Leather wearing apparel	July 17, 1982.
Revocations in 1986	
<i>Austria:</i>	
Certain carbon steel products	Oct. 10, 1985.
<i>Mexico:</i>	
Certain steel bars and shapes	Aug. 16, 1984.
<i>South Africa:</i>	
Carbon steel wire rope (termination of suspension agreement)	Feb. 1, 1982.
<i>United Kingdom:</i>	
Stainless steel plate	June 23, 1983.
<i>Yugoslavia:</i>	
Welded carbon steel pipes and tubes	Dec. 31, 1985.
Suspension agreements in effect	
<i>Argentina:</i>	
Carbon steel wire rod	Sept. 27, 1982.
<i>Brazil:</i>	
Tool steel products	Mar. 21, 1983.
Orange juice	Mar. 4, 1983.
Stainless steel products	Feb. 2, 1983.
<i>Canada:</i>	
Red raspberries	Jan. 9, 1986.

See footnote at end of table.

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Table B-8—Continued
Countervailing orders and findings in effect as of
Dec. 31, 1986

<i>Country and commodity</i>	<i>Effective date of original action¹</i>
Suspension agreements in effect—Continued	
<i>Columbia:</i>	
Textiles and apparel	Mar. 12, 1985.
Cut flowers	Jan. 12, 1983.
Leather wearing apparel	Apr. 2, 1981.
<i>Costa Rica:</i>	
Cement	Dec. 4, 1984.
<i>European Community:</i>	
Sodium gluconate ²	Nov. 30, 1981.
<i>Mexico:</i>	
Float glass	Feb. 28, 1984.
Polypropylene yarn	Feb. 7, 1983.
Polypropylene film	Dec. 7, 1982.
Pectin	Dec. 7, 1982.
<i>Peru:</i>	
Shop towels	Sept. 12, 1984.
<i>Singapore:</i>	
Compressors	Nov. 7, 1983.
<i>Thailand:</i>	
Textiles	Mar. 12, 1985.
Float glass	Feb. 28, 1984.
Polypropylene yarn	Feb. 7, 1983.
Polypropylene film	Dec. 7, 1982.
Pectin	Dec. 7, 1982.

¹ The U.S. Department of Commerce conducts a periodic review of outstanding countervailing duty orders and suspensions agreements, upon request, to determine if the amount of the net subsidy has changed. If a change has occurred, the imposed CVD are adjusted accordingly.

² Includes Belgium, Denmark, France, Ireland, Italy, the United Kingdom, West Germany, Luxembourg, the Netherlands, and Greece.

Source: International Trade Administration of the U.S. Department of Commerce.

Table B-9
Section 337 Investigations completed by the U.S. International Trade Commission during 1986 and those pending on Dec. 31, 1986

Status of Investigation	Article	Country affected	Commission determination or other final action
Completed			
337-TA-201	Products with Gremlin character depletions	Taiwan	No violation.
337-TA-215	Double-sided floppy disk drives and components thereof	Japan	No violation.
337-TA-224	Cellulose acetate hollow fiber artificial kidneys	Japan	No violation.
337-TA-225	Multi-level touch control lighting switches	Hong Kong, Taiwan, and Canada.	General exclusion order.
337-TA-226	Mass spectrometers and components thereof	France and England	Termination on the basis of a consent order.
337-TA-227	One piece cold-forged bicycle crank	Japan	Noninfringement.
337-TA-228	Fans with brushless DC motors	Japan	No violation.
337-TA-229	Nut jewelry and parts thereof	Philippines and Taiwan	General exclusion order.
337-TA-230	Unitary electromagnetic flowmeters with sealed coils	Federal Republic of Germany	No violation.
337-TA-231	Soft sculpture dolls, popularly known as "Cabbage Patch Kids," related literature and packaging therefor.	None named	General exclusion order.
337-TA-232	Glass firecreens for fireplaces	Canada	Terminated on the basis of a settlement agreement.
337-TA-233	Pharmaceutical closures	Federal Republic of Germany and Denmark.	Terminated on the basis of a settlement agreement.
337-TA-234	Upper body protector apparatus for use in motorsports	Italy	Terminated on the basis of a settlement agreement.
337-TA-235	Human-powered vehicles with combination steering, braking, and propulsion means.	Taiwan	Terminated on the basis of a settlement agreement.
337-TA-236	Portable bag sewing machines and parts thereof	Japan	Terminated on the basis of a settlement agreement.
337-TA-238	Vacuum cleaner foot switches	Japan	Terminated on the basis of a settlement agreement.
337-TA-239	Non-contact laser precision dimensional measuring devices and components thereof	Japan	Terminated on the basis of a settlement agreement.
337-TA-240	Laser-inscribed diamonds and the method of inscription thereof.	None named	Terminated on the basis of a consent order.
337-TA-246	Xenon lamp dissolver slide projectors and components thereof.	Japan	Termination on the basis of a settlement agreement and license agreement.
337-TA-249	Aircraft carbon disc brakes and replacement carbon discs.	England	Termination on the basis of a settlement agreement and license agreement.
Pending			
337-TA-110	Certain methods for extruding plastic tubing	Taiwan	-
337-TA-143	Certain amorphous metal alloys and amorphous metal articles.	Japan and the Federal Republic of Germany	-
337-TA-183	Certain Indomethacin	Canada, Italy, Poland, and Spain.	-
337-TA-196	Certain apparatus for installing electrical lines and components thereof.	Canada	-
337-TA-243	Certain luggage products	Taiwan and the Republic of Korea.	-

Table B-9—Continued
 Section 337 Investigations completed by the U.S. International Trade Commission during 1986 and those pending on Dec. 31, 1986

Status of Investigation	Article	Country affected	Commission determination or other final action
Pending			
337-TA-244	Insulated security chests	Taiwan	-
337-TA-247	Sickle guards	England and the Federal Republic of Germany	-
337-TA-248	Plastic fasteners and processes for the manufacture thereof	Republic of Korea	-
337-TA-253	Electrically resistive monocomponent toner	Japan	-
337-TA-254	Small aluminum flashlights and components	Taiwan and Hong Kong	-
337-TA-255	Garment hangers	Hong Kong, Taiwan, and Brazil	-
337-TA-256	Cryogenic ultramicrotome apparatus and components thereof	Austria and England	-
337-TA-257	Electronic wall stud finders	Hong Kong	-
337-TA-258	Moldable/Extrudable polyethersteramide copolymers	Federal Republic of Germany	-
337-TA-259	Certain battery-powered smoke detectors	Hong Kong and Canada	-
337-TA-260	Feathered fur coats and pelts, and process for the manufacture thereof	Republic of Korea, Hong Kong, Greece, and the Peoples Republic of China	-

Table B-10
Outstanding section 337 exclusion orders as of Dec. 31, 1986

Investigation No.	Article	Country	U.S. patent No.	Date patent expires
337-TA-2	... Certain convertible games tables and components thereof	Taiwan	3,711,009	Jan. 16, 1990
337-TA-24	... Certain exercising devices	Hong Kong and Taiwan	3,743,280	July 3, 1990
337-TA-30	... Certain display devices for photographs and the like	Hong Kong and Japan	3,774,332	Nov. 27, 1990
337-TA-39	... Certain luggage products	Taiwan and Korea	242,181 ¹	Nov. 27, 1990
337-TA-42	... Certain electric slow cookers	Japan and Hong Kong	3,881,090	Apr. 29, 1992
337-TA-44	... Certain roller units	Japan	4,024,600	May 24, 1994
337-TA-47	... Certain flexible foam sandals	Taiwan	3,979,596	Sept. 7, 1993
337-TA-55	... Certain novelty glasses	Hong Kong	Nonpatent	-
337-TA-56	... Certain thermometer sheath packages	Sweden	3,552,558	Jan. 5, 1988
			3,847,280	Jan. 5, 1988
337-TA-59	... Certain pump top insulated containers	Korea and Taiwan	4,113,147	Sept. 12, 1995
337-TA-62	... Certain rotary scraping tools	Taiwan	3,958,294	May 23, 1993
337-TA-69	... Certain airtight cast-iron stoves	Taiwan and Korea	Nonpatent	-
337-TA-74	... Certain rotatable photograph and card display units and components thereof	Hong Kong	3,791,059	Feb. 12, 1991
337-TA-75	... Certain video matrix display systems	Switzerland	3,495,762	July 20, 1988
337-TA-82A	... Certain headboxes and papermaking machine-forming sections for the continuous production of paper, and components thereof	Sweden	28,269 ²	Dec. 19, 1991
337-TA-83	... Certain adjustable window shades and components thereof	Taiwan	4,006,770	Feb. 7, 1994
337-TA-87	... Certain coin-operated audio-visual games and components thereof	Japan	Nonpatent	-
337-TA-88	... Certain spring assemblies and components thereof, methods of their manufacture	Canada	3,782,708	Jan. 19, 1991
			3,866,287	Feb. 19, 1992
337-TA-105	... Certain coin-operated audio-visual games and components thereof	Japan and Taiwan	Nonpatent	-
337-TA-110	... Certain methods for extruding plastic tubing	Taiwan	28,959 ²	Dec. 2, 1987
337-TA-112	... Certain cube puzzles	Taiwan, Japan and Canada	Nonpatent	-
337-TA-114	... Certain miniature plug-in blade fuses	Taiwan	3,903,767	Sept. 30, 1992
			4,040,175	Aug. 9, 1994
			4,056,884	Nov. 8, 1994
			4,131,869	Dec. 26, 1995
337-TA-118	... Certain sneakers with fabric uppers and rubber soles	Republic of Korea	Nonpatent	-
337-TA-120	... Certain silica-coated lead chromate pigments	Japan	3,639,133	Feb. 1, 1989
337-TA-137	... Certain Heavy-Duty staple gun tackers	Taiwan	Nonpatent	-
337-TA-139	... Certain caulking guns	Taiwan and Hong Kong	4,081,112	Mar. 28, 1995
337-TA-140	... Certain personal computers and components thereof	Taiwan, Hong Kong, Singapore, and Switzerland	4,136,359	Jan. 23, 1996
			4,278,972	July 17, 1998
337-TA-143	... Certain amorphous metal alloys and amorphous metal articles	Japan and West Germany	4,221,257	Sept. 9, 1997
337-TA-146	... Certain canape makers	Taiwan	268,318 ¹	Mar. 28, 1995
337-TA-152	... Certain plastic food storage containers	Hong Kong and Taiwan	Nonpatent	-
337-TA-161	... Certain trolley wheel assemblies	Republic of Korea	4,109,343	Aug. 29, 1995

