OPERATION OF THE TRADE AGREEMENTS PROGRAM

39th Report
1987

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United States International Trade Commission · Washington, DC 20436

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SUMMARY

SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1987

The volume of world merchandise trade grew by 4 percent from 1986 to 1987, the second largest increase in the 1980's and a full percentage point more than the growth in world output. The trade performance of the most heavily indebted developing countries improved significantly, growth in world agricultural trade resumed, and trade growth was more balanced among major country groups—the developed, developing, and nonmarket economy countries. Significant imbalances in the trade performance of leading industrial countries—particularly Japan, Germany, and the United States— persisted, however. The United States registered its fifth consecutive record deficit in merchandise trade, totaling $171.2 billion on a c.i.f. basis. West Germany and Japan continued to record substantial trade surpluses.

Chapter 1 of this report highlights three developments in 1987 that are likely to have a significant impact on U.S. trade: (1) realignment of exchange rates; (2) conclusion of an agreement providing for free trade between the United States and Canada; and (3) the entry into force of the Harmonized Commodity Description and Coding System (the Harmonized System).

In September 1985, finance ministers from the major industrialized countries essentially agreed to support a realignment of their currencies. By 1987, however, the dollar's continued depreciation became a source of concern and debate in leading capitals. Discussions centered on appropriate levels for exchange rates and on the importance of adopting macroeconomic policies consistent with sustaining them. Despite some movement towards greater coordination of economic policies, such fundamental changes were difficult to achieve. West Germany refused to adopt stimulative measures, and efforts to reduce the U.S. budget deficit produced mixed results. Attention turned to other factors causing a slowdown in U.S. import growth, including the willingness of foreign suppliers to incur losses in order to preserve their market shares and structural factors that might slow the process of switching from overseas to domestic sources.

The U.S.-Canada Free-Trade Agreement was initialed on December 9, 1987. Among other things, it provides for the elimination of tariffs on all bilateral trade over a 10-year period, reduces nontariff barriers, liberalizes constraints as to services and investment, and sets up a new mechanism for resolving bilateral disputes related to unfair trade practices. Whereas the pact is more likely to give a greater relative boost to Canada's overall economic performance than to the United States', given the difference in the size of the two economies and the importance of the U.S. market to Canadian growth, it is expected to enhance opportunities for U.S. companies and reduce prices for U.S. consumers. Perhaps most importantly, the agreement represents a major advance toward establishing international rules covering services and investment, a key U.S. goal in the Uruguay Round of multilateral trade negotiations.

The United States has played a major role in drafting the Harmonized System, a new nomenclature which will replace the sometimes disparate tariff classification schemes of signatory governments with a single, basic framework for describing products for customs, tariff, statistical, and transportation document purposes. Most of the world's leading trading nations, including the European Community, Canada, and Japan, completed preparations in 1987 for implementing the new system on January 1, 1988. The United States was the exception, as Congressional action on the Omnibus Trade Bill, which contains authority to implement the HS, bogged down. The delay in U.S. implementation is likely to result in extra paperwork costs for U.S. businesses engaged in foreign trade. It will also make it more difficult for the U.S. Government to monitor trade agreements and to collect and analyze compile internationally comparable trade statistics.

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

The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement drafted 41 years ago; it sets forth general rules of conduct for trade between signatory countries. GATT activities for 1987 are reviewed in chapter 2. The GATT has become both a comprehensive set of rules governing most aspects of international trade and a formal organization and forum for multilateral trade negotiations and the resolution of disputes among the Contracting Parties. GATT membership continued to grow in 1987, reaching 95 Contracting Parties by yearend, with applications for accession from 10 other countries under consideration.

In 1987, Uruguay Round discussions moved from considering organizational issues early in the year, to the tabling of negotiating proposals in the ensuing months. Intensive work began in the 14 negotiating groups on goods-related trade issues and on trade in services. In one notable development, the negotiating group on agriculture received a far-reaching U.S. proposal for liberalization in this sector.

Besides the Uruguay Round negotiations, work of the GATT committees and actions taken under the General Agreement continued, but with less intensity because of the negotiations.

These activities, plus notifications and other actions taken under GATT articles, and activities under the nine Tokyo Round agreements, are also reviewed in chapter 2. Six of the Tokyo Round agreements establish rules of conduct governing the use of nontariff measures (codes on subsidies and countervailing duties, 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 addition to the GATT, several other international organizations deal with international trade issues. The Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) provide forums for consultation and policy coordination on issues including, but not limited to, trade. Their work often complements the work done in the GATT. Other bodies such as the Customs Cooperation Council (CCC) and the international commodity organizations coordinate and regulate certain specific aspects of international trade. Chapter 3 discusses 1987 activities in these organizations and also covers the U.S. bilateral investment treaty program, the U.S.-Israel Free-Trade Area Agreement, the U.S.-Soviet Grain Agreement, and progress on trade agreements in the services sector.

Important developments at the OECD annual ministerial in May 1987 included a commitment made by the ministers to advance reform of agricultural trade and a pledge by West Germany to expand its domestic economy. On agricultural trade, the ministers urged member countries to develop a more rational approach in their domestic agricultural policies and agreed that price guarantees or other production support measures should be replaced by direct farm income support.

In its recent work on agricultural support programs, OECD has developed measures of the relative levels of assistance to producers and consumers in member countries. The findings were presented at the ministerial meeting. The study, which used so-called producer and consumer subsidy equivalents, determined that in 1985 the subsidy equivalent represented 70 percent of the value of output of major agricultural products in Japan, 20 percent in the United States, and 40 percent in the EC. Overall, it found that, during 1979-81, the subsidy equivalent represented an average of about 32 percent of the sales value of the 11 commodities examined.

Another study published by the OECD in 1987 noted two major developments in international direct investment. The first was the growth of the United States as a host of international investment. The second was a fall in direct investment in developing countries following the 1981–82 recession.

The seventh quadrennial UNCTAD conference was held in Geneva from July 7 to August 3, 1987. Marathon bargaining sessions between the developed and developing countries finally resulted in a mutually acceptable declaration 3 days after the conference was scheduled to end. The United States sought to redirect UNCTAD discussions to a constructive exchange of ideas and policy dialogue on economic development, a role from which the United States believes the organization has strayed in recent years. Of key importance to the United States was the recognition in the conference's Final Act of the "critical role" of the GATT Uruguay Round negotiations to the international trading system, though no specific role for UNCTAD in the Round was defined. The conference also recognized the opportunity presented by the Uruguay Round for improving market access.

At the end of 1987, the United States was participating in six international commodity agreements, those covering coffee, sugar, wheat, jute, natural rubber, and tropical timber. The United States completed ratification procedures for the new International Wheat Agreement, which was renegotiated in 1986. Also, a new agreement for cocoa entered into effect, and consensus was reached on a renegotiated natural rubber agreement. The agreement covering tin has ceased to function for all practical purposes since the collapse of the price of tin in 1985.

The U.S.-Israel Free-Trade Area Agreement concluded its second year of operation in 1987. In terms of total dollar value of trade, U.S. exports to Israel grew modestly. The total reported value of U.S. imports under the FTA was $763 million, or about 29 percent of total U.S. imports from Israel. The bilateral trade balance remained in Israel's favor for the second year.

The current U.S.-Soviet 5-year Long-Term Grain Agreement (LTA) spans the period October 1, 1983–September 30, 1988, and calls for purchases by the U.S.S.R. of at least 9 million metric tons (mmt) of U.S. grains during each agreement year. During the fourth agreement year (October 1986–September 1987), total U.S.S.R. purchases amounted to 8.24 mmt, falling short of the 9.00 mmt overall minimum requirement. In April 1987, the U.S. Department of Agriculture (USDA) announced the Soviet Union's eligibility for the subsidized purchase of 4 mmt of wheat under its Export Enhancement program (EEP).

For several years, the United States has advocated liberalizing services trade. In 1987, GATT discussions on trade in services intensified, with substantive proposals for establishing rules

advanced by the United States and the European Community.

International trade in services showed signs of continued growth in 1986, the latest year with available data. However, a study published by the OECD in 1987 suggests that data reporting the increasing importance of services in the world economy may be exaggerated. The study noted that a narrower definition of services, excluding government activity, more closely corresponds to common perceptions of services. Using this definition, OECD estimated that the average share of gross domestic product (GDP) accounted for by services falls from 58 percent to 44 percent, or about the same average proportion as that for goods. Also, it noted that when in-house provision of services is replaced by contractors, demand for services may show an expansion that does not actually represent a change in the amount or type of service provided.

Other developments in internationally traded services are included in the chapter 3 sections on the related work in the GATT and UNCTAD. Activities in three major services sectors (telecommunications, maritime services, and insurance) are also reported.

DEVELOPMENTS IN MAJOR U.S. TRADING PARTNERS

In 1987, the U.S. merchandise trade deficit was $158.2 billion, of which $130 billion (82 percent) was with the countries under review in this report: the European Community (EC), Canada, Japan, Mexico, Taiwan, the Republic of Korea (Korea), and Brazil. The largest bilateral merchandise trade deficit in 1987 was with Japan ($57 billion, or 36.1 percent, of the total U.S. merchandise trade deficit), followed by the EC ($23 billion, or 14.5 percent), and Taiwan ($17.6 billion, or 11.1 percent). The U.S. merchandise trade deficit with the NIC's of Asia covered in this report totaled $27 billion, or 17 percent, of the total U.S. merchandise trade deficit.

U.S.-EC trade relations were strained by the threat of a major trade war erupting over EC enlargement. The dispute was finally settled after threats of retaliation and counterretaliation were fired. The long-term dispute over pasta was resolved during the year, but new disputes erupted over the oilseeds sector and U.S. meat exports to the EC. Nonagricultural issues of concern to the United States were Community subsidies to Airbus Industrie and the attainment of improved access to the European telecommunications markets.

During much of 1987, the free-trade-agreement negotiations dominated bilateral issues between the United States and Canada. The agreement was concluded in October. Bilateral disputes focused on Canada's imposition of countervailing duties on imports of U.S.-grown corn and allegations that Canadian potash producers were dumping their products in the United States.

U.S.-Japanese relations were again strained by numerous trade disputes intensified by another record trade deficit. During the year, the United States took several retaliatory measures against the Japanese. In an early action, the President announced sanctions in the form of higher tariffs on certain Japanese electronic components for failure to enforce some provisions of the 1986 semiconductor agreement. Later in the year, Congressional legislation was introduced banning the importation of Toshiba products after that company violated export control regulations and sold sensitive equipment to the U.S.S.R. Despite a seemingly endless series of confrontations, the two countries maintained a strong relationship, managed to exercise restraint, and continued to consult with each other to resolve trade disputes.

Bilateral relations between the United States and Mexico have been improving ever since the latter joined the GATT in 1986. Closer ties were made in 1987 when the two countries concluded a broad "framework" agreement on principles and procedures of bilateral trade.

Although Taiwan made significant progress in improving access to its market during 1987, it is still far from being an open economy. Continuing issues of concern to the United States include tariffs, nontariff barriers, access to Taiwan's beer, wine, and tobacco markets, and intermodal shipping.

The United States intentionally did not press Korea on trade issues during that country's highly sensitized Presidential campaign. Following the December vote, however, trade frictions escalated rapidly as the United States sought to resolve several longstanding disputes. Major areas of friction involved currency revaluation, beef, cigarettes, insurance, and advertising.

Strained relations between the United States and Brazil continued in 1987. Although Brazil made some progress in lowering its trade barriers, many disagreements failed to be resolved. Brazil's February decision to suspend interest payments on its foreign debt further aggravated tensions. Another dispute culminated in a section 301 case against Brazil in the area of pharmaceuticals. Brazil's informatics policies continued to be a major area of contention.

ADMINISTRATION OF U.S. TRADE LAWS AND REGULATIONS

Chapter 5 reviews activities related to the administration of U.S. trade laws in 1987. Actions under import relief laws, unfair trade laws, and certain other trade law provisions are included.

In 1987, the U.S. International Trade Commission did not undertake or complete any investigations under a major statute safeguarding U.S.

industries from import injury (sec. 201 of the Trade Act of 1974). The Commission did, however, conduct two investigations under section 203 to determine whether or not to extend import relief already in place under section 201. Following receipt of the Commission's advice, the President extended the relief on stainless steel and alloy tool steel and terminated the relief on heavyweight motorcycles. The Commission also conducted an investigation under section 406 to determine whether imports of an article produced in a Communist country are causing market disruption. The Commission found that imports of ammonium paratungstate and tungstic acid from the People's Republic of China (China) had disrupted the domestic market. The President subsequently negotiated an orderly marketing agreement with the Chinese.

The U.S. Department of Commerce and the Commission continued to have large caseloads of antidumping and countervailing duty (CVD) investigations during the year. Commerce completed 43 final antidumping investigations in 1987 compared with 49 investigations in 1986. The Commission completed 20 preliminary and 51 final antidumping investigations. Antidumping duties were imposed as a result of 38 of these investigations on a total of 15 products from 26 countries. Commerce completed 21 final CVD investigations compared with 24 investigations in 1986. The Commission completed 3 preliminary and 19 final CVD investigations. Countervailing duties were imposed as a result of 13 of these investigations on a total of 7 products from 12 countries.

The Commission completed 21 investigations under section 337 of the Tariff Act of 1930. Three violations were found, and three exclusion orders were issued.

In 1987, private parties filed four section 301 (of the Trade Act of 1974) petitions and the President self-initiated one investigation. Bilateral settlements were obtained in three 301 cases initiated prior to 1987: Canadian softwood lumber, EC enlargement, and EC export subsidies on pasta.

The U.S. Department of Commerce initiated two investigations in 1987 under section 232 of the Trade Expansion Act of 1962, which was designed to protect the national security of the United States. These investigations cover imports of anti-friction bearings and imports of crude and refined petroleum.

Changes in the GSP program resulting from the 2-year general review took effect on July 1, 1987. As a result of this review, the President reduced the competitive-need limits on 290 products from 9 advanced developing countries. The results of the 1987 annual review also became effective on July 1, 1987. As a result of the annual review, products accounting for $18.6 billion in 1986 imports from 16 countries were excluded from GSP eligibility under the statutory-need provision.

Duty-free imports entering the United States under the Caribbean Basin Economic Recovery Act (CBERA) preferences totaled $906.1 million in 1987, or 14.7 percent, of overall U.S. imports from the region. This figure compares with $690 million, or 11.2 percent, in 1986. Beef was the leading product imported free of duty under CBERA during 1987 as well as in 1986.

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OVERVIEW: THE INTERNATIONAL ECONOMIC ENVIRONMENT IN 1987

TRADE AND ECONOMIC POLICY

Trade relations in 1987 were characterized by two divergent forces: highly visible bilateral confrontations on the one hand, and quiet movement towards liberalizing trade in the GATT and elsewhere on the other. The climate in Western capitals was often charged, with trade disputes one after another escalating to near crisis proportions. The United States played an especially active role, as disputes with Japan, the EC, Korea, and Brazil neared the boiling point. Finance and budget ministers, meanwhile, had a substantial influence on the trading environment as efforts to stabilize exchange rates and harmonize macroeconomic policies took on greater urgency in the wake of October's stock market collapse.

The U.S. Congress spent long months crafting omnibus trade legislation intended to advance U.S. negotiating aims abroad and tighten U.S. trade law, particularly those provisions relating to granting import relief and foreign barriers to U.S. commerce. The bill also contained provisions to implement the Harmonized Tariff Schedule of the United States and to grant the President authority to negotiate agreements to reduce tariffs. Prospects that the bill might require the President to retaliate against foreign barriers to U.S. exports added a note of uncertainty to U.S. trade relations in the year.

Despite mounting bilateral tensions, the United States did take several major steps in the direction of trade liberalization in 1987. A pathbreaking free-trade arrangment with Canada was agreed upon, and talks on expanding trade with Mexico proceeded apace. Significant progress was also made on the multilateral front. The negotiating groups for the Uruguay Round of multilateral negotiations progressed, and several new countries sought accession to the GATT, a testimony to the GATT's vitality on its 40th anniversary. In other fora, the OECD moved closer to a consensus on the need to end extensive subsidization of agriculture, and the required number of signatures was received to allow the Harmonized Commodity Description and Coding System to go into effect.

WORLD TRADE IN 1987

According to preliminary GATT estimates, the volume of world merchandise trade grew by 4 percent from 1986 to 1987, the second largest increase in the 1980's and a full percentage point more than the growth in world output.[1] At $2.45 trillion, the value of world merchandise trade was 15-1/2 percent greater than that in 1986, reflecting volume increases and a firming of prices, particularly those for oil and other primary commodities. The trade performance of the most heavily indebted developing countries improved significantly, growth in world agricultural trade resumed, and the anticipated crisis in global consumer confidence failed to materialize. (Indeed, preliminary data show a pickup in trade growth in the final quarter of 1987.) Trade expansion in 1987 was also more balanced across the three major economic groups—developed, developing, and centrally planned economies.

The trade performance of the developed countries, which as a group accounted for 70 percent of world trade in 1987, was uneven. However, the United States continued to register record deficits in its merchandise trade account, and it remained the world's largest debtor, a title it "earned" in 1986. Germany recorded another record merchandise trade surplus ($66 billion), and Japan's surplus, at $80 billion, declined modestly. The combined trade deficit of four other major European countries, the United Kingdom, Spain, France, and Italy, widened substantially, from $34 billion in 1986 to $55 billion in 1987.

Imports by the developed countries were the dominant force in world trade expansion; and in developing countries, exports remained the most dynamic in terms of volume. The growth in imports by Western Europe and Japan more than offset a slowdown in the volume of U.S. imports. The trade performance of 15 heavily indebted countries[2] improved significantly, with healthy gains in both exports and imports. Although their trade expanded less rapidly than world trade, the 1987 experience compares favorably with that in 1986, when merchandise imports by these 15 countries declined by 1 percent and exports fell by 15 percent.

Manufactures trade, which accounted for two-thirds of total merchandise trade, paced the expansion in world commerce, increasing by 5 percent on a year-to-year basis. Developed countries accounted for the lion's share of the expansion in manufactures trade. The newly industrialized countries of Asia also emerged as key importers, with the volume of their imports of manufactures increasing by more than 20 percent over that in 1986. Despite a reduction in world agricultural output for the first time in 37 years, global agricultural exports increased by 4 percent in terms of volume. Higher trade in those two sectors more than offset a slight contraction in the volume of trade in mining products.

[1] *Preliminary report by the GATT Secretariat on World Trade in 1987 and Prospects for 1988,* GATT Press Release No. 1432, Feb. 29, 1988.

[2] The countries are Argentina, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

GATT analysts found a strong correlation between recent changes in exchange rates and export growth in 1987. Countries such as the United States and Canada whose currencies depreciated on a real effective basis from 1985 to 1986 recorded strong growth in export volumes during 1987.[1] The exports of countries with appreciating currencies, particularly Germany and Japan, showed notable declines. However, GATT analysts were unable to demonstrate a clear link between real effective appreciation and import growth. In Germany, for example, the depressing effect on imports of lower domestic demand apparently outweighed the stimulus of a stronger mark.[2] The analysts concluded that the exchange rate mechanism alone was not sufficient to achieve more balanced trade among the major industrialized countries: appropriate fiscal policies were needed as well.

U.S. TRADE PERFORMANCE

The U.S. trade deficit widened sharply, by 9.8 percent, in 1987, reaching a record $171.2 billion on a c.i.f. basis, up from $156.2 billion in 1986. (The deficit was $153.0 billion on a customs basis compared with $139.3 billion in 1986.)[3] Despite the dollar's depreciation, imports continued to rise for much of the year, offsetting healthy gains in U.S. exports.

U.S. exports were valued at $252.9 billion, representing an increase of 11.5 percent over those in 1986. Notable gains were registered in U.S. shipments of office machinery, aircraft, motor-vehicle parts, chemicals, paper, glass, beverages, and tobacco. By region, U.S. exports to developed countries increased by 9 percent, with U.S. exports to the EC up by 14 percent; those to Canada up by 8 percent; and those to Japan up by 5 percent. U.S. exports to developing countries rose by 16 percent over those in 1986, with significant gains in U.S. exports to Mexico, Korea, and Taiwan.

Imports, at $405.9 billion, were up by 10.9 percent over those in 1986, with increases registered in all major product categories. The surge in imports of capital goods (which rose at a 33 percent annual rate in the first three quarters of the year) and oil was particularly noteworthy. Imports of office machinery, electrical machinery and apparatus, textiles and apparel, semiconductors, and cars also recorded above average gains. Developing countries accounted for most of the increase in the value of U.S. imports, with U.S. imports from the newly industrializing countries (NIC's) of Asia up by 25 percent over those in the previous year; those from China up by 27 percent; and those from Mexico and Brazil up by 50 percent and 60 percent, respectively.

Despite a 15-percent increase in U.S. exports, the U.S. deficit in manufactures widened from $134.3 billion in 1986 to $140.1 in 1987. The U.S. deficit in petroleum and selected products also grew, from $31.8 billion in 1986 to $38.4 billion in 1987. On the other side of the ledger, the U.S. surplus in agriculture widened, from $4.5 billion in 1986 to $8.0 billion in 1987.

The United States registered deficits in merchandise trade with virtually every country group. However, largely as a result of increases in U.S. exports of manufactures, the United States saw significant improvements in its trade balances with the EC and Canada. Its trade deficit with Japan widened slightly. Continued high levels of manufactured imports and a leveling off of exports of food accounted for the worsening of the U.S. trade deficit with the NIC's,[4] particularly Taiwan, Korea, and Hong Kong, and a firming of petroleum prices accounted for the deterioration of U.S. trade with members of OPEC (Organization of Petroleum Exporting Countries).

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[1] *Preliminary report by the GATT Secretariat on World Trade in 1987 and Prospects for 1988*, GATT Press Release No. 1432, Feb. 29, 1988, p. 10. For the purpose of their analysis, GATT economists defined the change in a country's real effective exchange rate as the movement of the currency against those of 18 other industrial and 22 developing countries, adjusted for differences in inflation between the home country and those same trading partners.

[2] In fact, the import volumes of countries with appreciating currencies (Germany, Italy, the Netherlands) increased by less, or at least not more, than in countries with depreciating currencies (such as Canada and the United Kingdom). *Ibid.*, p. 11-12.

[3] Unless otherwise noted, all data in this section are official data from the U.S. Department of Commerce, as reported in *Summary of U.S. Export and Import Merchandise Trade*, December 1987 and January 1988.

[4] The NIC's are Brazil, Hong Kong, Mexico, Singapore, South Korea, and Taiwan.

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CHAPTER 1

SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1987

INTRODUCTION

This chapter examines three developments in 1987 that are likely to have a significant impact on U.S. trade: (1) the realignment of exchange rates among the major industrialized countries; (2) the conclusion of an agreement providing for free trade between the United States and Canada; and, (3) the entry into force of the Harmonized Commodity Description and Coding System.

In September 1985, finance ministers from the major industrialized countries essentially agreed to support a realignment of their currencies in an effort to achieve more balanced trade and economic performance. By 1987, however, the dollar's continued depreciation, particularly against the West German mark and the Japanese yen, became the subject of intense debate in Western capitals. Discussions centered on appropriate levels for exchange rates and on the importance of adopting macroeconomic policies consistent with sustaining them. Against a backdrop of record U.S. trade deficits, economists also began to take a closer look at more fundamental factors affecting trade flows. The fact that many foreign suppliers were not raising prices in the U.S. market was examined, as were structural changes in the United States that might slow the process of reducing U.S. imports. This chapter examines each of these issues in greater depth.

In 1987, the United States and Canada initialed a far-reaching pact providing for the elimination of tariffs on bilateral merchandise trade and a reduction in nontariff barriers to goods, services, and investment. The pact will substantially liberalize the world's most significant bilateral trading relationship (in terms of value) and may provide a model for present efforts within the GATT to address "new" issues such as services and investment. The main elements of the agreement, as well as its likely economic impact, are discussed below.

The groundwork was laid in 1987 for the entry into force of the Harmonized System (HS). The new nomenclature will replace the sometimes disparate tariff clasification schemes of signatory governments with a single, basic framework for describing products for customs, tariff, statistical, and transportation document purposes. The European Community (EC), Japan, and Canada are among the signatories that implemented the new system on January 1, 1988. The legal provisions to permit implementation of the HS in the United States were contained in the omnibus trade bill. The purpose of the HS and its organizational underpinnings are discussed in the final section of this chapter, as are its implications for U.S. trade and business.

EXCHANGE RATES

Introduction to the Issues

The value of the dollar on foreign-exchange markets declined sharply during 1987, continuing in a descent that began in February 1985 and was endorsed as official policy by key finance ministers in the Plaza Accord in September of that year. As the dollar's sharp decline continued during 1986 and into 1987, foreign and domestic policymakers began to press for more stability in the dollar's exchange value. The dollar's value became a recurrent focus of attention as industrialized countries attempted to coordinate their macroeconomic policies. The United States was pressed to reduce its enormous trade and budget deficits, and Japan and West Germany were called upon to stimulate their economies.[1] Policies consistent with these goals were not immediately implemented, however. For most of the year, little progress was made in reducing the U.S. Federal budget deficit. West Germany continued its adherence to a relatively contractionary monetary policy, raising discount rates unilaterally and sterilizing monetary expansions that would otherwise have resulted from exchange market intervention.[2] Japan was faulted for not opening its markets further to foreign imports.

Much of the dollar's decline over the year came in the wake of October's stock market crash, as investors traded U.S. assets for foreign-denominated substitutes. Then, as throughout the year, foreign central banks intervened extensively to prevent a disorderly decline. According to one estimate, central banks purchased $190 billion during 1987, largely in efforts to stabilize the dollar.[3] This intervention provided the largest source of external financing to cover the shortfall in U.S. aggregate savings during 1987.

Despite the dollar's third year of sharp decline, 1987 marked the fifth successive year of record U.S. current account deficits, the emergence of the United States as the world's largest debtor, and growing concern that its economic policymaking was increasingly being held hostage to the constraints implied by debtor status. Nevertheless, as the year closed, it appeared that the U.S. trade picture was poised at last for a turnaround. The stock market collapse and sluggish growth in the U.S. economy's retail sector improved prospects for a slower pace of import

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[1] *IMF Survey*, Oct. 19, 1987, p. 310.

[2] Sterlization refers to the process by which open market sales (or purchases) of bonds by the central bank to the public are used to offset the effects of central bank intervention in the foreign exchange market.

[3] "World Economic Outlook," *IMF Survey*, Apr. 18, 1988, p. 126.

spending. The dollar's cumulative decline seemed at last sufficient to give a boost to the nation's manufacturing sector, which was enjoying a resurgence in foreign demand. Concerns were expressed, however, that industrial capacity had fallen during the period of the strong dollar and that export growth might therefore not be sustainable.

Foreign investors responded to the lower priced dollar during 1987 by significantly increasing their direct investment in U.S. industry, raising concern in certain quarters and providing a new target for protectionist sentiments. Such foreign investment is likely to result in the continued growth of some import categories, particularly capital goods.[1] On the positive side, new investment will add to productive capacity that will help generate the trade surpluses ultimately required to repay foreigners who have invested in the United States.

Measuring the Dollar's Descent in 1987

The value of the dollar declined sharply relative to most of the world's major currencies during 1987. Over the 12 months ending December 1987, the dollar declined on a nominal basis by 21 percent against the yen, 17 percent against major European currencies, 10 percent against the currencies of the newly industrialized countries (NIC's) of east Asia, and 5 percent vis-a-vis the Canadian dollar. Adjusting for inflation to obtain measures of real-exchange-rate shifts, similar results are obtained. For example, the dollar declined in real terms by 19 percent against the yen, 16 percent against European currencies, and 8 percent against the east Asian NIC's (table 1–1).

[1] According to the Bureau of Economic Analysis imports of capital goods increased to a $120 billion rate in the fourth quarter of 1987, increasing from $93 billion in 1986 and $69 billion in 1984. Adjusting for changing exchange rates, this represents a trend increase in real imports of capital goods over the period.

Measuring the Dollar's Cumulative Decline

From a peak in February 1985 through December 1987, the dollar's real value declined by 22.6 percent on a trade-weighted basis, as calculated by the Dallas Federal Reserve Bank. With respect to the Japanese yen and major European currencies, the dollar's cumulative depreciation totaled 48 percent and 44 percent, respectively. Overall, the dollar's depreciation since 1985 more than offset its cumulative appreciation against these same currencies during 1980–85. However, on a weighted-average basis, the dollar's international purchasing power at yearend 1987 remained at least 10 percent above the yearend level of 1978, a period of previous dollar weakness. The dollar's gain in strength vis-a-vis the Canadian dollar and Latin American currencies accounts for this effect.