See footnotes at end of table.

Table B-10—Continued
Outstanding section 337 exclusion orders as of Dec. 31, 1986

Investigation No.	Article	Country	U.S. patent No.	Date patent expires
337-TA-167	.. Certain single handle faucets ..	Taiwan	Nonpatent	-
337-TA-169	.. Certain processes for the manufacture of skinless sausage casings and resulting products.	Spain	Nonpatent	-
337-TA-170	.. Certain bag closure clips ..	Israel	4,356,600	Nov. 2, 1999
			4,394,791	July 26, 2000
337-TA-171	.. Certain glass tempering systems ..	Finland	3,994,711	Nov. 30, 1993
337-TA-174	.. Certain woodworking machines ..	Taiwan and South Africa	3,754,496	Aug. 28, 1990
			4,174,100	Nov. 13, 1996
			4,436,126	Mar. 13, 2001
337-TA-178	.. Certain foam blocks ..	Hong Kong	3,518,786	July 7, 1987
337-TA-184	.. Certain foam earplugs ..	Germany, Sweden, and Japan.	29,487 ²	May 21, 1991
337-TA-195	.. Certain cloisonne jewelry ..	Taiwan	Nonpatent	-
337-TA-196	.. Certain apparatus for installing electrical lines and components therefor.	Canada	3,611,549	Oct. 12, 1988
			3,637,188	Oct. 10, 1989
337-TA-197	.. Certain compound action metal cutting snips and components thereof ..	Taiwan	Nonpatent	-
337-TA-225	.. Certain multi-level touch-control lighting switches ..	Hong Kong, Taiwan, and Canada.	3,715,623	Feb. 6, 1990
337-TA-229	.. Certain nut jewelry and parts thereof ..	Philippines and Taiwan	Nonpatent	-
337-TA-231	.. Certain soft sculpture dolls, popularly known as "Cabbage Patch Kids", related literature and packaging therefor.	None named	Nonpatent	-

¹ Design patent.

² Reissued.

Source: U.S. International Trade Commission, Office of the General Counsel.

Table B-11
U.S. imports for consumption¹ of leading GSP-eligible items, by descending value of GSP duty-free imports, 1986

Rank	TSUS item No.	Description	Total U.S. imports for consumption		GSP-eligible		Duty free under GSP		Share of total eligible imports	Leading GSP source	Mandatory and discretionary competitive-need exclusions
			1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent			
1	676.15	Accounting, computing, and other data processing machines.	\$1,910,001	33.6	\$641,479	33.6	\$326,445	50.9	Republic of Korea.	\$228,073	
2	724.45	Magnetic recording media.	1,374,139	27.8	382,360	27.8	289,162	75.6	Hong Kong	60,035	
3	155.20	Sugar, syrup, and molasses	624,275	91.3	569,889	91.3	241,528	42.4	Mexico	264,965	
4	727.35	Furniture, wood, n.s.p.f.	1,359,337	45.3	615,203	45.3	204,335	33.2	Yugoslavia	390,832	
5	685.90	Switchboard panels	2,269,215	38.2	866,882	38.2	183,873	21.2	Republic of Korea.	574,167	
6	774.55	Articles, n.s.p.f., of rubber	953,676	38.0	362,283	38.0	176,877	48.8	Hong Kong	150,986	
7	737.95	Toys and parts, n.s.p.f.	792,586	72.0	570,474	72.0	171,262	30.0	Macao	365,755	
8	685.70	Electric sound or visual signaling apparatus and parts.	659,662	50.1	330,361	50.1	160,554	48.6	Taiwan	77,424	
9	740.14	Jewelry, n.e.s., of precious metal	1,008,654	27.4	275,985	27.4	154,634	56.0	Thailand	86,126	
10	683.32	Electro-mechanical appliances	314,319	49.7	156,071	49.7	136,974	87.8	Hong Kong	0	
11	772.15	Household articles of rubber or plastic, n.s.p.f.	290,597	64.0	185,906	64.0	134,858	72.5	Hong Kong	45,373	
12	685.39	Telephone answering machines	272,662	56.2	153,246	56.2	133,974	87.4	Republic of Korea.	-	
13	740.38	Jewelry, etc., and parts	378,674	79.8	302,147	79.8	121,491	40.2	Republic of Korea.	174,409	
14	684.58	Telephone sets and other terminal equipment and parts thereof.	1,144,905	48.3	553,432	48.3	118,362	21.4	Singapore	410,743	
15	791.27	Leather, other than patent	123,493	96.5	119,149	96.5	113,482	95.2	Brazil	-	
16	727.11	Furniture of unspun fibrous rattan materials and parts, n.s.p.f.	135,052	86.1	116,335	86.1	108,694	93.4	Philippines	-	
17	660.67	Parts of piston-type engines	738,041	20.1	148,059	20.1	108,034	73.0	Brazil	-	
18	688.18	Other insulated conductors	425,919	71.6	305,059	71.6	107,595	35.3	Taiwan	170,788	
19	734.77	Golf equipment, n.s.p.f.	150,462	77.0	115,822	77.0	106,038	91.6	Taiwan	-	
20	727.29	Nonfolding chairs of wood other than teak.	308,582	61.6	190,143	61.6	105,232	55.3	Yugoslavia	81,908	
21	772.51	Pneumatic tires, n.e.s.	1,836,947	20.3	373,650	20.3	102,343	27.4	Taiwan	258,019	
22	661.35	Refrigerator and refrigerating equipment.	347,192	29.1	101,156	29.1	94,689	93.6	Republic of Korea.	-	
23	727.40	Furniture parts of wood	165,063	69.5	114,765	69.5	94,110	82.0	Taiwan	17,657	
24	654.25	Brass articles, wares	128,406	74.4	95,556	74.4	92,862	97.2	Taiwan	-	
25	661.20	Air-conditioning machines	425,333	30.5	129,933	30.5	92,117	70.9	Brazil	-	
26	734.20	Game machines	291,720	34.1	99,373	34.1	88,472	89.0	Hong Kong	-	
27	692.32	Parts, n.s.p.f., of motor	4,725,798	19.5	919,410	19.5	88,359	9.6	Republic of Korea.	817,344	
28	412.22	Antipyretics	228,933	62.4	142,799	62.4	87,920	61.6	Bahamas	52,525	
29	657.25	Articles of iron or steel	595,938	33.8	201,311	33.8	87,716	43.6	Republic of Korea.	96,734	
30	772.20	Containers for packing	250,855	37.6	94,250	37.6	85,653	90.9	Taiwan	-	

Table B-11—Continued
U.S. Imports for consumption¹ of leading GSP-eligible items, by descending value of GSP duty-free imports, 1986