Policies Concerning the Dollar's Decline

The steepest declines occurring in the value of the dollar came in January, November, and December. In November 1986, Treasury Secretary Baker and Japanese Finance Minister Miyazawa agreed that the dollar had fallen

Table 1–1
Indices of real exchange rates for U.S. dollar against currencies of Canada, Japan, Europe, newly-industrializing countries of east Asia and Latin America, 1980–87

(January–March 1973=100.0)

Period	*Canada*	*Japan*	*Europe*	*NIC's*[1]	*L.Amer.*[2]	*Total*[3]
December:						
1980	118.4	72.6	82.4	84.1	92.3	87.1
1981	114.0	78.9	96.3	88.7	92.0	92.4
1982	113.2	88.9	107.2	95.9	110.2	100.5
1983.	113.1	87.8	121.1	105.4	117.3	106.7
1984	120.1	94.0	137.5	110.9	120.3	115.4
1985	126.1	78.7	114.0	116.0	133.8	112.1
1986	121.1	63.9	97.3	116.7	156.1	106.2
1987	115.6	51.6	81.7	107.4	([4])	93.5
References:						
Jan.-Mar.'73[5] .	100.0	100.0	100.0	100.0	100.0	100.0
Oct. 1978[6]	112.3	55.3	76.1	77.0	98.8	82.2
Mar. 1985[7]	125.5	98.8	145.8	112.3	121.5	120.8

[1] Newly-industrializing countries of east Asia.
[2] Latin America; includes countries of the Caribbean.
[3] Includes other countries; 101 countries represented in total.
[4] Not available.
[5] Base period.
[6] Lowest value for monthly total real dollar index over 1973–87.
[7] Highest value for monthly total real dollar index over 1973–87.

Source: Federal Reserve Bank of Dallas.

enough, and that dollar stability was more important than further decline. Further declines in the dollar soon thereafter prompted finance ministers from the Group of Seven countries[1] to convene at the Louvre in February. Agreement was reached that a smaller U.S. budget deficit was necessary, and that Japan and West Germany would make greater efforts to stimulate their economies. These commitments were reaffirmed at the economic summit in Venice. At the same time, Japan announced that it would adopt a $35 billion package of tax cuts and public spending programs.

Nevertheless, the U.S. trade deficit remained stubbornly high, and progress on reducing the U.S. Federal budget deficit had stalled. Germany persisted with its restrictive monetary policy, which required tightening of U.S. monetary policy and consequent increase in interest rates for exchange-rate stability. Perceptions that Japanese trade practices remained an obstacle to global readjustment intensified. Collectively, these developments resulted in growing uneasiness among financial analysts that problems were not being resolved. The official announcement in mid-October that the U.S. trade deficit for August was unexpectedly high added to investor wariness. Another steep decline in the dollar followed the October 19 global stock market collapse, as foreign investors sold dollar-denominated assets to minimize capital losses in anticipation of further dollar declines. Renewed concern over the dollar prompted another conference of finance ministers late in December.

Continued Growth in the Trade Deficit

Contrary to most expectations, the U.S. trade deficit increased further in 1987, totaling $171.2 billion, compared with $156.2 billion in 1986. Indeed, monthly trade statistics revealed growing trade imbalances through October, for which a record deficit of $17.6 billion was reported. Not until data for November and December were released were there grounds for optimism that the trade deficit was narrowing. Steady improvement in U.S. export performance was matched by rising import expenditures until October. The data clearly indicated that the rise of the yen had begun to slow U.S. imports of Japanese products, but imports from the NIC's continued to rise. Imports from Korea, Taiwan, Hong Kong, Singapore, and Thailand rose by 25 percent in 1986.

[1] The Group of 7 consists of the major industrial countries whose heads of state meet annually at economic summits. The members are Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom and the United States.

Explanations of the Apparent Inefficacy of Exchange-Rate Policy

Much of the trade policy debate during 1987 concerned the apparent failure of dollar depreciation to reduce appreciably the U.S. trade deficit. Explanations shifted away from the discredited optimism of "J-curve" dynamics toward an examination of exchange-rate passthrough, and a view based on structural irreversibilities described as "hysteresis."

Traditionally, exchange-rate (devaluation) policies are expected to induce expenditure-switching by raising import prices relative to domestic goods and reducing export prices for U.S. merchandise to foreign buyers. This would then be expected to reduce domestic spending on imports and increase foreign purchases of U.S. exports, albeit with a lag.[2] However, recent studies on exchange-rate passthrough indicate that import prices have risen much less than the dollar has fallen (or equivalently, as the yen or deutsche mark have risen). Consequently, the price competitiveness of domestic substitutes for imports has not improved as much or as quickly as previously expected. Imports are unlikely to decline, nor the trade deficit narrow significantly, until the relative price of imports increases substantially.

Theory of Exchange-rate Passthrough

The rate of passthrough for exchange-rate changes into import prices depends on a number of factors. The relative proportions of labor, capital, and traded material inputs used in production by foreign producers are among the principal determinants. The extent of product homogeneity and the degree of global competition in the industry also matter. Nontariff import barriers can also break the link between foreign-exchange rates and import prices, since they drive a wedge between domestic and world prices. The extent to which an industry is able to reduce costs by modernizing its technology can also allow price adjustments that contrast with exchange rates.

First, exchange-rate changes will more likely be passed through into U.S. import prices the larger the share of total costs represented by foreign labor value added. For example, as a result of the yen's appreciation relative to the dollar, Japanese labor costs in dollar terms have risen. These must either be passed on in the form of higher dollar prices on exports (to the United States) or, if not passed on, export profitability must decline. The potential for high rates of passthrough also exists for firms that are highly capital intensive. However, in the short run, capital-intensive firms can price their exports below average total costs and still cover variable costs.

[2] Hence the J-curve effect, as the volume of exports and imports adjust slowly while the cost of foreign exchange used to purchase imports rises. The net result is an initial widening of the trade deficit, prior to its narrowing as trade volumes adjust in desired directions.

Conversely, foreign firms that use significant amounts of tradable material inputs (e.g., petroleum, iron ore, petrochemicals) can be expected to have lower rates of passthrough. These traded inputs are priced in a world market, with prices equated internationally. Therefore, exchange-rate changes do not directly affect foreign producer's cost in dollars of using these materials for reexport to the United States as part of a finished product.

A second factor affecting a foreign firm's capacity to avoid passing through exchange-rate changes concerns the structure of international competition in its industry. A foreign producer that behaves in accordance with the purely competitive model must, in the long run, fully recoup its total production costs (that are unchanged when calculated in local currency, but which increase when converted into dollars) following local currency appreciation (i.e., dollar depreciation). Yet as a price taker in the U.S. market (demand facing this producer is assumed to be perfectly price elastic), passing its higher costs on to import prices would result in the loss of its market share to producers from countries whose currencies have not appreciated relative to the dollar. Therefore, in the short run, the competitive foreign producer is unlikely to passthrough higher (dollar) costs. In the long run, they leave the market in the absence of other effects.

At the other end of the spectrum, oligopolistic or monopolistic firms face less than perfectly elastic demand for their products. Consequently, they can exercise market power by passing through exchange-rate changes in the short run, without completely losing market share. To the extent that market power derives from product differentiation, foreign firms also gain some additional latitude to raise prices because of exchange-rate changes without fully losing market share.

In some cases, foreign producers were precluded from increasing their share of the U.S. market beyond certain levels because of voluntary restraint agreements (VRA'S).[1] During the period of dollar appreciation, these producers increased unit profits on exports to the United States. Some analysts therefore argue that foreign producers had a cushion of unusually high unit profit rates that allowed them to continue to supply the U.S. market profitably following home currency appreciation without attendant price increases. Some of these analysts suggest, however, that further declines in the dollar would most likely result in higher import prices because the cushion of excess profits is probably gone and firms have exploited most of the cost-cutting opportunities that were available.

[1] Autos, footwear, and steel exemplify this case.

The Structural Problem, or "Hysteresis"

The hysteresis argument suggests that increased import competition resulting from the dollar's high value during 1983-86 prompted or accelerated the movement offshore of significant portions of the U.S. manufacturing sector. Other industries were lost in their entirety to foreign competition. The dollar's recent decline cannot quickly reverse these structural changes. For example, because the United States no longer has an industry domestically producing color television sets, the dollar's return to its previous level cannot reverse this trade imbalance in the near future. Furthermore, many domestic firms that increased their reliance on offshore facilities to cut costs have seen this strategy backfire now that the dollar has weakened.

Theories of Exchange-rate Equilibrium

Finance ministers from the major industrialized countries have convened frequently since the Plaza hotel meeting of September 1985 to discuss currency realignment and stabilization consistent with promoting adjustment and preserving economic growth. However, there are competing views on suitable exchange rates.

The traditional method of calculating equilibrium exchange rates is based on purchasing power parity (PPP), or the law of one price. Strictly interpreted, PPP suggests that exchange rates will tend towards equilibrium levels that equate the costs of a representative bundle of goods and services across countries. For example, if in long-run equilibrium a given basket costs DM258 (deutsche marks) in West Germany, $100 in the United States, and Y20,300 (yen) in Japan, then PPP would imply that a dollar should be valued at 2.58 deutsche marks and 203 yen. Economists with Goldman Sachs in London used Organization for Economic Cooperation and Development (OECD) prices to estimate precisely these values for PPP exchange rates.[2]

However, most economists contend that exchange rates also reflect international movements of capital (global savings) toward their highest rewards. The expansionary fiscal policy adopted by the United States in 1981 and the budget deficits thereafter created a shortfall in domestic saving relative to spending at prevailing rates of return. This sent international markets for capital, as well as goods, into disequilibrium. U.S. interest rates increased relative to foreign rates, and attracted foreign investors who drove up the dollar as they sought out higher yielding dollar-denominated investments.

[2] "Sighting a target for currencies," *Economist*, Mar. 21, 1987.

Now that the United States has become a large debtor, it must earn a surplus on its trade account to service debt and equity holdings of foreigners. Maintaining an exchange rate based on PPP would ignore these U.S. obligations to pay foreigners dividends and interest payments for financial services these holdings represent. A PPP exchange rate would therefore result in perpetual current account deficits and a rising external debt. Such a course would ultimately be unsustainable.

In response, John Williamson of the Institute for International Economics defines the fundamental equilibrium exchange rate (FEER). This rate will generate a current account balance equal to the underlying flow of capital, assuming that a domestic economy pursues full employment and a balanced budget. Williamson gauges that the United States can sustain a current account deficit (and foreigners will hold increased dollar assets) at an annual rate of $30 billion per year. Based on this expectation, Williamson estimates FEER's at Y150 and DM1.75 per dollar.

Economists at Goldman Sachs advocate a slightly different view of appropriate values for exchange rates. They place dollar exchange rates at levels that stabilize the ratio of U.S. external debt to the gross national product (GNP) at its current level.[1] These rates, known as sustainable equilibrium exchange rates (SEER's), are estimated to be Y135 and DM1.65 to the dollar.

One could also ask which exchange rates would be required for the United States to reduce its net external debt to zero, or to recover the creditor position it held for most of this century. Under these conditions, the dollar's exchange value would have to fall even further below PPP values, and also below levels suggested by the SEERs.

Conclusion

During 1987, concerns over persistent U.S. trade deficits became particularly intense. Foreign investors were no longer willing to increase their holdings of dollar assets at current interest rates, forcing central banks to intervene extensively to ensure currency market stability. In effect, foreign central banks financed the U.S. current account deficit. Continued cooperation among major central banks will be essential to preserve exchange rates within agreed upon ranges if and when further market pressures arise. Some analysts have raised doubts that central banks may be prepared to continue intervention at such extraordinary levels. Some prominent economists have argued that further declines in the dollar, perhaps by 10 to 20 percent, will be necessary to induce foreign investors to hold more dollar assets. Whether this will be necessary will most likely depend on the pace and extent of progress achieved in the United States, and also abroad, in remedying the underlying causes of the global trade imbalances.

Most commentators regard U.S. fiscal policy as the most critical area demanding attention. Given the Gramm-Rudman Hollings Act, and assuming a favorable economic outlook, the U.S. budget deficit is projected to decline gradually. The need to finance this deficit is a major factor in U.S. requirements for external borrowing that corresponds to the current account deficit. Progress on the lowering the budget deficit would reduce these requirements and would therefore, allow the Federal Reserve greater latitude in conducting monetary policy consistent with dollar stability and modest growth of domestic demand. Absent such progress, interest rates would have to rise (posing the risk of recession) or the dollar would decline sharply (increasing inflationary expectations at home and raising the likelihood of deflation abroad).

An important role for trade policy remains. Ongoing negotiations that seek to extend coverage of GATT provisions to areas of increasing importance in world trade can provide avenues for readjustment. The United States, in particular, has strong interests in seeing negotiations completed in areas such as agriculture, financial services, and patent protection. Bilateral negotiations designed to liberalize market access in overseas markets can also achieve long-term benefits. Just as urgent is the need for nations to avoid escalating protectionism.

UNITED STATES-CANADA FREE-TRADE AGREEMENT

Background and Purpose

For the past 4 years, the Governments of the United States and Canada have been examining the possibilities of a bilateral trade agreement between the two countries. An early idea focused on a sectoral free-trade agreement (FTA), mentioned in August 1983 when then Canadian Prime Minister Pierre Trudeau released an official paper discussing "Canadian Trade Policy for the 1980's."[2] The paper analyzed Canada's overall

[1] Fixing this ratio implies that external debt can rise by 3 to 5 percent per annum, or by $10 to 20 billion yearly, based on estimates that U.S. external debt at yearend 1987 totaled $400 billion (*Journal of Commerce*, Apr. 6, 1988, p. 7A).

[2] See *Operation of the Trade Agreements Program, 35th Report, 1983*, USITC Publication 1535, pp. 233-234; *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, pp. 122-125.

trading performance, philosophy, and status in multilateral and bilateral trade issues, concluding that strong support of continued multilateral negotiations, concomitant with bilateral discussions with the United States, would be beneficial to Canada. A sectoral FTA with the United States would, according to the report, benefit both consumer populations and manufacturing sectors, by facilitating growth of certain industries, creating jobs, and aiding in intrasectoral adjustments.[1] A sectoral agreement would not be new to the two countries, keeping in mind the 1965 Automotive Products Trade Agreement (APTA) that established a certain degree of free trade in new automobiles and original-equipment parts.

Trudeau's trade policy for the 1980's demonstrated a shift in Canadian attitude from that of the 1970's. During the previous decade, Canadian trade policy focused on the "Third Option": a deemphasis of its "special" trade relationship with the United States with an increased emphasis on enhancing trade ties with Japan, Europe, and the Pacific Rim countries.[2] Toward the end of the seventies and into the early eighties, Canada experienced a general economic downturn which did not abate until 1983, the same year of a strong U.S. economic recovery. Canada recognized that its long-term economic growth and well-being was built upon a secure and expanding export market.[3] It determined that ties with the United States, Canada's main trading partner and export market, must be enhanced.

A sectoral FTA was discussed in 1984, but many obstacles to its fruition existed, namely difficulty in obtaining General Agreement on Tariffs and Trade (GATT) approval, the procurement policies of the Canadian Federal and Provincial governments and the high value of the U.S. dollar. The principal obstacle, however, was the difficulty in targeting (on both sides of the border) which sectors would in effect be winners and losers. Near the end of the year, Canada elected a new government. The new Prime Minister, Brian Mulroney, recognized the importance of enhanced trade with the United States as a key ingredient in Canada's longer term economic success.

On March 17–18, 1985, President Reagan and Prime Minister Mulroney officially met in the "Shamrock Summit" in Quebec City where they issued a joint declaration calling for the creation of a more stable and predictable trade environment between the two countries.[4] In early September 1985, the Royal Commission on the Economic Union and Development Prospects for Canada released a 3-year study, a principal recommendation of which was that Canada negotiate a bilateral free-trade agreement with the United States. Two weeks later, Canadian International Trade Minister James Kelleher presented a report to the Prime Minister expressing his opinion that bilateral negotiations with the United States would be beneficial to Canada. On September 26, Prime Minister Mulroney informed the Canadian House of Commons of his invitation to the United States to begin negotiations on a free-trade agreement. That same day, United States Trade Representative Clayton Yeutter reported to President Reagan on the benefits of exploring bilateral negotiations, and he recommended consultations with the Finance Committee of the U.S. Senate and the Ways and Means Committee of the U.S. House of Representatives, to gain their views on such negotiations.[5] On December 10, 1985, President Reagan notified Congress of his intent to enter into negotiations toward a bilateral free-trade agreement with Canada using "fast track" procedures.[6] Congress then had 60 legislative days to block the talks. On April 23, 1986, the 60-day period ended and, by a tie vote, the Senate Finance Committee failed to adopt a measure denying the President fast-track authority. Negotiations formally began on June 17, 1986 with Ambassador Peter Murphy representing the United States and Ambassador Simon Reisman representing Canada.

In order to reach an agreement, the negotiating objectives of both nations had to be realized. The primary goal for Canada was to obtain more secure access to the U.S. market. (Canada used the term "contingency protection" to refer to the use by the United States of trade remedy procedures, particularly countervailing or antidumping duties, to deny market access.) This would provide Canadians firms the opportunity to expand production and specialize. In addition, increased competition with the United States would spur Canadians firms to become more efficient. Given the disparity in size between the two economies (the U.S. economy is 10 times that of Canada) the U.S. objectives were more specific: elimina-

[1] *Ibid.*, p. 124.

[2] The "First Option" was to have closer bilateral ties with the United States; the "Second Option" was to maintain the existing terms of trade with the United States.

[3] Nearly one-third of Canadian gross domestic product is tied to the external sector.

[4] *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 1871, pp. 31–32.

[5] The reports by Ambassadors Yeutter and Kelleher were the result of a declaration made at the Shamrock Summit calling for reports within 6 months charting "all possible ways to reduce and eliminate existing barriers to trade."

[6] Section 102 of the Trade Act of 1974 allows the President to enter into bilateral free-trade agreements on a "fast-track" basis if—(1) negotiation is requested by a foreign country; (2) the President notifies the House Ways and Means and Senate Finance Committees of the negotiations, giving 60 legislative days advance notice; and (3) the President notifies Congress of his intent 90 days prior to entering into an agreement. The President must submit the agreement to Congress along with a draft implementing bill. Congress then has 60 to 90 legislative days to approve or disapprove the bill, by a simple up or down vote with no amendments allowed. A simple majority of each House is required for approval.

tion of tariffs; reduction in Canadian nontariff barriers; reduction in Canadian investment restrictions; establishment of rules for trade in services; protection of intellectual property; and, agreement to exert more discipline over subsidies.[1]

The possibility of reaching agreement was placed in doubt, when, after over a year of intense efforts, on September 23, 1987, Canadian negotiator Reisman walked out of the negotiations. However, the talks resumed October 2 and proceeded until midnight October 3, 1987, the deadline set in order for the agreement to quality for U.S. Congressional fast-track procedures.[2] The elements of the U.S.-Canada Free-Trade Agreement were then initialed on October 4, 1987; and on December 9, 1987, the U.S. and Canadian negotiators initialed the final text of the agreement. The agreement was formally signed by President Reagan and Prime Minister Mulroney on January 2, 1988. If approved by Congress and the Canadian Parliament, the FTA will go into effect January 1, 1989 upon an exchange of diplomatic notes certifying the completion of necessary legal procedures by each party.

Canada and the United States maintain that the FTA is consistent with Article XXIV of the General Agreement on Tariffs and Trade (GATT), which allows for bilateral free trade agreements, provided that tariffs and other restrictive regulations of commerce are "eliminated on substantially all trade." The FTA makes references to the GATT throughout the text, stressing the need to further reduce barriers on a multilateral basis as well as in a bilateral context, and to improve the overall system of international trade. As written in Part One of the agreement, its objectives include (1) eliminating trade barriers in goods and services; (2) facilitating the conditions of fair competition; (3) liberalizing the conditions for investment; (4) providing procedures to resolve disputes and to administer the FTA; and (5) laying the foundation for further bilateral and multilateral cooperation.

The Agreement

The FTA is divided by general topics into eight parts, with a total of 21 divisional chapters.[3] The following discussion addresses some of the major provisions of the bilateral pact, with a particular focus on those that have been the most contentious and those that have the greatest potential for enhancing trade.[4]

Trade in Goods

Of the 21 chapters of the FTA, 10 are devoted entirely to trade in goods in order to eliminate tariffs and reduce nontariff barriers. The full implementation of the FTA will take 10 years and will be completed in January 1998, in accordance with the tariff elimination schedule.[5] All product categories have been assigned to one of three categories for duty reduction purposes: (1) immediate duty elimination; (2) staged elimination in 5 annual equal reductions of 20 percent; or, (3) staged elimination in 10 annual equal reductions of 10 percent. If both countries agree, tariff elimination may be accelerated on individual products.[6]

As with most trade agreements calling for the reduction of trade barriers, the FTA provides for safeguard actions to deal with surges in imports causing serious injury to domestic producers. During the transition period (i.e., until the end of 1998), either country may respond to serious injury to its domestic producers resulting from tariff reductions under the FTA by reinstating the pre-agreement tariff or returning to the most-favored-nation (MFN) tariff level (which, through multilateral negotiations, may be lower than the rate in effect when the FTA took effect). Such bilateral safeguard measures may last no longer than 3 years nor extend beyond the transition period and may only be taken once against any particular product.[7] In addition, both Canada and the United States have retained their rights under article XIX of the GATT to take global safeguard action against imported goods of either country, subject to certain limitations set forth in chapter 11 of the FTA. Specifically, the United States and Canada are required to exclude imports of the other country from global import relief if exports from the other country are not substantial and contributing importantly to the serious injury, or threat thereof, to a domestic industry. Chapter 11 of the FTA contains provisions for subsequently including the other country in the import relief action in the event of a surge of imports from the country.

Agriculture[8]

Two-way bilateral agricultural trade amounted to only $3.4 billion in 1986, but is marked by many tariff and nontariff barriers such

[1] George Holliday and Arlene Wilson, *Trade: Congressional Research Service Issue Brief IB87003*, U.S. Library of Congress, Dec. 16, 1987, p. 11.

[2] The President's authority to enter into agreements under the fast-track procedures of sec. 102 of the Trade Act of 1974, as amended, expired on Jan. 3, 1988.

[3] The eight parts of the FTA are (1) objectives and scope; (2) trade in goods; (3) government procurement; (4) services, investment and temporary entry; (5) financial services; (6) institutional provisions; (7) other provisions; and, (8) final provisions.

[4] Particular sections of the United States-Canada Free Trade Agreement will be referenced according to "article " (the further subdivision under chapters), or according to "annex " (located at the end of certain chapters).

[5] FTA annex 401 covers the exact tariff reduction schedule on a product basis.

[6] FTA art. 401, par. 5.

[7] FTA art. 1101.

[8] FTA ch. 7 (arts. 701-711) inclusive, for specific discussion of agricultural issues.

as inspection and technical requirements, government subsidies, quotas, and import licenses. The FTA would eliminate all tariffs by January 1, 1998, and make advances toward freer trade by reducing nontariff barriers on poultry and eggs, grains, meat and sugar. Both countries reserve the right, for 20 years, to apply temporary duties on certain fruits and vegetables to protect their domestic industries from import surges. Semi-annual consultations between the United States and Canada will occur on agricultural issues, and both countries acknowledge the need for increased multilateral negotiation in the agricultural arena.[1] The United States and Canada agreed to work together in the Uruguay Round of the GATT in hopes of further liberalizing agricultural trade on a multilateral basis, consistent with the U.S. GATT proposal to end agricultural subsidies.[2] Progress toward the elimination of nontariff barriers in bilateral agricultural trade resulting from the U.S. and Canadian semiannual consultations could be a barometer of the likelihood of change in the multilateral arena.

Automotive trade[3]

Automotive trade accounts for the greatest portion of trade between the two countries: 36 percent of U.S. imports and nearly 40 percent of U.S. exports to Canada. Ninety-five percent of bilateral automotive trade is already duty free, in accordance with the 1965 U.S.-Canada APTA. Under the FTA, remaining tariffs will be eliminated over 5 to 10 years; there will no longer be a Canadian embargo on used cars; and a revised, higher North American content requirement will be established. Most importantly, the FTA will neither rescind nor expand the APTA; it will not allow any new firms to receive APTA benefits. As in the agriculture sector, a "select panel" will "assess the state of the North American industry and propose public policy measures and private initiatives to improve its competitiveness in domestic and foreign markets."

Customs and rules of origin[4]

With the virtual elimination of tariffs, the FTA establishes rules of origin to ensure that imports from third countries are not shipped through one FTA country to the other, with little or no value or processing occurring in Canada or the United States. In order to meet the rules of origin under the FTA and enter duty free, one of three conditions must be met: first, the imported article must be "wholly produced in" the United States or Canada; second, the imported article must be transformed in the United States or Canada in such a way as to demonstrate one of the enumerated "changes in tariff classification" found in the agreement; or third, 50 percent of an imported article's manufacturing costs must either be attributable to U.S./Canadian materials or to direct processing costs in the United States or Canada, or both. The customs authorities of both countries will make their own separate origin determinations. The FTA also limits the use of duty drawbacks,[5] duty waivers,[6] and foreign trade zones.[7]

Energy[8]

Energy is perhaps the most important input for a developed economy. The energy goods covered by the FTA include petroleum, natural gas, electricity, coal, uranium, and other nuclear fuels. Bilateral energy trade totals about $10 billion per year, with Canada supplying most of the U.S. imported natural gas and electricity, more crude oil and petroleum products than any other nation, and more than two-thirds of U.S. uranium imports.[9] The FTA prohibits restrictions on the export and import of energy by either party, including the use of quotas, or minimum price requirements, with exceptions made for national security and short supply situations. Under the agreement both countries will eliminate restrictions on uranium imports and exports. The United States will allow Canada access to a maximum of 50,000 barrels per day (on an average annual basis) of Alaskan oil making Canada exempt from the prohibition of Alaskan oil, exports under the Export Administration Act of 1979. The only condition placed on the export of Alaskan oil is that it must be "transported to Canada from a suitable location within the lower 48 states."[10]

Exceptions

The provisions of part I of the Agreement do not apply to certain Canadian export controls on unprocessed fish, nor will they apply to either country's export controls on logs or on the internal sale and distribution of beer.[11] The United States may retain restrictions relating to the mari-

[1] See FTA art. 701.
[2] See chapter 2 for a discussion of the U.S. proposal regarding agricultural subsidies.
[3] FTA chapter 10 (articles 1001–1006) inclusive, for specific discussion of automotive trade.
[4] FTA ch. 3 (arts. 301–304) inclusive, for specific discussion of rules of origin.
[5] Duty drawback refers to the refund of all or part of a duty paid on imported parts that are then used as components of exported products. Duty drawback on U.S.-Canadian bilateral trade will end after Jan. 1, 1994, five years into the agreement.
[6] Duty waivers will be eliminated by Jan. 1, 1988, the date ending the FTA's full implementation process, except in the automotive industry where elimination will take place on Jan. 1, 1989. Duty waivers refer to the practice of requiring a firm to buy local inputs or to export output in exchange for a tariff exemption.
[7] See FTA arts. 401 and 405.
[8] FTA ch. 9 (arts. 901–909) inclusive, for specific discussion of energy trade.
[9] "Summary of the U.S.-Canada Free-Trade Agreement," White House Release, February 1988, p. 21.
[10] FTA annex 902.5.
[11] FTA arts. 1203 and 1204 for specific exceptions.

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time industry by keeping intact the Jones Act requirements that interstate trade between U.S. ports be on U.S.-flagged ships with American crews. Coverage under the Jones Act was called into question when the initialed "Elements of the Agreement," released on October 3, 1987, included language that would grant Canadian-flagged ships (if they were built in the United States or Canada or had U.S. or Canadian crews) the same status as U.S. ships under U.S. maritime law. When the final text of the FTA was signed on January 2, 1988, there were no special provisions covering Canadian-flagged ships, and there were no changes in U.S. maritime law.

Services[1]

The FTA is the first broad international agreement governing services, providing a set of general rules that will apply to over 150 service sectors such as construction, transportation, telecommunications, insurance, and architecture.[2] U.S.-Canada bilateral services trade amounted to $11.3 billion in 1986, roughly 8 percent of all bilateral trade. To advance toward free trade in today's world, the United States and Canada maintain that the discipline of the multilateral GATT agreement should extend to the area of traded services where international rules are limited or nonexistent. As major exporters of services, the two countries decided to provide an example of the possibilities for agreement on this frontier of international commercial policy.