Rank	TSUS item No.	Description	Total U.S. Imports for consumption		GSP-eligible		Duty free under GSP		Leading GSP source	Mandatory and discretionary competitive-need exclusions
			1,000 dollars	Share of total U.S. imports	Value	Share of total U.S. imports	Value	Share of total imports		
31	735.20	Game, sport, playground	465,780	79.3	369,485	79.3	85,402	23.1	Republic of Korea.	278,358
32	740.70	Chains, etc., of precious metal	116,842	98.7	115,306	98.7	82,379	71.4	Peru	-
33	653.37	Illuminating articles of brass	122,099	70.5	86,043	70.5	82,325	95.7	Taiwan	-
34	678.50	Machines, n.s.p.f.	3,491,862	28.7	1,000,471	28.7	82,021	8.2	Singapore	809,817
35	676.30	Office machines, n.s.p.f.	5,153,895	17.6	909,568	17.6	81,322	8.9	Israel	656,113
36	712.49	Electrical measuring instruments	1,445,492	11.8	170,138	11.8	79,856	46.9	Taiwan	-
37	740.15	Jewelry, etc., n.s.p.f.	266,276	72.0	191,645	72.0	76,843	40.1	Thailand	92,550
38	618.25	Bars, plates, sheets	775,362	10.3	79,963	10.3	71,442	89.3	Bahrain	-
39	660.71	Parts for internal combustion engines, n.s.p.f.	916,550	10.9	99,743	10.9	70,449	70.6	Brazil	-
40	647.03	Butt hinges of iron	171,615	43.5	74,667	43.5	69,868	93.6	Taiwan	-
41	735.06	Ski bindings, poles	129,087	55.5	71,650	55.5	68,948	96.2	Taiwan	-
42	674.42	Machine tools, n.e.s.	316,640	22.4	70,842	22.4	68,759	97.1	Taiwan	-
43	256.90	Articles, n.e.s., of paper	138,693	52.3	72,609	52.3	67,173	92.5	Mexico	-
44	680.17	Taps, cocks, valves, etc., of iron or steel.	224,305	31.4	70,369	31.4	66,768	94.9	Taiwan	-
45	654.00	Articles of iron	106,845	63.1	67,372	63.1	65,318	97.0	Taiwan	-
46	682.60	Generators, motors	1,498,862	40.7	609,658	40.7	64,644	10.6	Singapore	487,632
47	155.40	Beet or cane molasses	82,386	80.2	66,069	80.2	64,117	97.0	Brazil	-
48	688.42	Other connection apparatus	973,059	50.8	493,986	50.8	62,076	12.6	Republic of Korea.	253,224
49	389.61	Artificial flowers	194,422	64.0	124,483	64.0	60,386	48.5	Macao	62,278
50	774.50	Parts of footwear	82,423	73.8	60,809	73.8	60,070	98.8	Taiwan	-
		Total, above items	40,902,931	34.3	14,037,360	34.3	5,547,812	39.5		6,963,835
		Total, all GSP items	119,573,208	29.0	34,659,544	29.0	13,916,753	40.2		16,363,557

¹ In this and other tables in the section U.S. import data exclude entries into the U.S. Virgin Islands, which totaled \$1.2 billion in 1986. This is consistent with the concept of U.S. imports used in the GSP program for the competitive-need determinations. Source: Compiled from official statistics of the U.S. Department of Commerce. Note.—Because of rounding, figures may not add to the totals shown.

Table B-12
Total U.S. Imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard International Trade Classification (SITC), 1986

SITC No.	Description	Total U.S. imports for consumption	GSP-eligible		Duty free under GSP		Share of total U.S. imports	Share of total eligible imports	Leading GSP source	Mandatory and discretionary competitive-need exclusions
			Value	Share of total U.S. imports	Value	Share of total eligible imports				
00	Live animals chiefly for food	674	-	-	-	67.1	-	Argentina	15	
01	Meat and meat preparations	2,359	76	4.2	51	85.5	-	Taiwan	-	
02	Dairy products and birds' eggs	419	4	0.9	3	56.0	-	Thailand	-	
03	Fish, crustaceans, and mollusks	4,688	87	1.9	49	55.4	-	Colombia	4	
04	Cereals and cereal preparation	545	11	2.1	6	23.6	-	Mexico	437	
05	Vegetables and fruit	4,074	670	16.5	158	51.2	-	Brazil	265	
06	Sugar, sugar preparations, and honey	1,093	694	63.5	356	94.8	-	Brazil	-	
07	Coffee, tea, cocoa, and spices	6,182	67	1.1	64	98.6	-	Argentina	-	
08	Feeding stuff for animals	179	1	0.4	1	91.2	-	Mexico	115	
09	Miscellaneous edible products	409	90	22.1	82	34.8	-	Mexico	-	
11	Beverages	3,080	189	6.2	66	48.5	-	Dominican Republic	-	
12	Tobacco and tobacco manufactures	679	50	7.3	24	-	-	-	-	
21	Hides, skins, and furskins, raw	210	-	-	-	-	-	-	-	
22	Oil seeds and oleaginous fruit	65	-	0.5	-	69.2	-	Turkey	-	
23	Crude rubber (including synthetic)	922	-	-	-	100.0	-	Guatemala	-	
24	Cork and wood	3,192	-	0.0	-	100.0	-	Taiwan	-	
25	Pulp and wastepaper	1,613	-	-	-	-	-	-	-	
26	Textile fibers and their waste	473	6	1.2	6	98.0	-	Uruguay	-	
27	Crude fertilizers and crude minerals	1,093	41	3.8	22	53.1	-	Mexico	17	
28	Metalliferous ores and metal stones	1,976	41	2.1	17	40.9	-	Peru	1	
29	Crude animal and vegetable materials	957	204	21.3	70	34.2	-	Chile	97	
32	Coal, coke, and briquettes	176	-	-	-	-	-	-	-	
33	Petroleum and petroleum products	32,720	1	-	1	83.0	-	Venezuela	-	
34	Gas, natural and manufactured	2,958	-	-	-	-	-	-	-	
41	Animal oils and fats	14	1	4.7	1	97.6	-	Panama	-	
42	Fixed vegetable oils and fats	466	29	6.3	29	97.7	-	Brazil	-	
43	Animal and vegetable oils	29	3	11.5	3	90.4	-	Malaysia	-	
51	Organic chemicals	4,056	256	6.3	203	79.1	-	Brazil	11	
52	Inorganic chemicals	3,120	94	3.0	75	79.9	-	Mexico	10	
53	Dyeing, tanning, and coloring	842	17	2.0	9	54.7	-	Mexico	5	
54	Medicinal and pharmaceutical products	1,965	296	15.1	117	39.6	-	Bahamas	53	
55	Essential oils and perfume materials	876	104	11.9	88	84.6	-	Taiwan	3	
56	Fertilizers, manufactured	864	-	-	-	69.4	-	Taiwan	-	
57	Explosives and pyrotechnic products	108	2	1.5	1	52.5	-	Mexico	-	
58	Artificial resins and plastic	1,717	396	23.1	250	63.1	-	Mexico	125	
59	Chemical materials and products	1,051	102	9.7	83	81.5	-	Brazil	-	
61	Leather and leather manufactures	824	419	50.9	269	64.1	-	Taiwan	127	
62	Rubber manufactures, n.e.s.	2,547	555	21.8	187	33.6	-	Taiwan	348	
63	Cork and wood manufactures	1,823	527	28.9	258	49.0	-	Taiwan	249	
64	Paper, paperboard, and article	6,406	418	6.5	257	61.5	-	Mexico	143	
65	Textile yarn, fabrics, made-up	5,406	211	3.9	123	58.3	-	Taiwan	70	
66	Nonmetallic mineral manufacturers	8,442	647	7.7	451	69.7	-	Taiwan	125	
67	Iron and steel	8,673	173	2.0	119	68.5	-	Taiwan	46	

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Table B-12—Continued

Total U.S. imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard International Trade Classification (SITC), 1986

SITC No.	Description	Total U.S. imports for consumption	GSP-eligible		Duty free under GSP		Share of total eligible imports	Leading GSP source	Mandatory and discretionary competitive-need exclusions
			Value	Share of total U.S. imports	Value	Value			
68	Nonferrous metals	7,622	796	10.4	316	39.7	Mexico	420	
69	Manufactures of metal, n.e.s.	7,142	1,889	26.7	1,203	63.7	Taiwan	531	
71	Power-generating machinery	8,968	1,357	15.1	333	24.5	Brazil	881	
72	Machinery specialized for parts	9,935	395	4.0	225	56.9	Taiwan	108	
73	Metalworking machinery	3,264	228	7.0	129	56.6	Taiwan	70	
74	General industrial machinery	9,086	1,382	15.2	576	41.7	Taiwan	521	
75	Office machines and automatic	14,660	1,887	12.9	491	26.0	Republic of Korea.	1,090	
76	Telecommunications and sound	20,141	3,640	18.1	734	20.2	Republic of Korea.	2,282	
77	Electrical machinery, apparatus	20,079	5,384	26.8	1,457	27.1	Taiwan	2,908	
78	Road vehicles (including air	70,530	998	1.4	119	12.0	Republic of Korea.	848	
79	Other transport equipment	5,486	240	4.4	72	30.2	Mexico	135	
81	Sanitary, plumbing, heating	641	456	71.4	291	63.8	Taiwan	146	
82	Furniture and parts thereof	4,099	1,655	40.4	698	42.1	Taiwan	909	
83	Travel goods, handbags	1,501	39	2.6	15	38.2	Republic of Korea.	22	
84	Articles of apparel and clothing	17,331	590	3.4	347	58.8	Taiwan	220	
85	Footwear	6,460	18	0.3	5	28.7	Taiwan	12	
87	Professional, and scientific	3,956	618	15.6	329	53.3	Taiwan	38	
88	Photographic apparatus, equipment	5,068	514	10.2	250	48.5	Republic of Korea.	203	
89	Miscellaneous manufactures articles	16,716	6,057	36.2	2,815	46.5	Taiwan	2,752	
93	Special transactions, n.e.s.	8,762	3	0.0	3	88.0	Taiwan	-	
94	Animals, live, n.e.s.	35	8	22.4	7	87.8	Indonesia	-	
95	Armaments	263	23	8.6	7	30.8	Taiwan	-	
97	Gold	5,685	-	-	-	100.0	Thailand	-	
	Total	367,467	34,660	9.4	13,917	40.2		16,364	

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

Note.—Because of rounding, figures may not add to the totals shown.

Table B-13
Total U.S. Imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard Industrial Classification (SIC), 1986

Rank	Description	Total U.S. imports for consumption	GSP-eligible		Duty free under GSP		Leading GSP source	Mandatory and discretionary competitive-need exclusions
			1,000 dollars	Share of total U.S. imports	1,000 dollars	Share of total eligible imports		
01	Agricultural products	8,791	657	7.5	123	18.8	Mexico	456
02	Livestock and livestock products	993	10	1.0	8	81.4	Indonesia	-
08	Forestry products, n.s.p.f.	786	-	-	-	-	-	-
09	Fish, fresh, chilled, or frozen	4,182	83	2.0	37	44.5	Chile	-
10	Metallic ores and concentrates	1,318	20	1.5	12	60.9	Peru	-
12	Coal and lignite	80	-	-	-	-	-	-
13	Crude petroleum and natural gas	23,465	-	-	-	-	-	-
14	Nonmetallic minerals, except fuel	1,919	35	1.8	16	45.3	Morocco	17
20	Food and kindred products	12,505	1,395	11.2	781	56.0	Brazil	475
21	Tobacco manufactures	82	39	47.1	18	47.5	Dominican Republic.	-
22	Textile mill products	4,136	123	3.0	80	65.4	India	29
23	Apparel and related products	18,160	559	3.1	208	37.2	Taiwan	328
24	Lumber and wood products	5,373	778	14.5	456	58.6	Taiwan	289
25	Furniture and fixtures	3,996	1,647	41.2	583	35.4	Taiwan	1,020
26	Paper and allied products	7,983	410	5.1	271	66.0	Taiwan	118
27	Printing	1,488	99	6.6	90	91.6	Taiwan	3
28	Chemicals and allied products	13,268	967	7.3	648	66.9	Brazil	99
29	Petroleum refining and related	12,788	3	0.0	3	95.5	Venezuela	-
30	Rubber and miscellaneous plastics	5,380	1,613	30.1	844	52.4	Taiwan	675
31	Leather and leather products	8,644	487	5.6	292	60.0	Taiwan	169
32	Stone, clay, glass, and concrete	4,900	766	15.6	558	72.8	Taiwan	162
33	Primary metal products	22,578	1,316	5.8	596	45.3	Taiwan	613
34	Fabricated metal products	8,475	2,178	25.7	1,243	57.1	Taiwan	706
35	Machinery, except electrical	38,233	4,101	10.7	1,609	39.2	Taiwan	1,779
36	Electrical machinery, equipment	42,731	9,544	22.3	2,491	26.1	Taiwan	5,345
37	Transportation equipment	79,876	1,941	2.4	294	15.1	Brazil	1,578
38	Measuring and analyzing instruments	10,613	1,160	10.9	572	49.3	Taiwan	258
39	Miscellaneous manufactured	12,739	4,665	36.6	2,060	44.2	Taiwan	2,243
99	Other imports	11,984	62	0.5	21	33.2	Taiwan	1
	Total	367,467	34,660	9.4	13,917	40.2		16,364

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

Note.—Because of rounding, figures may not add to the totals shown.

Table B-14

U.S. Imports for consumption from the world and from the Caribbean Basin, 1984-86

Item	1984	1985	1986
Imports from the world (1,000 dollars)	322,989,519	343,553,150	368,656,594
Imports from the Caribbean Basin (1,000 dollars)	8,896,499	6,849,928	6,186,826
Ratio of imports from Caribbean Basin to imports from the world (percent)	2.8	2.0	1.7
Dutiable value of imports from Caribbean Basin (1,000 dollars)	5,169,165	3,525,447	2,530,803
Imports under items 806.30 and 807.00 (1,000 dollars)	235,504	239,761	258,678
Ratio of 806.30 and 807.00 imports to dutiable imports (percent)	4.7	6.8	10.2
Ratio of 806.30 and 807.00 imports to total imports (percent)	2.7	3.5	4.2
Duty-free value of imports from the Caribbean Basin (1,000 dollars)	3,727,335	3,324,481	3,656,023
Imports under TSUS items 806.30 and 807.00 (1,000 dollars)	588,498	547,682	604,932
Ratio of 806.30 and 807.00 imports to duty-free imports (percent)	15.8	16.5	16.6
GSP duty-free imports from Caribbean Basin (1,000 dollars)	626,007	540,992	487,718
Ratio of GSP duty-free imports to duty-free imports from the Caribbean Basin (percent)	16.8	16.3	13.3
Ratio of GSP duty-free imports to total imports from the Caribbean Basin (percent)	7.0	7.9	7.9
CBERA imports from Caribbean Basin (1,000 dollars)	577,704	497,645	689,776
Ratio of CBERA imports to duty-free imports from the Caribbean Basin (percent)	15.5	15.0	18.9
Ratio of CBERA imports to total imports from the Caribbean Basin (percent)	6.5	7.3	11.2

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

Table B-15

U.S. imports for consumption of selected ineligible products from the Caribbean Basin, 1986

Product category ¹	Major Caribbean Basin supplier	Value	Caribbean Basin share of all U.S. imports	Share of total imports from the Caribbean Basin	806.00 and 807.00 share of total
		1,000 dollars, customs-value basis			
					Percent
Petroleum	Trinidad and Tobago	1,375,742	3.4	22.2	-
Textiles	Dominican Republic	826,721	3.9	13.4	81.7
Certain leather products	Haiti	20,650	1.3	0.3	58.0
Certain footwear products	El Salvador	13,360	0.2	0.2	20.5
Canned tuna	-	-	-	-	-
Total	-	2,236,473	4.7	36.2	18.5

¹ Petroleum and petroleum products are in p. 10, schedule 4, of the TSUS. Textile products constitute schedule 3 of the TSUS. Certain leather products are certain leather, rubber, and plastic gloves. TSUS items 705.35 and 705.85-86; luggage, handbags, and flat goods, TSUS items 706.05-706.16, 706.21-706.32, 706.34, 706.36, 706.38, 706.41, 706.43, 706.55, and 706.62; certain leather wearing apparel, TSUS item 791.76. Footwear products, TSUS items 700.05-700.27, 700.29-700.53, 700.56-700.89, and 700.91-700.95. Canned tuna products, TSUS items 112.30, 112.34, and 112.90.

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

APPENDIX C

**LEADING ITEMS OF TRADE BETWEEN THE
UNITED STATES AND MAJOR TRADING PARTNERS**

Table C-1

Leading Items exported to the European Community (EC), by Schedule B Items, 1984-86

(In thousands of dollars)

Sched. B item no.	Description	1984	1985	1986
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	\$3,128,699	\$3,108,720	\$3,470,828
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof.	2,722,079	2,437,063	2,544,370
694.40	Airplanes	1,099,817	1,700,447	2,093,546
175.41	Soybeans, other than seed for planting	2,366,738	1,634,090	1,948,589
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	1,670,948	2,026,868	1,928,885
694.65	Parts, for aircraft and spacecraft	1,560,382	1,633,486	1,886,981
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	1,279,398	1,425,803	1,604,748
184.80	Other animal feeds and ingredients therefor, n.s.p.f.	732,002	622,451	870,413
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	693,094	624,874	745,395
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	843,740	792,371	737,507
676.27	Digital machines comprising in one housing the central processing unit and input and output capability.	488,458	550,888	710,113
678.50	Machines not specially provided for, and parts thereof	519,873	603,723	634,233
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	521,651	514,903	590,274
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof.	577,343	617,983	573,503
184.52	Vegetable oil cake and oil-cake meal, other than linseed ...	399,067	377,876	572,922
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	623,447	635,012	523,217
433.10	Chemical mixtures and preparations, n.e.s.	431,902	423,087	496,849
692.29	Parts of motor vehicles.	407,775	443,545	468,041
818.90	General merchandise valued under \$1,001, except shipments requiring a validated export license.	1251,044	423,062	456,471
170.65	Cigarettes	302,711	332,535	453,180
	Total	20,620,168	20,928,784	23,310,065
	Total, U.S.exports to the EC	48,229,809	46,712,746	50,251,834

¹ Prior to Jan. 1, 1985, Schedule B item 818.90 included only general merchandise valued \$500 or less.