The underlying goal is to provide national treatment (i.e., non-discrimination) to U.S. citizens supplying services to Canada and vice versa, subject to certain exceptions. Future U.S. and Canadian Government measures that affect services trade must provide national treatment, but existing discriminatory provisions may remain in place, with renewal allowed for certain provisions and amendments allowed for others, subject to the limitation that the level of discrimination may not be increased through such removal or amendment.[3] Governments may also stray from the principle of national treatment if the discriminating government demonstrates that "the difference in treatment is no greater than that necessary for prudential, fiduciary, health and safety, or consumer protection reasons" or if it is "equivalent in effect to the treatment" of its own citizens under the same circumstances.[4]

United States Trade Representative Clayton Yeutter comments that, "For the first time since services became a major international commercial issue, two major trading partners have negotiated an agreement establishing rules for bilateral trade in services." Ambassador Yeutter continues, "Not only is this important for U.S.-Canada services trade, but it provides a concrete first step for our efforts to formulate multilateral rules for services at the GATT Uruguay Round."[5]

Besides being the first international trade agreement encompassing services in general, the FTA is also the first to address specifically trade in financial services.[6] It attempts to remove discriminatory measures present in both the United States and in Canada and to allow financial institutions better market access across the borders.

The United States sought national treatment in light of Canada's present restrictions on foreign control of market share, asset growth and expansion in financial services. The FTA will enable U.S. bank subsidiaries to be exempt from some of these restraints. U.S. firms and investors are exempted from certain aspects of Canada's "10–25" Rule, which prevents a nonresident from acquiring more than 10 percent ownership of a Canadian insurance, trust, or loan company and prevents nonresident ownership from exceeding 25 percent. Under the FTA, U.S. firms will have the same opportunities to diversify and establish themselves as Canadian firms. In Canada, foreign banks as a group (known as "Schedule B" banks) are limited to foreign ownership of only 16 percent of the total domestic assets of all Canadian banks. The FTA exempts U.S.-controlled Canadian bank subsidiaries from this limitation just as Canadian banks are free from these restraints.

On the U.S. side there were no barriers to national treatment to overcome, but other real and potential barriers existed. Canada may retain their previously grandfathered provisions of the International Banking Act (IBA) of 1978; the grandfathered provisions were up for review during the time the FTA was being negotiated.[7] Canadian banks are also guaranteed to receive the same benefits that might be extended to U.S. banks if the United States amends the Glass-Steagall Act, or other acts related to financial services.[8] The United States will also allow Canadian banks (as well as U.S. and other foreign banks) in the United States "to engage in the dealing in, underwriting, and purchasing of debt obligations" backed by Canada or its political subdivisions.[9]

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[1] FTA Chapter 14 (articles 1401-1407 and annexes 1404 and 1408) inclusive, for specific discussion on trade in services.
[2] FTA annex 1408 for complete list of services covered.
[3] FTA art. 1402, par. 5.
[4] FTA art. 1402, par. 3.
[5] Testimony before the Subcommittee on Trade of the U.S. House of Representatives, Ways and Means Committee, Feb. 9, 1988.
[6] See FTA ch. 17 (arts. 1701–1706) inclusive, for specific discussion of financial services.
[7] FTA art. 1702, par. 2, addresses the IBA, de facto.
[8] The Glass-Steagall Act prohibits nonbank activities by commercial banks, either foreign or domestic. FTA art. 1702, par. 3, addresses Canadian treatment regarding future amendments to the Glass-Steagall Act.
[9] These provisions respond to Canadian concerns regarding the treatment of their banks and securities firms that merge in Canada and have operations in the United States, but not undermine the basic tenets of the Glass-Steagall Act, nor be inconsistent with U.S. law permitting banks to engage in similar activities regarding U.S. debt obligations.

Because of the inherent sensitivity of the financial services industry, disputes arising in this sector will not be handled through the FTA's regular dispute settlement procedures.[1] Furthermore, both countries agree that any consultation regarding financial services "shall be between the Canadian Department of Finance and the United States Department of the Treasury," and that these two departments will also oversee future liberalization of their financial sectors.[2]

Government Procurement[3]

By including Government procurement in the FTA, the United States and Canada hope that their actions will serve as an impetus for "the multilateral liberalization of international government procurement policies to provide balanced and equitable trade."[4] The FTA calls for greater transparency in bidding procedures and increases in the exchange of procurement information. Suppliers of goods manufactured in either Canada or the United States with at least 50 percent U.S. or Canadian content will be accorded the same treatment as suppliers of domestic goods for covered procurement. The FTA reduces the GATT Government Procurement Code threshold of $171,000 to $25,000 for U.S. and Canadian suppliers competing in each other's market.

Estimates of the value of procurement covered by the FTA are approximately $3 billion of U.S. procurement and $500 million of Canadian procurement. At present, roughly 80 percent of U.S. procurement is open to Canadian suppliers. However, a majority of Canadian purchases were below the Code level, preventing U.S. companies from bidding. With the FTA in place, U.S. exporters will more than double their access to Canadian procurement opportunities.

The FTA procurement provisions are expected to serve "as a further step toward multilateral liberalization and improvement of the GATT *Agreement on Government Procurement*."[5] The United States and Canada have agreed to look into expanding coverage of government procurement under the FTA after the current Uruguay Round of multilateral trade negotiations is completed.

Investment[6]

The United States invests more in Canada ($46 billion in 1986) than in any other foreign country, and Canada is one of the largest foreign investors in the United States ($17 billion in 1986). Since the 1970's, Canada has limited foreign investment through the Foreign Investment Review Act (FIRA). In 1984, the Investment Canada Act (ICA) replaced the FIRA, but investment liberalization has been a slow process.

Four basic investment issues are covered by the FTA: (1) national treatment and nondiscrimination; (2) the elimination of performance requirements; (3) international law standards applying to expropriation; and (4) the free transfer of investment proceeds. After three years from the date of entry into force of the agreement, Canada will raise its threshold of review of direct acquisitions by U.S. investors to $150 million from $25 million and abolish review of indirect acquisitions. The United States and Canada agreed to further improve investment opportunities through the Uruguay Round and other multilateral negotiations.[7]

Miscellaneous Provisions

Cultural industries[8]

Cultural industries, defined as the publication, distribution, or sale of books, magazines, newspapers, film and video recordings, audio or video music recordings, radio, television and cable broadcasting, are explicitly exempt from the nontariff provisions of the FTA. Tariffs on recordings and printed matter will be eliminated on both sides of the border, and Canada will provide copyright protection for the retransmission of commercial broadcasts.

Throughout the negotiations Canada insisted on preserving and maintaining intact the development of Canada's unique cultural heritage. Whereas the United States recognized the importance of cultural industries to Canada, it also wanted to avoid unfair trade barriers. Although cultural industries remain generally exempt from the FTA, each country does have the right to respond (i.e., take measures of equivalent commercial effect) if the cultural exemption hurts its own commercial interests.

Intellectual property[9]

The United States and Canada agreed to cooperate through the Uruguay Round of multilateral trade negotiations and in other international fora to improve intellectual property protection. The above-mentioned copyright protection under "cultural industries," protecting U.S. firms from the unlawful retransmission of commercial broadcasts in Canada, is the only specific provision in the FTA regarding intellectual property.

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[1] See "Institutional Provisions," below.
[2] FTA art. 1704.
[3] FTA ch. 13, arts. 1301-1309 inclusive, for specific discussion of government procurement.
[4] FTA art. 1301, par. 1.
[5] FTA art. 1301, par. 2. The GATT is mentioned specifically in arts. 1301-1304 and 1308.
[6] FTA ch. 16 (arts. 1601-1611) inclusive, for specific discussion of investment issues.
[7] FTA art. 1610.
[8] FTA art. 2005 for specific discussion of cultural industries.
[9] FTA art. 2002 for discussion of intellectual property.

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Institutional Provisions[1]

In several trade agreements, general dispute settlement mechanisms are routinely addressed, including the GATT, articles XXII and XXIII; the Tokyo Round Codes; and, the U.S.-Israel Free Trade Agreement. Both the United States and Canada realized, however, that dispute settlement procedures are ofttimes prolonged or ineffectual. In negotiating the FTA, both countries sought effective, expeditious dispute settlement procedures. The mechanics of dispute resolution is addressed in five different categories under the FTA: two divisions under escape-clause actions and other FTA issues, and two divisions under antidumping (AD) and countervailing duty (CVD) disputes and another treatment under financial services.

General dispute settlement procedures[2]

Escape-clause actions and other agreed upon matters.[3]—A Canada-United States Trade Commission will be established to oversee the implementation of the FTA and to resolve all disputes arising from the agreement, except those in the areas of financial services, and anti-dumping and countervailing duties. The Commission, composed of an equal number of representatives from the United States and Canada (with the principal representative of each country being a Cabinet-level official or the official's designee), is directed to meet at least once a year, alternating between the United States and Canada. In the case of an escape clause dispute or other mutually agreed upon matters, resolution will proceed through certain steps: (1) consultation; (2) if unsuccessful after 30 days, then a meeting of the Commission, whereby technical advisors or a mutually accepted mediator may be employed; and (3) if not yet resolved after 30 days from receipt of the dispute by the Commission, referral to binding arbitration. The arbitration panel must be composed of five members, two chosen by each country, with the fifth chosen by the Commission or by the four already chosen panelists. The panelists will be chosen from a roster, developed and maintained by the Commission, of individuals willing to serve as panelists.

Disputes other than escape-clause actions.[4]—Disputes in this category include those surrounding the implementation of the FTA. Resolution occurs in much the same way as in an escape-clause case: (1) consultation; and (2) meeting of the Commission. If these efforts fail to resolve the dispute and the parties do not want the matter to go before a binding arbitration panel, the matter then goes to a panel of experts. The panel of experts, established by the Commission, will report their findings back to the Commission, where the final recommendation rests.

Antidumping and countervailing duties[5]

Final AD and CVD administrative determinations.—The FTA calls for the establishment of a "working group" to "develop a substitute system of rules for dealing with unfair pricing and government subsidization." The working group is allowed 5 to 7 years to develop mutually advantageous rules governing U.S. and Canadian subsidies and the application of their respective AD/CVD laws. During this interim period the United States and Canada will continue to apply their own AD and CVD laws to goods imported from the other country. However, a new procedure is estabished for the review of final determinations. Instead of bringing the review to the national courts as is currently done, the FTA calls for a binational panel to act in their place, with the panels employing the same standard of review and the same general legal principles as the domestic courts of the country in which the case is brought.[6]

The binational review panels must be ad hoc panels, composed of five members, two selected by each country and the fifth, where possible, by consensus. The United States and Canada will develop a roster of 50 possible panel candidates, 25 candidates from each country. With the exception of judges, none of the candidates may be government officials. The majority of the panelists, including the chairman, must be attorneys.

Either party may under certain exceptions and circumstances challenge the binational review panel's decision by instituting the "Extraordinary Challenge Procedure." A three-member committee of U.S. and Canadian judges or former judges will be chosen from a roster of 10 designated judges, 5 chosen by each country. This extraordinary challenge committee will then review the binational panel's review.

AD and CVD legislative review.—The FTA establishes an advisory panel (composed in the same manner as the above-mentioned binational review panel) to review proposed amendments to U.S. or Canadian AD or CVD laws after the FTA enters into force. The advisory panel, after con-

[1] Chapters 18–19 (articles 1801–1808 and 1901–1911) inclusive, for discussion of institutional provisions.
[2] Articles 1801–1808, inclusive.
[3] If both the United States and Canada agree, any or all disputes (except AD, CVD and financial services disputes) may be resolved under this option. The final decision in this instance rests with a binding arbitration panel, while the second option leaves the Commission with the final decision. See "Disputes other than escape clause actions," below.
[4] FTA art. 1807, par. 2.
[5] FTA ch. 19 (arts. 1901–1911) inclusive, for discussion of AD/CVD dispute settlement.
[6] In the United States, the determinations subject to panel review under the FTA will be (1) the U.S. Department of Commerce final dumping or subsidy determination in AD/CVD investigations and reviews of AD/CVD orders; and (2) the U.S. International Trade Commission final determination of injury in AD/CVD investigations.

sultation, may issue an opinion addressing inconsistencies between the proposed changes and the GATT, the GATT Antidumping Code, the GATT Subsidies Code, the FTA, or a previous binational dispute settlement panel decision.[1]

Financial services[2]

Because of the sensitivity surrounding financial services, a separate dispute settlement procedure is established. Financial services will be dealt with only by the finance ministers in the United States and Canada. Unlike the other types of dispute settlement proceedings, the FTA does not specify how dispute resolution in this instance should be carried out.

Present Economic Conditions and Effects of the FTA

The United States and Canada enjoy the largest bilateral trading relationship in the world. Two-way trade in services alone amounted to $11.3 billion in 1986, with U.S. direct investment in Canada totaling $46 billion and Canadian direct investment in the United States totaling $17 billion.[3] Two way merchandise trade amounted to $128 billion in 1987, with Canada receiving 24 percent of total U.S. exports (70 percent of Canadian imports) and the United States receiving about 78 percent of Canada's total exports (18 percent of U.S. imports). At present 80 percent of Canadian exports and 65 percent of U.S. exports are duty free, with remaining Canadian tariffs averaging 9 to 10 percent, approximately double the 4 to 5 percent average in the United States. The agreement calls for the removal of all tariffs over a 10-year period.[4] Of the remaining dutiable trade, 35 percent of Canadian exports to the United States and 53.4 percent of U.S. exports to Canada are subject to the 10-year tariff elimination schedule, including such sensitive areas as steel, rubber, most agricultural articles, fish, wood products, textiles and apparel, and alcoholic beverages. The incipient economic effects of the tariff removal should not be dramatic, given the 10-year spread in incremental reductions in the most vulnerable areas.

President Reagan, commenting on the economic effects of the FTA, has observed that it should enhance economic opportunities, create jobs in both countries, and save "consumers hundreds of millions of dollars" by eliminating tariffs. All estimates of the economic effects of the FTA indicate that Canada is likely to benefit more than the United States, given the size difference in the two economies. Expected GNP growth because of the FTA is estimated at approximately 5 percent in Canada and a maximum 1 percent in the United States, or an increase of $45 billion. The Canadian Department of Finance believes 120,000 net new jobs will be created by 1993, five years into the implementation of the pact. According to the U.S. Department of Commerce, more than 14,000 new U.S. manufacturing jobs alone will be created over the same five-year period. The elimination of tariffs could initially reduce the price of imports by as much as the amount of the tariff reduction. The impact on prices may even be multiplied if competition spurs price reductions in domestically produced products.

THE HARMONIZED SYSTEM

Introduction

The Harmonized Commodity Description and Coding System, commonly known as the Harmonized System (HS), is a detailed nomenclature structure describing all articles in international trade. Based on the older Customs Cooperation Council Nomenclature, the HS is intended to serve as a common, modern system of describing products for customs, tariff, statistical, and transport documentation purposes. Adoption of the new nomenclature will improve the accuracy, transparency, and comparability of international trade data, providing U.S. policymakers and business with better information upon which to base policy and marketing decisions.