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-2

Leading Items Imported from the European Community (EC), by TSUS Items, 1984-86

(In thousands of dollars)

TSUS Item no.	Description	1984	1985	1986
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	\$6,200,092	\$8,287,312	\$9,974,796
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils, testing 25 degrees a.p.i. or more.	4,689,653	2,999,580	2,044,315
800.00	U.S goods returned	1,510,468	1,494,993	1,586,709
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	895,337	1,248,629	1,490,566
692.32	Parts n.s.p.f. of motor vehicles, not alloyed or advanced beyond cleaning, partly machined.	842,357	1,027,903	1,390,843
605.20	Gold or silver bullion, dore and precipitate	305,568	414,042	1,002,731
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	790,095	920,023	951,500
475.25	Motor fuel, including gasoline and jet fuel	1,148,980	1,625,160	947,570
660.61	Internal combustion engines, non-piston-type, for aircraft, certified for use in civil aircraft.	532,261	787,249	932,874
678.50	Machines, n.s.p.f., and parts thereof	531,163	585,712	789,641
660.73	Parts for internal combustion engines, certified for use in civil aircraft.	374,664	611,066	711,033
167.30	Still wine from grapes, not over 14 percent alcohol, in containers not over 1 gallon.	639,534	662,091	645,382
712.49	Electrical measuring, checking, analyzing, or automatically controlling instruments or apparatus, n.s.p.f., and parts thereof.	454,901	561,700	636,093
999.95	Under \$251 formal and informal entries, and nonexempt items from \$251 to \$1,000, estimated.	1141,298	542,566	624,446
664.08	Excavating, leveling, boring, extracting machinery n.e.s., stationary or mobile, for earth, minerals, ores, pile drivers, snow plows, and parts.	346,294	458,987	616,564
740.14	Jewelry and other objects of personal adornment, of precious metals, n.e.s.	355,698	574,599	611,525
676.54	Parts of automatic data processing machines and unit thereof, other than parts incorporating a cathode-ray tube.	(²)	(²)	670,825
692.34	Tractors suitable for agricultural use and parts thereof	618,843	546,662	605,765
422.52	Uranium compounds except uranium oxide	546,634	660,701	560,237
765.03	Paintings, pastels, drawings, and sketchings, executed wholly by hand, original or not.	483,023	516,100	554,259
	Total	21,406,864	24,525,073	27,347,674
	Total, U.S. Imports from the EC	59,722,155	67,552,783	75,474,337

¹ Prior to Jan. 1, 1985, TSUS item 999.95 included only formal and informal entries under \$251.

² Prior to Feb. 1, 1986, trade for TSUS item 676.54 was reported under 676.52 (part). Since those portions of TSUSA items 676.5230 (January 1984-December 1985) and 676.5215 (January 1986) assigned to 676.54 are not known, these items were excluded from the data above.

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-3
Leading items exported to Canada, by Schedule B items, 1984-86
(In thousands of dollars)

<i>Sched. B item no.</i>	<i>Description</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
692.10	On-the-highway, four-wheeled passenger automobiles, ambulances, hearses, motor homes, ski vehicles, and other like motor vehicles.	\$4,590,582	\$5,752,937	\$5,856,177
692.29	Parts of motor vehicles, n.e.s	6,266,397	6,378,491	5,458,973
692.05	Automobile trucks, except truck tractors	1,048,890	1,548,306	1,664,065
818.90	General merchandise valued under \$1,001, except shipments requiring a validated export license.	¹ 1,195,987	1,823,209	1,654,454
818.80	Shipments valued \$10,000 and under, not identified by kind	² 1,227,219	² 1,371,970	1,472,862
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	1,106,824	1,214,877	1,047,441
605.20	Gold or silver bullion, dore, and gold or silver precipitates . .	799,864	764,536	1,018,389
660.48	Piston-type internal combustion engines, other than compression-ignition engines.	697,495	928,089	966,002
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	1,139,338	891,733	784,297
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof.	837,264	809,524	730,220
694.65	Parts, for aircraft and spacecraft	405,105	436,662	503,830
692.20	Bodies (including cabs) and chassis for automobile trucks, truck tractors, and motor buses.	444,728	347,120	479,225
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	500,412	567,181	471,171
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	460,340	536,560	372,309
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	368,850	342,523	368,511
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	346,259	234,849	357,407
660.52	Parts of piston-type engines, other than compression-ignition engines.	549,878	425,692	356,044
666.00	Agricultural and horticultural machinery, and parts	407,863	330,303	333,349
661.22	Air-conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity of air, and parts thereof.	325,811	366,280	312,916
270.82	Periodicals, including single issues tied together for shipping purposes.	268,921	255,721	265,417
	Total	22,988,028	25,326,562	24,473,058
	Total, U.S. exports to Canada	44,515,081	45,028,947	42,986,113

¹ Prior to Jan. 1, 1985, Schedule B item 818.90 included only general merchandise valued at \$500 or less.
² General merchandise valued at \$500 and less in 1984, or \$1,000 and less in 1985 and 1986, were reported under Schedule B item 818.90.

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-4
Leading items imported from Canada, by TSUS Items, 1984-86
(In thousands of dollars)

<i>TSUS item no.</i>	<i>Description</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles (Automotive Products Trade Act).	\$10,125,335	\$11,163,086	\$11,812,986
692.33	Parts n.s.p.f. of motor vehicles, not alloyed or advanced beyond cleaning, partly machined (Automotive Products Trade Act).	3,780,775	4,237,870	4,234,085
252.65	Standard newsprint paper	3,224,596	3,495,625	3,553,359
692.03	Trucks valued at \$1,000 or more each (Automotive Products Trade Act)	3,692,754	3,612,865	3,081,276
605.20	Gold or silver bullion, dore and precipitates	1,832,407	1,823,558	2,672,085
475.15	Natural gas, methane, ethane, propane, butane, and mixtures thereof	4,192,140	3,786,751	2,451,193
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils, testing 25 degrees a.p.i. or more.	2,477,699	3,518,568	2,296,220
800.00	U.S goods returned	1,964,899	2,048,794	2,098,218
202.03	Spruce lumber	1,746,306	1,881,712	1,972,281
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	1,678,908	1,385,871	1,422,180
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils testing under 25 degrees a.p.i.	1,777,058	1,727,402	1,146,217
660.49	Piston-type engines other than compression-ignition engines for automobiles, including trucks and buses (Automotive Products Trade Act).	1,370,253	1,252,380	949,221
692.21	Automobile truck and motor bus chassis and bodies (Automotive Products Trade Act).	543,022	688,916	687,490
694.62	Parts of civil aircraft, certified for use in civil aircraft	248,082	540,991	598,113
618.02	Unwrought aluminum n.e.s., other than alloys of aluminum	460,450	399,387	587,632
692.32	Parts n.s.p.f. of motor vehicles, not alloyed or advanced beyond cleaning, partly machined.	546,428	512,753	531,034
618.06	Other unwrought alloys of aluminum	445,714	373,650	504,379
772.51	Pneumatic tires, n.e.s	486,885	447,888	497,447
727.07	Furniture designed for motor-vehicle use, and parts thereof (Automotive Products Trade Act).	379,537	449,410	485,867
999.95	Under \$251 formal and informal entries, and nonexempt items from \$251 to \$1,000, estimated.	1,116,715	422,797	426,016
	Total	41,089,963	43,770,273	42,007,298
	Total, U.S. imports from Canada	66,342,454	68,883,572	68,146,979

¹ Prior to Jan. 1, 1985, TSUS item 999.95 included only formal and informal entries under \$251.