The legal provisions to permit implementation of the Harmonized System in the United States are contained in the omnibus trade bill recently passed by the Congress and vetoed by the President. Negotiations on the bill, originally slated to be passed in 1987, bogged down in the summer of 1987 and, as a result, the United States was not able to sign and implement the Convention by January 1, 1988, the date it officially entered into force for the EC, Japan, Canada, and a number of other countries. This delay has had many ramifications for both the United States and for the trading community.

The following section describes the HS nomenclature system generally and the present status of its implementation; explains how the HS will be administered, both internationally and in the United States; discusses the benefits to the United States of adopting the HS; and assesses the implications of delayed implementation on U.S. trade agreements and on U.S. business.

Background

The HS is intended to facilitate international trade through the use of a single system for the

[1] Both the United States and Canada are signatories to the GATT and the GATT Codes, making the review process beneficial to both countries.
[2] FTA ch. 17
[3] The figures are from an Oct. 4, 1987, USTR press release: *Background on the U.S.-Canada Economic Relationship*.
[4] See "Trade in Goods" section, supra.

description, classification, and coding of goods moving in international trade, and to facilitate the collection, comparison, and analysis of international trade statistics. The nomenclature is a hierarchical scheme governed by rules of interpretation: it is generally organized so that its chapters cover progressively more complex products and so that a particular product will fall in one and only one provision. Countries adopting the HS nomenclature as the basic structure for describing and coding goods in their national tariffs retain their right to establish independently all rates of duty and may adopt additional, subordinate provisions for duty or statistical purposes.

The Convention

The HS nomenclature system is an integral part of the International Convention on the Harmonized Commodity Description and Coding System, approved by the Customs Cooperation Council (CCC) on June 14, 1983. The Convention was opened for signature upon its approval. Countries wishing to sign the Convention need not be signatories to the GATT, but may become Contracting Parties (in the general meaning of the term under international law) by meeting the Convention's requirements and by adhering to the Customs Cooperation Council Convention.

The basic obligation imposed by the Convention is that customs tariff and statistical nomenclatures of Contracting Parties are to be in conformity with the HS. Thus, all of the headings and subheadings, their numerical codes, the notes and interpretative rules must be adopted without deviation by each Contracting Party. However, each Contracting Party is entitled to provide further subdivisions below the level of the HS codes in order to reflect unique national tariff, statistical, or other requirements.

Administration of the Convention

The responsibility for administering the Convention is entrusted to the Harmonized System Committee (Committee) of the Council, subject to the latter's supervision and approval. The Committee is composed of representatives of the Contracting Parties to the Convention and has the functions of ensuring uniformity in the interpretation of the HS and of keeping the HS up to date through amendments to the nomenclature. Each Contracting Party to the Convention is entitled to have a representative on the Committee and to vote on matters before it. (Contracting Parties to the Convention establishing the Council vote under that agreement's terms when the Committee submits any proposal to the Council.) Any Contracting Party can effectively veto proposed amendments to the Convention and other actions suggested by the Committee or a Contracting Party by requesting that they be remanded to the Committee.

Dispute Resolution

The resolution of disputes between Contracting Parties regarding the classification of merchandise is provided for in the Convention, in large part to achieve uniformity. Where possible, these disputes are to be settled by negotiations between the Contracting Parties concerned. When such disputes cannot be settled by direct negotiation, they may be referred to the Committee, which will then make recommendations. A Contracting Party, if it so desires, may agree at any point to be bound by the decision of the Committee; in the alternative, a Contracting Party may effectively veto a decision by notifying an objection thereto.

Entry into Force

The Convention formally entered into force on January 1, 1988, with more than the number of signatories without reservation of ratification called for in the Convention (17), having deposited their instruments of ratification or accession. As of January 1988, there were 39 signatories to the Convention without reservation of ratification and 15 signatures subject to ratification. (See app. A for enumeration of Contracting Parties.)

Interpreting and Applying the HS

The Council will maintain several publications designed to promote the uniform interpretation and application of the Harmonized System. Among them are a set of Explanatory Notes and a Compendium of Classification Opinions.

The HS provisions comprise 4-digit and subordinate 6-digit coded categories and are organized into 96 chapters arranged in 20 sections, with accompanying interpretative rules and legal notes. The nonlegal Explanatory Notes accompanying the nomenclature provide a commentary on the scope of each heading in the HS but are not to be regarded as dispositive of classification. For each 4-digit heading, the Notes generally list specific products that are included and excluded from the heading; provide technical descriptions of the articles covered according to, for example, their appearance, properties, methods of production, and uses; and give other practical guidance for identifying articles falling within the scope of the heading.

Classification issues are addressed by the Committee which will, as appropriate, prepare decisions on the classification of various products, subject to the Council's approval. When sufficient importance is deemed to attach to an opinion, it will be published by the Council as a guide to the interpretation of the HS. The Explanatory Notes and Classification Opinions are not legally binding, and are merely intended to provide guidance. However, because the Convention is intended to be a dynamic instrument rather than a static one, the intentions of the Contracting Parties as expressed on a continuing basis through the advice and guides to interpretation issued by

the Council will be considered in the interpretation of both the HS and the various HS-based national tariffs (including the Harmonized Tariff Schedule of the United States (HTS)).

The Harmonized Tariff Schedule of the United States

As noted in the CCC discussions in earlier editions of this report, the United States has been involved in the development of the HS since its inception. Several drafts of the Tariff Schedules of the United States (TSUS) converted into the nomenclature structure of the HS were prepared, beginning in 1983 with a report prepared by the U.S. International Trade Commission (USITC) at the direction of the President. The latest publication, entitled *Harmonized Tariff Schedule of the United States: Annotated for Statistical Reporting Purposes* (1st ed., USITC Publication 2030 with supplement), may soon be enacted and implemented, replacing the TSUS. As noted in the introduction above, provisions to do so were contained in the omnibus trade bill passed by Congress in 1988 and vetoed by the President. The rates of duty to be enacted with the 8-digit subheadings are derived from existing TSUS duty rates. The new schedule would, once enacted, become effective upon proclamation by the President.

The new U.S. tariff schedule based upon the HS would have product categories known as subheadings (because of their relationship to international-level headings) designated by 8-digit numbers. For example, HS heading 0102 covers live bovine animals, and subheading 0102.10.00 (in reality a 6-digit international-level provision not further subdivided by the United States) covers purebred breeding animals. These legal categories can be further subdivided for statistical purposes; in the above example, a statistical annotation for male dairy animals is designated as 0102.10.0010. [1]

Implementing Legislation

The Harmonized Tariff Schedule Implementation Act would make the domestic legal changes that are needed to permit the United States to accede to the Convention—in particular, repealing the current TSUS and adopting the HTS.

Agency Responsibilities

The legislation provides that the United States Trade Representative (USTR) will be responsible for the coordination of U.S. trade policy in relation to the Convention. Prior to formulating any U.S. policy position with respect to the Convention, including any proposed amendments thereto, the USTR is directed to seek and consider information and advice from interested parties in the private sector and from interested Federal agencies.

The U.S. Department of the Treasury, the U.S. Department of Commerce, and the U.S. International Trade Commission will be primarily responsible for formulating U.S. Government positions on technical and procedural issues and will represent the U.S. Government. The Treasury will be responsible for matters related to U.S. classification practice and customs administration; the Commission will continue to be responsible for assuring that the Convention recognizes the needs of the U.S. business community for a nomenclature that reflects sound principles of commodity identification, modern producing methods, and current trading patterns and practices; and Commerce (Bureau of the Census) will be responsible for trade statistical matters. The U.S. Department of Agriculture and other interested Federal agencies are to provide technical advice and assistance to Treasury, Commerce, and the Commission. In particular, Agriculture will provide expertise regarding agricultural trade programs and related quotas.

To carry out their responsibilities arising from the implementation of the Convention, under section 484(e) of the Tariff Act of 1930, as amended (19 U.S.C. 1484(e)), the Secretary of the Treasury, the Secretary of Commerce, and the Commission will prepare technical proposals for submission to the CCC and provide support in the development of U.S. Government positions. Private and public sector advice will be sought in this process.

In addition, the Commission is directed to investigate all protests and petitions to the Customs Service under the TSUS that resulted in judicial decisions published during the 2-year period beginning on September 1, 1987, and that would have affected tariff treatment if they had been published after enactment of the new tariff. The Commission will report the results of the investigation and recommend any changes that it would have recommended if the final decisions concerned had been made prior to the conversion to the HTS. The President is directed to review the Commission's recommendations and to proclaim such changes, if any, which he decides are necessary or appropriate to conform the HTS to the final judicial decision. Some entries could be liquidated or reliquidated in accordance with the final judicial decision under the TSUS, and others will be liquidated or reliquidated in accordance with the HTS.

[1] See USITC Publication 2030, cited above, and *Conversion of the Tariff Schedules of the United States Annotated into the Nomenclature Structure of the Harmonized System: Report on Investigation No. 332-131 Under Section 332 of the Tariff Act of 1930*, USITC Publication 1400 (June 1983).

Administration of the Convention and the Harmonized Tariff Schedule

The implementing legislation provides that, following U.S. accession to the Convention and effective implementation of the HTS, the Commission must keep the HTS under continuous review. Thereafter, at such time as amendments to the Convention are recommended by the Council for adoption, and as other circumstances warrant, the Commission will recommend to the President any necessary or appropriate modifications to the HTS. On the basis of Commission recommendations, the President may proclaim modifications to the HTS if he finds such action to be in conformity with U.S. obligations under the Convention and not against the national economic interest of the United States.

The Commission is also directed to keep the HTS, along with its related statistical annotations, related statistical information, and such other matters as the Commission determines to be necessary or appropriate to carry out the purposes of the Convention, up to date. At appropriate intervals, the Commission will compile and publish this information. The Commission will likewise prepare, in consultation with other Federal agencies, a report regarding the operation of the implementing act during the 12-month period commencing on the effective date of the HTS. The report is to be submitted to the Congress and the President within 6 months of the end of the 12-month period.

Statistical Programs

Once the HTS takes effect, the Department of Commerce will compile the import and export trade statistics of the United States and make them available to the public in HS terms, as it does under current law.

Advantages of U.S. Adoption

Accession to the Convention and the adoption of the Harmonized System in the United States will bring many benefits. The HTS would represent a modernization of the tariff nomenclature, bringing it more in line with commercial realities, current patterns of international trade and evolving technological developments.

Accession to the Convention will enable the United States to provide better guidance and advice to U.S. exporters regarding the foreign classification of U.S. exports. Specific disputes involving the classification of U.S. exports imported by our trading partners may be settled under the Convention's dispute settlement procedure. Moreover, the United States will be able to influence the outcome of specific disputes, as well as the general interpretation and development of the HS, through membership in the Harmonized System Committee of the CCC.

In addition to being incorporated in commercial and other private sector reporting systems, the Harmonized System will facilitate the international standardization and automation of trade documentation and may be used for the purposes of freight tariffs and transport statistics as well. Thus, the accuracy, transparency, and comparability of international trade data will provide the United States with a better basis on which to make decisions in trade negotiations, and the uniform, standardized nomenclature and coding system will greatly improve the environment in which U.S. businesses operate overseas.

Implications of Delayed U.S. Implementation

The complexities of both the conversion of countries' tariffs and the negotiation of duty rates needed to maintain trade agreement concessions delayed the target date for the Convention until January 1, 1988. The Convention entered into force on that date in the EC, Canada, Japan, and many other countries. It is not clear when the U.S. Congress will pass the necessary legislation to give effect to the Convention. The delay in U.S. implementation of the HTS has had many ramifications for both the United States and for the trading community. As long as the United States employs a tariff classification system different than those of its major trading partners, the benefits of statistical comparability are delayed.

Private sector parties have faced considerable uncertainty. Because of the internationally agreed target date of January 1, 1988, for the Convention's entry into force, adjustments were made in paper documentation and computer programs. Long-term arrangements were made based on HTS terminology, rates of duty, and HTS provisions setting out U.S. quantitative restrictions on imports. Export documents in particular had to be converted into HS-based terms, as foreign governments and our own Bureau of the Census converted their respective import and export systems. When it became clear that U.S. implementation would not occur as scheduled, most of these changes had to be undone or put aside. Export visas required to enter certain articles subject to quota into the United States are, however, to be submitted in HTS terms, because these changes are particularly expensive to accomplish and to undo.

Similarly, in the public sector, considerable expenditures of time and money were made with the goal of implementing the HTS on January 1, 1988. As yearend 1987 approached, additional efforts to permit the continued use of the existing TSUS and Schedule B were necessary. Because it is unclear when the HTS will be made effective, it is necessary for both the public and the private sectors to maintain up-to-date versions of the TSUS and the HTS.

The delay may also have an adverse impact on the operation of many U.S. trade agreements. Bilateral agreements such as the many textile and apparel restraint arrangements may be more difficult to administer, and the proposed free-trade area agreement with Canada will need to be renegotiated if the HTS is not given effect by January 1, 1989.

The United States will not be able to begin full voting participation in the initial activities of the Committee and the Council under the Convention until the HTS is implemented. These activities, which may determine how the HS will be maintained in the future, include the first meeting of the Committee (replacing the previous Interim Harmonized System Committee) which occurred in March 1988.

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CHAPTER 2

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

INTRODUCTION

In 1987, the General Agreement on Tariffs and Trade (GATT) celebrated its 40th anniversary and began work on the eighth round of multilateral trade negotiations, the Uruguay Round. Negotiated in 1947 among 23 countries, the GATT had a membership of 95 countries at the end of 1987, with several more countries seeking to accede. The term GATT has come to refer to both a multilateral agreement and an organization.[1] Thus, the GATT is both a comprehensive set of rules governing most aspects of international trade and a forum sponsoring discussions and negotiations of any and all trade-related concerns members may raise.

Administration and governance of the GATT are conducted by the Contracting Parties[2] 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 usually meets monthly to oversee virtually all GATT activities and to act 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 2–1 presents the organizational structure of the GATT.

This chapter reports on 1987 developments in the Uruguay Round negotiations, activities of the GATT Contracting Parties, the Council, and the committees of the GATT, and actions taken under GATT articles. The final section reviews the activities of the bodies responsible for implementation of the Tokyo Round agreements covering nontariff measures and certain sectors (aircraft, meat, and dairy products).

[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 lowercase.

GATT ACTIVITIES DURING 1987

In 1987, the groups formed to conduct the Uruguay Round negotiations began a series of meetings. The groups' aims for 1987 were to complete the initial phases of negotiations. Significant resources of the country delegations and the GATT Secretariat were devoted to the activities of these groups. Thus, the regular and routine activities of the GATT were fairly low key this year compared with those in previous years. Other notable events in 1987 include the accession of three new countries to the GATT—Antigua and Barbuda, Morocco, and Botswana—and preparations, overseen by the Committee on Tariff Concessions, for implementation of the Harmonized System by many contracting parties. Also during 1987, several new dispute settlement cases were undertaken.

Uruguay Round Negotiations

A meeting of GATT trade ministers held in Punta del Este, Uruguay, on September 15–20, 1986, initiated the Uruguay Round of Multilateral Trade Negotiations (MTN). The resulting Ministerial Declaration scheduled 4 years of negotiations in which participants are expected to consider proposals to improve the GATT rules, notably those covering agriculture, subsidies, safeguards, dispute settlement, and nontariff measures (NTM's). New areas of negotiation on services, intellectual property rights, and investment measures were also included.[3]

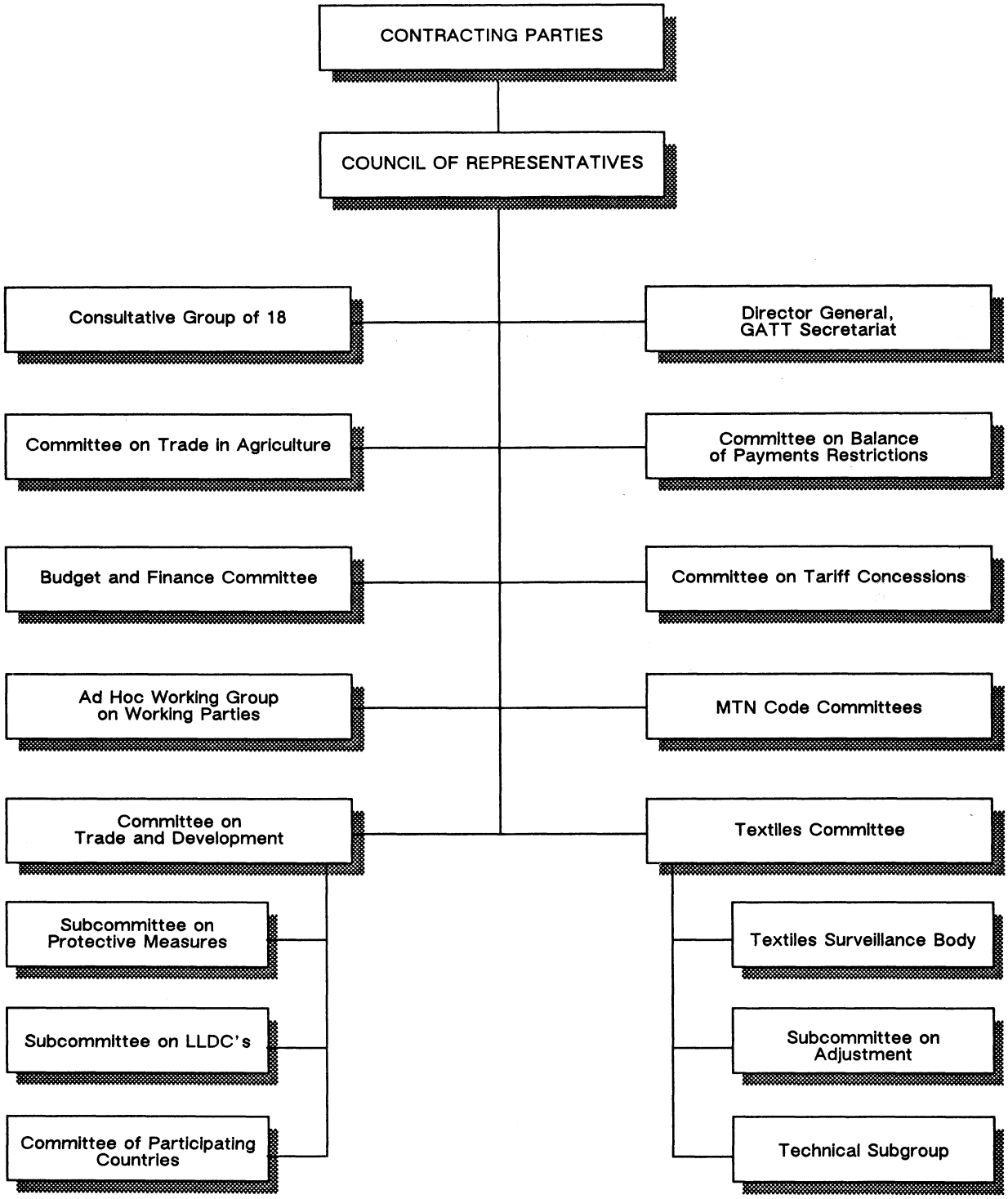
Enrique Iglesias, Chairman of the Trade Negotiations Committee (TNC), observed in October 1987 that over the last year, there has been "a wealth of ideas and proposals submitted by participants in the negotiating groups." Acknowledging that "as proposals are submitted, the differences between participants become more obvious," he added that "if difference did not exist, we would not need the negotiations."[4] By yearend 1987, the negotiating groups had completed three cycles of meetings and, for the most part, had completed the initial phase—the tabling of concrete proposals upon which to begin 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 is responsible for oversight of every aspect of the negotiations. Also formed were a Group of Negotiations on Goods (GNG) and a Group of Negotiations on Services (GNS). Both groups report to the TNC. Fourteen topical negotiating groups report to the GNG. The GNS does not have subgroups.

[3] For full text of the Ministerial Declaration, see app. *A* of *Operation of the Trade Agreements Program, 38th Report*, 1986, USITC Publication 1995, July 1987.

[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 002, Oct. 2, 1987,

Figure 2-1
Organizational structure of the GATT, 1987



2-2

Trade Negotiations Committee

At the beginning of 1987, the TNC adopted decisions concerning the standstill and rollback commitment and the structure of negotiations. Proposals for a Ministerial-level, mid-term review of the Uruguay Round were welcomed by the TNC. The Committee agreed that the meeting should take place in late 1988 and Canada offered to provide the venue.[1] At yearend 1987, the TNC met to hear the reports from the chairmen of the Group of Negotiations on Goods, the Group of Negotiations on Services, and the Surveillance Body. Their 1987 activities are summarized below.

Surveillance Body

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.[2] The Surveillance Body is responsible for overseeing the standstill and rollback commitment. Participants may bring actions or measures taken by itself or other members to the attention of this body through notification to the GATT Secretariat.[3]

In 1987, the body began to examine notifications from delegations complaining of breaches of the commitments and to host discussions of these complaints. In October meetings, for example, Japan and Australia complained to the Surveillance Body of measures imposed by the United States. Japan alleged that the U.S. tariff increases on Japanese electronic products violated the standstill agreement. Australia submitted a notification to the committee regarding the increase in funding for the U.S. Export Enhancement Program announced in July 1987. Australia described the increase as an attempt to escalate the use of export subsidies on agricultural products.[4]

[1] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 013, Dec. 21, 1987. In its February 1988 meeting, the TNC decided to hold the mid-term review on Dec. 5, 1988 in Montreal.

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

[3] Notifications so addressed to the Surveillance Body are then circulated to all participants, along with any comments or other factual information received. Procedures on rollback commitments operate in a similar fashion except that consultations concerning a possible rollback commitment are undertaken by interested parties and the results reported to the Surveillance Body. "The Uruguay Round—Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 4.

[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 010, Nov. 3, 1987.

Group of Negotiations on 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. The initial phases of services negotiations were hammered out in the January 1987 meetings of the GNS. This phase consists of discussions on a list of items that includes definitional and statistical issues, broad concepts, existing arrangements, and current practices that are perceived as barriers.[5]

Group of Negotiations on Goods

At the yearend review, participants in the GNG agreed that progress thus far was satisfactory, but that the momentum must be maintained. Many delegations at the November GNG meeting stressed the importance of the standstill commitment in view of continuing global economic difficulties.[6]

The GNG designated 14 issue-specific negotiating groups in which national delegates must address the various Uruguay Round agenda items. The 14 subgroups began meetings in the spring of 1987. Highlights of the activities throughout 1987 of these negotiating groups are described below.

Tariffs[7]

The negotiating objectives for tariffs call for the reduction or elimination of tariffs. In the initial phase, participants have submitted proposals on possible tariff-cutting approaches. The necessary statistics and information including tariff study files and the Harmonized System (HS) data base will be used in negotiations. Subsequently, the bilateral phase of negotiations on individual tariffs will begin.[8]

In April, the tariff group debated the possible use of a tariff-cutting formula as used in the Tokyo Round. Some participants suggested that a request-offer approach might be more useful.[9] One delegation proposed that all industrial tariffs (except those on mineral and forestry products) be eliminated. A suggestion was also made that developing countries could contribute to negotiations by increasing the number of GATT bindings on their tariffs.[10]

[5] For further discussion on Uruguay Round developments related to services see ch. 3.

[6] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 010, Nov. 3, 1987.

[7] Tariff-cutting exercises, traditionally featured in trade rounds, have substantially reduced tariff levels over the last 40 years. At times, an across-the-board, tariff-cutting formula was used, with general rules for departures from the formula. Tariff negotiations entail binding commitments not to impose tariffs that are above agreed-upon levels on specific products.

[8] "The Uruguay Round-Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 9.

[9] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 004, May 22, 1987.

[10] Ibid.

At the October meetings two new proposals were tabled. One proposal called for narrowing the gap between overall tariff levels of the contracting parties by combining the use of a formula approach to the highest tariffs with a request-offer approach to mid-level tariffs. The other submission proposed a formula approach used in the Tokyo Round as a point of departure for further discussion. Both of the submissions called for the binding of tariffs on all industrial products.[1]

In mid-November the group met to consider three new proposals tabled by participants on negotiating approaches. One delegation proposed a tariff cutting formula that included special and differential treatment for developing countries and also called for increasing the number of tariff bindings by developing countries. Another proposal suggested using an integrated approach to negotiating reductions on tariffs and nontariff measures, including subsidies, and offered a measurement technique for assessing reductions in domestic subsidies. The third negotiating approach consisted of the use of a tariff formula for use by developed countries and a range of options for developing country negotiations.[2]

Nontariff measures

In negotiations on nontariff measures, the central aim, like that in tariff negotiations, is to liberalize global market access. To meet these objectives, negotiations began by examining the issues and working on completing information for the data base on quantitative restrictions and other nontariff measures. Participants in the group are first submitting proposals on possible negotiating techniques that could apply. Following this phase, negotiators plan to table detailed requests for bilateral or plurilateral negotiations on specific measures.[3] This facet will consist of tradeoffs to eliminate and reduce nontariff barriers modeled after the concession swapping associated with tariff negotiations.

By April, two approaches to the NTM negotiations had emerged. Some participants favored a clear distinction between those measures that are and those that are not consistent with the General Agreement. The GATT-inconsistent measures, they argued, should not be negotiated upon but should be dismantled unilaterally by the imposing country. Other participants argued that distinguishing between the consistent and inconsistent measures was too formidable a task and would only slow negotiations. Participants in the group also differed over whether they should cover nontariff measures that may be addressed in other groups such as textiles, tropical products, or agriculture.[4] The differences of opinion on both of these issues continue to underlie debate among participants, without unduly hindering progress in a practical sense at this time.

In October, discussion continued on the possible approaches to negotiations and suggestions were raised concerning the data base on quantitative restrictions and other nontariff measures. The group's Chairman suggested that the data base be enlarged to include all participants. Many participants urged that bilateral negotiations on nontariff measures be held under multilateral scrutiny. Other delegations called for a negotiating approach that integrates the nontariff measure negotiations with those of tariffs. Regarding proposals for a formula approach to negotiations, some delegations doubted that this was feasible, and others thought it could be applied to measures such as quotas.[5] In November, discussions continued on proposals for negotiating approaches. One country announced that it was prepared to eliminate all its quantitative import measures designed to protect domestic industries. Another delegation explained its proposal for integrated request-offer procedures.[6]

Agriculture[7]

Under the negotiating plan adopted in January 1987, the negotiators initially worked on identifying major problems, drawing on the work accomplished since 1983 in the Committee on Trade in Agriculture, and on gathering further information on agricultural measures and policies. In May, the agriculture group continued this process of identifying major problems and began to consider suggestions of basic principles to govern world agricultural trade. Several delegations tabled papers presenting the basic principles that, in their view, should apply. Exposing agricultural trade to market forces and halting trade-distorting government intervention were proposed in many of these papers.[8]

At the July meeting, the United States tabled a far-reaching proposal to integrate agriculture

[1] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 010, Nov. 3, 1987.

[2] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.

[3] "The Uruguay Round – Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 10. The group has set a date of June 30, 1988, for the initial tabling of requests.

[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 004, May 22, 1987.

[5] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 010, Nov. 3, 1987.

[6] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.

[7] 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.

[8] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 004, May 22, 1987.

fully into the GATT system. The U.S. proposal urged the phasing out of distortive government support programs, including export subsidies[1] affecting agriculture over a 10-year period. The proposal also suggested the harmonization of health related measures affecting agricultural trade. Many other delegations welcomed the U.S. proposal and called it a challenging stimulus to negotiations.

At the same time, the use of a measure such as the producer subsidy equivalent (PSE) was proposed to provide a common denominator to negotiate reductions.[2] A number of delegations expressed interest in using such a measure. Some delegations expressed doubts about the U.S. proposal, noting that agricultural policies and conditions are not homogeneous across countries. Others wondered if the proposal was realistically negotiable.