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-5
Leading Items exported to Japan, by Schedule B items, 1984-86
(In thousands of dollars)

<i>Sched. B</i> <i>item no.</i>	<i>Description</i>	1984	1985	1986
694.40	Airplanes	\$523,062	\$903,579	\$1,158,937
130.34	Corn or maize, not donated for relief or charity	1,999,244	1,304,713	877,194
175.41	Soybeans, other than seed for planting	1,171,696	936,982	837,212
200.35	Logs, softwood and hardwood, including pulpwood, In the rough, split, hewn, or roughly sided or squared.	640,430	682,239	788,952
521.31	Coal; petroleum and other coke; composition of coal, coke, or other carbonaceous material used for fuel.	986,084	926,383	674,675
694.65	Parts, for aircraft and spacecraft	518,954	573,550	654,261
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	513,923	615,972	629,802
110.46	Fish, fresh, chilled, or frozen, whole or eviscerated, but not otherwise prepared or preserved, and live eels.	355,130	503,731	599,469
422.55	Uranium compounds, excluding uranium oxide, and thorium compounds	437,719	437,338	546,530
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof.	461,553	496,485	542,393
106.10	Beef and veal, carcasses and primal cuts, excluding offal, fresh, chilled, or frozen.	320,519	344,598	465,116
130.65	Wheat	534,445	468,970	424,330
250.02	Wood pulp, rag pulp, and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	335,563	284,015	366,909
660.54	Parts of compression-ignition piston-type engines and non-piston-type engines.	227,721	277,658	363,033
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	395,136	269,492	327,159
120.14	Whole cattle hides	305,022	276,077	301,974
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof.	240,438	255,448	289,701
475.07	Crude petroleum, topped crude petroleum, crude shale oil, and distillate and residual fuel oils derived from petroleum, shale, or both.	475,558	507,348	270,151
605.20	Gold or silver bullion, dore, and gold or silver precipitates	44,562	37,207	267,887
678.50	Machines not specially provided for, and parts thereof	431,152	343,525	240,265
	Total	10,917,910	10,445,310	10,625,953
	Total, U.S. exports to Japan	22,692,129	21,602,930	22,890,847

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-6

Leading Items Imported from Japan, by TSUS Items, 1984-86

(In thousands of dollars)

TSUS Item no.	Description	1984	1985	1986
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	\$13,674,952	\$17,896,142	\$24,343,760
685.40	Tape recorders and dictation and transcribing machines, and parts thereof.	3,391,877	4,635,750	4,935,126
692.02	Trucks valued at \$1,000 or more each	2,350,539	3,389,238	4,810,692
676.30	Office machines, n.s.p.f.	2,306,620	2,565,157	3,451,251
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	1,004,695	1,282,379	1,767,114
676.54	Parts of automatic data processing machines and units thereof, other than parts incorporating a cathode-ray tube.	(¹)	(¹)	¹ 1,831,071
678.50	Machines, n.s.p.f., and parts thereof	1,001,109	1,186,385	1,344,931
685.49	Radiotelegraphic, radiotelephonic, and other devices for the transmission, reception, and reproduction of sound or image, n.s.p.f.	² 356,684	633,791	1,104,268
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, components and parts.	1,575,771	901,359	919,208
724.45	Magnetic recording media, no material recorded thereon	536,732	756,603	859,149
674.35	Metalworking machine tools, n.e.s.	407,767	475,924	791,600
722.16	Photographic cameras, other than fixed-focus, over \$10 each, lens not over 50 percent of value.	534,299	507,897	654,836
684.92	Complete television receivers	³ 490,405	603,049	642,702
692.53	Motorcycles, having engines with total piston displacement of 700 cubic centimeters or less.	391,685	620,352	585,709
676.15	Accounting, computing, and other data processing machines	351,312	426,108	583,918
685.08	Other television apparatus and parts thereof, n.e.s.	4484,645	4554,903	4568,701
608.13	Sheets of iron and steel, n.s.p.f., not alloyed, coated, or plated with metal valued over 10¢ per pound.	760,462	673,867	558,338
676.56	Parts of office machines, n.s.p.f.	⁴ 346,009	⁴ 428,224	⁴ 630,476
685.90	Electrical apparatus for making, or breaking electrical circuits, protection of electrical circuits, and making connections to or in circuits.	469,025	477,837	552,848
772.51	Pneumatic tires, n.e.s.	491,885	539,725	547,551
	Total	⁵ 32,203,576	⁵ 39,854,125	⁵ 51,486,797
	Total, U.S. Imports from Japan	56,595,926	68,241,856	81,985,873

¹ Prior to Feb. 1, 1986, trade for TSUS Item 676.54 was reported under 676.52 (part). Since those portions of TSUSA items 676.5230 (January 1984-December 1985) and 676.5215 (January 1986) assigned to 676.54 are not known, these items were excluded from the data above.

² Prior to Jan. 1, 1985, trade for TSUS Item 685.49 was reported under 685.50 (part). Since that portion of TSUSA item 685.5085 (January-December 1984) assigned to 685.49 is not known, this item was excluded from the data above.

³ Prior to Jan. 1, 1985, trade for TSUS item 684.92 was reported under 685.11.

⁴ Prior to Jan. 1, 1985, trade for TSUS item 685.08 was reported under 685.22 and 685.19 (part). Since that portion of TSUSA item 685.1915 (January-March 1984) assigned to 685.08 is not known, this item was excluded from the data above. In January 1985, 685.22 was reissued with different commodity coverage—this data is also not included above.

⁵ Prior to Feb. 1, 1986, trade for TSUS item 676.56 was reported under 676.52 (part). Since those portions of TSUSA items 676.5230 (January 1984-December 1985) and 676.5215 (January 1986) assigned to 676.56 are not known, these items were excluded from the data above.

⁶ TSUS items 676.54 and 676.56 replaced TSUS item 676.52 on Feb. 1, 1986. Although individual coverage for the current items is not certain prior to this date, the total for both is available using 676.52. Therefore, since both are included above, trade for 676.52 is included in this total.

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

Note.—Because of rounding, figures may not add to the totals shown.

C-7

Table C-7

Leading Items exported to Mexico, by Schedule B Items, 1984-86

(In thousands of dollars)

<i>Sched. B Item no.</i>	<i>Description</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
692.29	Parts of motor vehicles, n.e.s.	\$812,998	\$1,176,965	\$983,233
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	387,932	372,698	441,653
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	315,085	340,178	356,123
688.12	Ignition wiring sets and wiring sets designed for use in motor vehicles, aircraft, spacecraft, ships, boats, and other vessels.	178,706	280,645	332,985
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	163,614	220,619	289,553
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	277,445	289,278	272,958
685.27	Radiotelegraphic, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	188,585	167,342	217,316
660.52	Parts of piston-type engines, other than compression-ignition engines.	219,499	224,533	197,839
818.90	General merchandise valued at under \$1,001, except shipments requiring a validated export license.	196,748	206,880	178,315
175.41	Soybeans, other than seed for planting	474,303	385,486	178,153
685.20	Television apparatus, and parts thereof	199,650	189,236	176,856
682.60	Generators, motor generators, rotating converters, rectifiers and rectifying apparatus, coils, inductors, lamp ballasts, and parts thereof.	154,432	158,547	166,892
678.50	Machines n.s.p.f., and parts thereof	103,985	130,739	145,501
130.34	Corn or maize, not donated for relief or charity	415,146	203,587	144,751
818.80	Shipments valued at \$10,000 and under, not identified by kind	² 95,307	² 135,121	² 128,474
475.67	Mixtures of hydrocarbons n.s.p.f., wholly of petroleum, shale oil, and natural gas, by weight not over 50 percent of any single compound.	128,039	202,435	128,026
250.02	Wood pulp, rag pulp, and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	106,302	115,739	123,830
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	97,859	148,299	109,641
256.71	Other paper and paperboard, cut to size or shape; other articles of pulp, paper mache, paper, or paperboard, n.e.s.	114,382	121,614	107,318
475.07	Crude petroleum, topped crude petroleum, crude shale oil and distillate and residual fuel oils derived from petroleum, shale, or both.	74,510	137,112	106,165
	Total	4,604,527	5,207,054	4,785,581
	Total, U.S. exports to Mexico	11,461,203	13,084,252	11,924,851

¹ Prior to Jan. 1, 1985, Schedule B Item 818.90 included only general merchandise valued at \$500 or less.

² General merchandise valued at \$500 and less in 1984, or at \$1,000 and less in 1985 and 1986, were reported under Schedule B item 818.90.

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-8

Leading Items Imported from Mexico, by TSUS Items, 1984-86

(In thousands of dollars)

TSUS Item no.	Description	1984	1985	1986
475.05	Crude petroleum, topped crude petroleum, crude shale oil, and distillate and residual fuel oils testing under 25 degrees a.p.i.	\$3,990,415	\$4,338,249	\$2,168,456
475.10	Crude petroleum, topped crude petroleum, crude shale oil, and distillate and residual fuel oils, testing 25 degrees a.p.i. or more.	3,336,311	3,309,848	1,363,023
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	52,119	282,651	769,944
660.48	Piston-type engines other than compression-ignition for automobiles, including trucks and buses.	513,505	599,259	585,370
160.10	Coffee, crude, roasted or ground	322,501	367,773	570,973
688.12	Ignition wiring sets and wiring sets for transportation equipment	308,277	471,745	519,126
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined.	394,614	406,844	465,175
800.00	U.S. goods returned	303,854	422,456	452,836
512.21	Plaster rock or gypsum, not ground and not wholly or partly calcined.	7,392	182,481	366,022
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, and making connections to or in circuits.	292,658	309,080	365,230
114.45	Shellfish other than clams, crabs, or oysters	389,603	312,299	357,338
100.45	Cattle, weighing 200 pounds or more but under 700 pounds each	95,783	122,583	273,585
682.60	Generators, motors, motor generators, converters, transformers, rectifying apparatus, inducers, other electrical goods, and parts, n.e.s.	213,091	190,027	252,818
605.20	Gold or silver bullion, dore and precipitates	319,431	247,409	239,733
678.50	Machines, n.s.p.f., and parts thereof	183,295	262,934	217,012
676.54	Parts of automatic data processing machines and units thereof, other than parts incorporating a cathode-ray tube.	(¹)	(¹)	1223,325
684.98	Television receivers and parts thereof, not having a picture tube, but with specified components.	² 99,936	109,053	195,702
685.08	Other television apparatus and parts thereof, n.e.s.	³ 226,871	³ 180,592	³ 187,245
137.60	Tomatoes, fresh, chilled, or frozen, entered Mar. 1 to July 14, or Sept. 1 to Nov. 14, inclusive, in any year.	96,208	95,999	172,355
685.00	Printed circuit boards and ceramic substrates with components assembled thereon, for color televisions, n.e.s.	⁴ 244,330	184,216	170,990
Total		11,390,195	12,395,499	9,916,258
Total, U.S. imports from Mexico		17,762,399	18,938,246	17,196,360

¹ Prior to Feb. 1, 1986, trade for TSUS item 676.54 was reported under 676.52 (part). Since those portions of TSUSA items 676.5230 (January 1984-December 1985) and 676.5215 (January 1986) assigned to 676.54 are not known, these items were excluded from the data above.

² Prior to Jan. 1, 1985, trade for TSUS item 684.98 was reported under 685.15.

³ Prior to Jan. 1, 1985, trade for TSUS item 685.08 was reported under 685.22 and 685.19 (part). Since that portion of TSUSA item 685.1915 (January-March 1984) assigned to 685.08 is not known, this item was excluded from the data above. In Jan. 1985, 685.22 was reissued with different commodity coverage—this data is also not included above.

⁴ Prior to Jan. 1, 1985, trade for TSUS item 685.00 was reported under 685.16.

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

Note.—Because of rounding, figures may not add to the totals shown.

C-9

C-9

Table C-9

Leading Items exported to Taiwan, by Schedule B Items, 1984-86

(In thousands of dollars)

<i>Sched. B</i> <i>Item no.</i>	<i>Description</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
175.41	Soybeans, other than seed for planting	\$390,637	\$321,720	\$358,750
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	193,028	183,275	283,893
130.34	Corn or maize, not donated for relief or charity	424,915	374,299	271,002
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel.	109,180	134,044	157,377
120.14	Whole cattle hides	117,280	112,247	155,687
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	130,441	107,664	134,465
404.22	Polycarboxylic acids, anhydrides, and their derivatives	20,087	92,527	132,216
694.65	Parts for aircraft and spacecraft	216,454	253,570	129,366
130.65	Wheat	109,118	99,082	101,505
676.28	Digital central processing units auxiliary storage units input units output units, and combinations thereof.	82,685	85,293	87,686
475.07	Crude petroleum topped crude petroleum crude shale oil and distillate and residual fuel oils derived from petroleum, shale, or both.	141,114	20,676	85,321
250.04	Wastepaper and paperboard scrap paper and paperboard products fit only for remanufacture and flax and hemp fibers to be used in paper-making.	73,320	61,697	74,233
694.40	Airplanes	14,776	64,586	71,799
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	55,748	50,327	71,648
202.43	Hardwood lumber, rough, dressed, or worked, not treated with creosote or other permanent wood preservative.	33,855	37,459	66,321
607.08	Carbon steel and iron waste and scrap	50,885	41,461	66,066
678.50	Machines n.e.s., and parts thereof	40,318	56,081	63,010
401.01	Benzene, toluene, xylenes, cumene, naphthalene, and other specified hydrocarbons.	67,905	64,377	59,970
250.02	Wood pulp, rag pulp, and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	29,653	34,197	57,778
685.20	Television apparatus and parts thereof	51,481	38,062	54,885
	Total	2,352,881	2,232,644	2,482,981
	Total, U.S. exports to Taiwan	4,658,027	4,337,499	5,057,124

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-10

Leading Items Imported from Taiwan, by TSUS Items, 1984-86

(In thousands of dollars)

TSUS Item no.	Description	1984	1985	1986
700.56	Footwear having uppers over 90 percent of exterior surface area of rubber or plastics, n.e.s.	\$717,899	\$963,621	\$1,173,108
676.30	Office machines, n.s.p.f	348,391	295,755	498,530
384.80	Other women's, girls', or infants' blouses, body suits and shirts, and shirts and sweaters, of manmade fibers, knit, not ornamented.	1316,580	1339,665	439,342
684.92	Complete television receivers	2318,216	308,365	420,828
727.35	Furniture of wood, other than chairs	167,662	253,125	395,617
700.35	Footwear n.s.p.f., of leather, for men, youths and boys	267,407	341,849	373,767
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	178,601	229,801	347,769
661.06	Fans and blowers, and parts, n.s.p.f., whether or not operated by hand or any kind of power unit.	328,256	326,765	344,515
678.50	Machines, n.s.p.f., and parts thereof	191,655	293,493	312,740
676.54	Parts of automatic data processing machines and units thereof, other than parts incorporating a cathode-ray tube.	(³)	(³)	³ 337,443
381.95	Men's and boys' coats, selected shirts, suits, trunks, and other swimwear, trousers, slacks, and shorts, of manmade fibers, not knit.	2279,022	2251,851	283,188
735.20	Puzzles; game, sport, gymnastic, athletic, or playground equipment; and all the foregoing and parts thereof, n.s.p.f.	137,057	172,768	279,304
727.70	Furniture and parts thereof, n.s.p.f	145,509	198,944	273,660
684.58	Telephone sets and other terminal equipment and parts thereof	130,633	126,765	244,480
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts.	214,589	207,464	230,539
676.15	Accounting, computing, and other data processing machines	98,225	190,331	229,587
706.41	Other handbags and luggage of textile materials, n.s.p.f	253,986	189,801	203,478
706.62	Luggage and handbags, fitted or unfitted, of materials n.e.s	171,304	211,524	196,953
772.35	Curtains, drapes, napkins, table covers, mats, scarves, runners, doilies, centerpieces, slipcovers, and like furnishings, of rubber or plastics.	84,269	126,234	183,563
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, and making connections to or in circuits.	127,894	135,375	181,987
	Total	4,477,155	5,163,496	6,950,402
	Total, U.S. imports from Taiwan	14,706,390	16,354,353	19,770,612

¹ Prior to Sept. 1, 1985, trade for TSUS item 384.80 was reported under 383.80 (part).

² Prior to Jan. 1, 1985, trade for TSUS item 684.92 was reported under 685.11.

³ Prior to Feb. 1, 1986, trade for TSUS item 676.54 was reported under 676.52 (part). Since those portions of TSUSA items 676.5230 (January 1984-December 1985) and 676.5215 (January 1986) assigned to 676.54 are not known, these items were excluded from the data above.

⁴ Prior to Sept. 1, 1985, trade for TSUS item 381.95 was reported under 379.95 (part).

⁵ Prior to Apr. 1, 1984, trade for TSUS item 727.70 was reported under 727.55.

⁶ Prior to Jan. 1, 1985, trade for TSUS item 684.58 was reported under 684.62 (part).

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-11

Leading Items exported to the Republic of Korea, by Schedule B Items, 1984-86

(In thousands of dollars)

<i>Sched. B Item no.</i>	<i>Description</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	\$481,760	\$436,960	\$467,859
120.14	Whole cattle hides	242,639	267,353	445,780
130.65	Wheat	293,819	270,158	240,388
607.08	Carbon steel and iron waste and scrap	158,710	155,631	239,278
694.65	Parts for aircraft and spacecraft	256,736	274,543	209,951
175.41	Soybeans, other than seed for planting	186,788	185,476	206,091
521.31	Coal, petroleum and other coke, and compositions of coal, coke, or other carbonaceous material used for fuel.	121,780	157,087	158,162
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/8 inches.	418,623	332,691	142,066
130.34	Corn or maize, not donated for relief or charity	327,829	209,868	129,956
678.50	Machines n.e.s. and parts thereof	117,618	160,740	126,892
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	75,442	103,204	119,443
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	75,573	77,099	117,540
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared.	87,745	98,141	105,718
250.04	Wastepaper and paperboard, scrap paper and paperboard, products fit only for remanufacture, and flax and hemp fibers to be used in paper making.	103,367	72,318	103,539
676.28	Digital central processing units auxiliary storage units input units, output units, and combinations thereof.	64,994	69,116	76,157
404.22	Polycarboxylic acids, anhydrides, and their derivatives	47,383	63,038	72,282
664.05	Excavating, leveling, boring, and extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	20,571	38,883	69,092
684.62	Electrical telegraph (including printing and typewriting) and telephone apparatus and instruments, and parts thereof, n.s.p.f.	100,106	96,144	61,562
431.04	Chlorinated halogenated hydrocarbons	29,744	39,410	61,208
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof.	59,131	48,928	61,079
	Total	3,270,357	3,156,788	3,214,044
	Total, U.S. exports to the Republic of Korea	5,785,966	5,666,503	5,795,704

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-12

Leading Items Imported from Korea, by TSUS Items, 1984-86

(In thousands of dollars)

TSUS Item no.	Description	1984	1985	1986
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	\$5,016	\$5,846	\$798,685
700.35	Footwear n.s.p.f., of leather, for men, youths, and boys . .	324,845	528,171	663,083
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	173,200	289,741	462,631
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts.	721,651	409,307	436,375
737.30	Stuffed toy figures of animate objects, valued over 10 cents per inch of height.	170,368	227,056	357,467
684.92	Complete television receivers	¹ 409,432	247,363	357,109
381.95	Men's and boys' coats, selected shirts, suits, trunks, and other swimwear, trousers, slacks, and shorts, of manmade fibers, not knit.	² 357,036	³ 330,000	333,256
685.40	Tape recorders and dictation and transcribing machines, and parts thereof.	77,396	172,753	307,099
684.25	Microwave ovens	173,569	219,648	292,411
384.53	Women's, girls', infants' wearing apparel, knit, not ornamented, of vegetable fiber except cotton, not subject to specified fiber restraints.	⁴ 34,967	⁵ 145,553	253,736
384.80	Other women's, girls', or infants' blouses, body suits and shirts, and shirts and sweaters, of manmade fibers, knit, not ornamented.	⁴ 167,548	⁴ 193,199	246,511
791.76	Leather wearing apparel, n.s.p.f., other than reptile leather, and other than in chief weight of textile material.	252,722	225,407	241,068
678.50	Machines, n.s.p.f., and parts thereof	179,773	202,544	221,415
676.15	Accounting, computing, and other data processing machines	29,638	59,550	205,745
724.45	Magnetic recording media, no material recorded thereon	36,990	98,615	168,977
772.51	Pneumatic tires, n.e.s	158,166	181,608	162,926
610.32	Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0.375 inch or more in outside diameter.	270,520	269,143	159,448
676.30	Office machines, n.s.p.f	119,023	160,696	158,551
338.59	Woven fabrics, of manmade fibers, except containing over 17 percent wool, and except of glass.	⁶ 108,493	⁶ 125,923	⁶ 158,213
384.91	Other women's, girls', or infants' blouses, coats, shirts, etc., of manmade fibers, not knit, not ornamented, and not folklore.	⁶ 135,963	⁶ 115,156	⁶ 129,167
	Total	3,906,315	4,207,279	6,113,873
	Total, U.S. imports from Korea	9,295,050	9,986,363	12,682,819

¹ Prior to Jan. 1, 1985, trade for TSUS item 684.92 was reported under 685.11.² Prior to Sept. 1, 1985, trade for TSUS item 381.95 was reported under 379.95 (part).³ Prior to Sept. 1, 1985, trade for TSUS item 384.53 was reported under 383.52 (part).⁴ Prior to Sept. 1, 1985, trade for TSUS item 384.80 was reported under 383.80 (part).⁵ Statistical reporting numbers under TSUS 338.50 were reissued with different commodity coverage on Apr. 1, 1985. TSUS item 338.59 was established to provide reporting numbers distinct from those used prior to this date. Tradecarryover of \$33,998 for item 338.50 was reported in 1986, and included above.⁶ Prior to Sept. 1, 1985, trade for TSUS item 384.91 was reported under 383.90 (part).

C-13

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-13

Leading items exported to Brazil, by Schedule B Items, 1984-86

(In thousands of dollars)

<i>Sched. B Item no.</i>	<i>Description</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
521.31	Coal; petroleum and other coke; and compositions of coal, coke, or other carbonaceous material used for fuel.	\$250,178	\$307,190	\$279,195
694.40	Airplanes	26,539	238,915	218,041
685.27	Radiotelegraphic, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	80,717	103,845	205,383
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism.	151,974	173,004	205,023
480.10	Fertilizers and fertilizer materials	113,769	165,997	156,004
130.34	Corn or maize, not donated for relief or charity	11,339	64,183	131,278
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines.	69,805	72,728	110,947
694.65	Parts, for aircraft and spacecraft	63,000	89,474	108,638
664.05	Excavating, leveling, boring, and extracting machinery, excluding front-end loaders, pile drivers, not self-propelled snow plows, and parts.	104,379	92,458	107,903
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric, related electronic crystal components, and parts.	43,488	56,627	84,094
433.10	Chemical mixtures and preparations, n.e.s	57,416	47,568	71,856
692.29	Parts of motor vehicles.	28,894	60,011	71,477
130.65	Wheat	395,834	307,992	65,938
175.41	Soybeans, other than seed for planting	45,757	65,232	
676.28	Digital central processing units, auxiliary storage units, input units, output units, and combinations thereof.	43,204	59,497	63,263
446.15	Synthetic rubber	48,240	47,435	57,444
115.50	Nonfat dry milk, containing not over 3 percent of butterfat	10,315	14,952	56,210
130.50	Rice, paddy or rough			52,482
131.30	Rice, milled	74	99	37,460
106.10	Beef and veal, carcasses and primal cuts, excluding offal, fresh, chilled, or frozen.			32,386
	Total	1,499,165	1,847,733	2,180,253
	Total, U.S. exports to Brazil	2,585,245	3,058,782	3,746,982

¹ To avoid disclosure of confidential business information, trade statistics under Schedule B Items 480.25 through 480.95 were combined and presented under Item No. 480.10, effective July 1, 1985.

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

Note.—Because of rounding, figures may not add to the totals shown.

Table C-14

Leading Items Imported from Brazil, by TSUS Items, 1984-86

(In thousands of dollars)

TSUS Item no.	Description	1984	1985	1986
700.45	Leather footwear n.e.s., valued over \$2.50 per pair, not for men, youths, or boys.	\$725,490	\$737,980	\$700,464
160.10	Coffee, crude, roasted or ground	677,889	670,002	503,380
165.29	Orange juice, concentrated or made from a juice having a degree of concentration of 1.5 or more, not over 1 percent ethyl alcohol by volume.	(¹)	669,863	352,317
475.25	Motor fuel, including gasoline and jet fuel	378,517	319,542	225,131
692.10	Passenger automobiles, snowmobiles, trucks valued under \$1,000, and other miscellaneous vehicles.	15,647	38,759	217,257
692.32	Parts n.s.p.f. of motor vehicles, not alloyed or advanced beyond cleaning, partly machined.	121,986	164,043	190,724
156.35	Cocoa butter	75,585	119,688	139,068
618.02	Unwrought aluminum n.e.s., other than alloys of aluminum	48,852	31,653	126,775
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils testing under 25 degrees a.p.i.	312,088	234,472	123,830
660.48	Piston-type engines other than compression-ignition for automobiles, including trucks and buses.	205,387	203,066	106,113
700.35	Footwear n.s.p.f., of leather, for men, youths, and boys	109,954	116,904	104,345
170.35	Filler tobacco, cigarette leaf, stemmed, mixed, or packed with 0 to 35 percent wrapper tobacco.	50,376	103,958	103,411
772.51	Pneumatic tires, n.e.s	74,628	97,845	99,085
114.45	Shellfish other than clams, crabs, or oysters	114,044	117,944	98,479
678.50	Machines, n.s.p.f., and parts thereof	44,339	34,949	96,479
155.20	Sugars, syrups, and molasses, derived from sugar cane or sugar beets, principally or crystalline structure, or in dry amorphous form.	129,071	126,460	94,216
605.20	Gold or silver bullion, dore and precipitates	29,278	43,922	90,690
145.44	Cashews, shelled, blanched, or otherwise prepared or preserved	50,385	81,638	89,462
250.02	Wood pulp, rag pulp, and other pulps derived from cellulosic fibrous materials and suitable for papermaking.	64,482	66,263	88,794
160.20	Coffee, soluble or instant, not containing sugar or other additives	119,930	98,837	87,821
	Total	3,347,928	4,077,788	3,637,840
	Total, U.S. imports from Brazil	7,207,997	7,545,259	6,682,597

¹ Prior to Jan. 1, 1985, trade for TSUS Item 165.29 was reported under 165.30 (part) and 165.35 (part). Since those portions of TSUSA items 165.3050 and 165.3540 (January-December 1984) assigned to 165.29 are not known, these items were excluded from the data above.

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

Note.—Because of rounding, figures may not add to the totals shown.