By the end of October, the group had received numerous proposals from delegations, including separate proposals by the EC, the Cairns Group,[3] and Canada (also a member of the Cairns Group). The EC proposal called for establishing a better balance between supply and demand and the phased reduction of the negative effects of agricultural support policies. The Cairns Group proposed the negotiation of a long-term framework with several elements. The proposal urges that tariffs be lowered or removed, the drafting of new GATT rules and disciplines covering government agricultural support measures, commitments to phase out aggregate levels of support, and a series of "early relief measures" such as freezes on access levels and export and production subsidies. Canada tabled a separate paper emphasizing, among other things, the need for a comprehensive approach covering subsidies and other access barriers, along with a phaseout of exemptions and waivers to GATT rules.[4]

By yearend, the group considered proposals from the Nordic countries and Japan. The group agreed that meetings in 1988 would focus on establishing the negotiating process and further discussions on using some form of aggregate measurement of support in these negotiations.[5]

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 are compiling background material and proposing techniques for negotiations. Negotiations on tropical products are expected to receive "fast track" treatment, i.e., to be completed ahead of some other issues.[6]

In October, the EC tabled an offer to reduce progressively or eliminate tariffs and quantitative restrictions on a wide range of tropical products. This proposal was seen as a significant advance in negotiations of the Group on Tropical Products. The EC was the first major importer to make such a sweeping offer. Several conditions were linked to the EC offer, however. The EC called for multilateral burden-sharing, reciprocity by the main beneficiaries, and a reduction of export restrictions by the dominant suppliers of tropical raw materials. Although favorable to the EC approach, some developing country delegations questioned why certain products were not included in the proposal.[7]

In November, participants continued to submit proposals on possible negotiating approaches. To wrap up the 1987 sessions, the group also asked the Chairman to prepare a summary of negotiating proposals for use at the next meetings. Five African countries tabled a proposal that included: (1) harmonization of tariffs on processed and semiprocessed tropical products at the low rates; (2) binding of tariff rates, particularly duty-free entry of raw tropical products; (3) elimination of internal taxes, global quotas, and discretionary licensing; and (4) easing sanitary or technical standards. Another delegation proposed the use of a formula to bind tariffs on tropi-

[1] USTR, Press release No. 87/31, Oct. 26, 1987.

[2] PSE's have been developed through research undertaken by the Organization for Economic Cooperation and Development for several years. It is essentially a measure of government expenditures on various kinds of national agricultural support measures. For a review of recent OECD research on PSE's, see the OECD section of ch. 3.

[3] The Cairns Group includes Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay. The group's name comes from the Australian city where the members met in August 1986 and called for "the removal of market access barriers, substantial reduction of agricultural subsidies and the elimination, within an agreed period, of subsidies affecting agricultural trade."

[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. 011, Nov. 12, 1987.

[5] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. 013, Dec. 21, 1987.

[6] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 11.

[7] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 010, Nov. 3, 1987. Defining which products are "tropical" products and which are to be covered in negotiations has wrought disagreement among developed and developing countries. In general, developing countries favor a definition with broad coverage, whereas developed countries favor a definition that is narrower in scope. Seven groups that have been identified under the narrow definition include (1) tropical beverages, (2) spices, cut flowers, and plants, (3) certain oil seeds and vegetable oils, (4) tobacco, tobacco products, rice, manioc, and tropical roots, (5) tropical fruits, (6) tropical wood and wood products and natural rubber and rubber products, and (7) jute and hard fibers. Even within these categories, however, there is disagreement over the product coverage for negotiations. For more information see Vincent Cable, "Tropical Products," in *The Uruguay Round: A Handbook on the Mulitlateral Trade Negotiations*, Michael Finger and Andrzej Olechowski, eds., The World Bank (Washington, DC, November 1987).

cal products at a lower level, combined with request-offer negotiations to reduce tariffs below that level.[1]

The United States presented a proposal in November referring participants to its proposal put forth in the agriculture group, noting that the majority of tropical products are agricultural. Also, the United States offered a faster track for the phaseout of restrictions on tropical agricultural products than for other agricultural products. Regarding nonagricultural tropical products, the United States suggested negotiations employing the request-offer procedure.[2]

Safeguards[3]

Negotiations on safeguards are aimed toward arriving at a comprehensive agreement. Negotiators 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,[4] structural adjustment, compensation and retaliation, and means for notification, consultation, surveillance, and dispute settlement. These basic elements have been the focus of inconclusive safeguards discussions in the past.[5] Participants in the safeguards group are first circulating papers on the various elements and reviewing previous GATT efforts on safeguards. Subsequently, participants will begin to draft and negotiate on the text of an agreement.[6]

Two proposals on safeguards were tabled at the May meeting of the group. Both urged that article XIX action on safeguards continue to be taken on a nondiscriminatory basis. Another delegation proposed a safeguards agreement that would recommend adjustment assistance to injured domestic producers and allow action at the border only after a GATT determination. Five Pacific rim countries tabled a proposal that included suggestions for tougher criteria linking the injury of domestic producers to increased imports, the use of tariffs as the primary means of safeguard action, improved notification requirements, a duration of no more than three years, and possible compensation for less developed countries affected by safeguard measures.[7]

Three new proposals were considered in October. One submission suggested, among other things, an emphasis on compensation rather than retaliation. It also proposed a requirement for notification before implementation of a measure[8] and creation of a body to settle safeguard disputes. Another proposal called for the elimination of so-called grey-area measures, safeguard-like actions that are taken outside the scope of the GATT. One element of a third proposal was for developed countries to avoid applying safeguard measures to developing countries. All three proposals agreed that the duration of safeguard measures should be limited.[9]

MTN agreements and arrangements[10]

This group's mandate is to work on improving the operation of the codes negotiated during the Tokyo Round (except for the Subsidies Code which is addressed in a separate group).[11] The negotiators began by suggesting improvements to the MTN agreements and reviewing background papers prepared by the Secretariat. Negotiations on specific textual changes are the next phase.[12]

In its May meeting, the group decided that all delegations, whether or not signatories to the codes, would be allowed to participate fully in the negotiations on the MTN agreements and arrangements. In 1987, much of the discussions of the group have addressed problems with the Antidumping Code. A delegate representing a developing country expressed several concerns. Among his concerns, he noted that some signatories' antidumping laws are either inconsistent with the code or are arbitrarily administered, that antidumping cases are on the rise, and that antidumping actions often result in trade barriers.[13]

Some elements of the Standards Code and the Subsidies Code were also discussed in the

[1] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.

[2] Ibid.

[3] 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.

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

[5] See *Operation of the Trade Agreements Program, 31st Report*, 1979, USITC Publication 1121, p. 54, and 34th Report, 1982, USITC Publication 1414, p. 17.

[6] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 17.

[7] GATT, "*News of the Uruguay Round of Multilateral Trade Negotiations*," Press Release No. NUR 005, July 3, 1987.

[8] Although art. XIX currently indicates that notification before implementation is desirable, it is lenient in this regard and notification usually occurs after implementation of a safeguard action.

[9] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.

[10] The MTN agreements and arrangements, also known as "codes," were negotiated during the Tokyo Round. For descriptions of these instruments and accounts of recent activities under their auspices, see section on "Implementation of the Tokyo Round Agreements" later in this chapter.

[11] 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.

[12] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 18

[13] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 005, July 3, 1987.

May meeting. On the Standards Code, one delegation submitted proposals on transparency in the drafting and implementation of national standards and certification rules. With respect to the Subsidies Code, one developing country delegation[1] raised the prospect of arriving at an agreed interpretation of Subsidies Code article 14:5.[2]

In September, participants continued discussion of proposed changes in the Antidumping Code and considered suggestions concerning the operation of other codes. Views were exchanged on aspects of the Antidumping Code such as determination of injury and definition of "domestic industry." On the Standards Code, a group of countries proposed a "code of good practice" for nongovernmental standardizing bodies and extending major code obligations to local governments. Another submission proposed changes in the accession procedures of the Government Procurement Code so as to encourage a greater number of signatories from developing countries. Whether to improve aspects of the Import Licensing Code was also discussed.[3]

By November, the group had examined six of the MTN codes and had considered specific proposals regarding the Antidumping Code. At the November meeting, a proposal submitted by a group of countries questioned the current relevance of the Antidumping Code's definition of dumping since exporters are increasingly faced with antidumping measures when attempting to adapt to prevailing prices in foreign markets. Another proposal was tabled that stressed a need to examine the Code's application of the concept of "like products" to imported components or parts.[4]

Subsidies and countervailing measures

Distinct from the group on MTN agreements and arrangements, this group is examining 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 are submitting and examining these proposals together with other background papers and documentation. Drafting proposals will be tabled and negotiated in the next phase. [5]

[1] Ibid.

[2] 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." For a further discussion of art. 14:5, see *Operation of the Trade Agreements Program, 38th Report,* USITC Publication 1995, July 1987, p. 2–17.

[3] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.

[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.

[5] "The Uruguay Round – Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 19.

In June meetings, the observation was made that severe budgetary constraints of national governments and increasing awareness of the limited economic return of subsidies could lead to fruitful negotiations on subsidies. Some participants noted that the rules on subsidies needed to be clarified, and that once this was accomplished some of the problems associated with countervailing duty actions could be more easily resolved. A group of delegations pointed out the need to agree on the definition of a subsidy. Loopholes in existing countervailing duty rules, one delegation observed, have lead to unilateral and arbitrary interpretations.[6]

In October, participants continued to disagree on whether the group should focus on reaching agreement on basic definitions and concepts related to subsidies or whether work should move ahead to examine substantive GATT rules on subsidies. One delegation proposed that the issues could be broken down into three areas: (1) those for which existing rules are adequate, (2) those for which rules need to be revised, and (3) those requiring the negotiation of new rules. The group also exchanged views on other negotiating issues such as the criteria and definitions used in countervailing duty investigations and GATT notification procedures.[7] In late October, more submissions were tabled on improving the Subsidies Code. One proposal noted that the code was inadequate with respect to provisions on domestic subsidies.[8]

GATT articles

While the work of other negotiating groups covers issues relevant to numerous articles of the GATT, this negotiating group has singled out certain ones for particular attention to improving their effectiveness and observance. Negotiations are beginning with the preparation of factual background papers by the GATT Secretariat on various articles and their application. Following this, negotiators plan to submit proposed texts for improving the operation of the articles.[9]

At its May meeting, the group began discussions of three GATT articles that had been proposed for review. The functioning of article XXIV (on customs unions and free-trade areas) was criticized for causing unintended discrimination among contracting parties without adequate examination and clearance in the GATT. Debate on article XXVIII (renegotiation of tariff concessions) focused on proposals to redefine the term

[6] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 005, July 3, 1987.

[7] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.

[8] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 011, Nov. 12, 1987.

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

" principal supplying interest" and "substantial interest."[1] Article XVII (on state trading) was criticized for lack of clarity.[2]

In September, the participants continued discussions of the articles raised in the May meeting and considered proposals on suggested changes. Some countries also proposed more stringent procedures for the granting of GATT waivers (art. XXV:5). A submission was tabled calling for review of GATT balance-of-payments provisions, but a number of participants disagreed with the idea.[3]

In October, some delegations expressed their continued doubts about the need for negotiations on articles pertaining to balance-of-payments restrictions (arts. XII, XIV, and XVIII) and exchange controls (art. XV). Meanwhile, one delegation requested a review of additional GATT articles on nonapplication of the agreement between particular parties (art. XXXV) and accession to the GATT under procedures designed for former territories (art. XXVI:5).[4] At November meetings, the group continued to consider various proposals on the GATT articles under examination.[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 have reviewed submissions that analyze the functioning of the dispute settlement process and factual background papers by the Secretariat. Specific proposals for improvement were also tabled.

Broad agreement was evident in June meetings of the group that the dispute settlement procedures under the General Agreement have been working fairly well and that major reforms are not necessary. Short of major reform, however, many proposals for improvement have been tabled. Among these proposals are an enhanced mediation role for the Director General, binding arbitration, enforceable timetables for the stages of the process, a mechanism to address blockage of the adoption of panel reports, and ensuring implementation of adopted recommendations.[7]

At September meetings, participants tabled several new proposals and noted the emerging congruence of views on a number of issues. Such issues included the enhancement of the consultation and mediation processes, improvement in certain procedures, and the removal of obstacles to adoption and implementation of panel reports. Some delegations suggested using a single text to elaborate all the dispute settlement procedures. The need for a conciliation phase in the dispute settlement process was particularly emphasized. Among the many proposals tabled were suggestions for creating a GATT body specifically mandated for overseeing dispute settlement or establishment of regular meetings of the GATT Council dedicated to dispute settlement.[8]

In November, the group reviewed proposals made throughout the year and considered some new proposals. Six countries jointly submitted a proposal to hold regularly occurring GATT Council meetings on dispute settlement headed by a separate chairman. Several delegations suggested that disputing parties should be excluded from the decisionmaking process in order to facilitate resolving disputes. To avoid prolonged negotiations on terms of reference for each panel, another delegation proposed the use of standard terms of reference for all panels.[9]

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.[10]

GATT surveillance mechanisms were the major topic of the June meetings of the group.[11] Some proposals suggested a more active role of the GATT Secretariat in surveillance functions. A permanent surveillance body was also

[1] These terms are used to indicate which suppliers have the right to participate in the tariff renegotiations.
[2] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 004, May 22, 1987.
[3] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.
[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 011, Nov. 12, 1987.
[5] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.
[6] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 20.
[7] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 005, July 3, 1987.
[8] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.
[9] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.
[10] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 23.
[11] Existing GATT mechanisms for surveillance include the Uruguay Round Surveillance Body monitoring standstill and rollback commitments, special GATT Council meetings held twice a year on developments in the trading system, the Committee on Trade and Development, the Balance- of-Payments Restrictions Committee, the Committees of the Tokyo Round codes, and the Textiles Surveillance Body associated with the MFA.

proposed. Although participants widely acknowledged that better surveillance would enhance transparency, they disagreed on whether the primary function should be to ensure compliance with GATT rules or to offer an overview of trade trends and policy.[1]

In September, the group considered the relationship between GATT and international financial organizations. Some delegations advocated closer cooperation to ensure that trade would be aptly considered in the formulation of broad international economic policies.[2]

November meetings discussed the possibility of greater ministerial-level involvement in the GATT. Some delegations proposed the formation of a GATT Ministerial body fashioned after the Consultative Group of 18, an existing body of the GATT that functions like a steering committee. Other delegations proposed ministerial participation in the annual session of the contracting parties.[3]

Trade-related aspects of intellectual property rights

The objective of the 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 plan to develop a framework of principles, rules, and disciplines covering trade in counterfeit goods.

In June, 18 industrial countries submitted information to the group on their trade problems experienced as a result of inadequate protection of intellectual property rights. Nevertheless, some other delegations persisted in their doubts about whether all of the issues concern trade and should be addressed in the group. In view of the lack of GATT rules covering many of the issues raised, some delegations called for new rules, and others argued that this lack of rules confirmed that some issues are not appropriate for the group to address.[4]

By September, the Secretariat had prepared a compilation of issues for participants to review. Most issues related to the enforcement, availability, scope and uses of intellectual property rights and their trade effects. Again, participants disagreed over whether the compilation illustrated significant trade effects or whether it presented issues exceeding the group's mandate.[5]

[1] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 005, July 3, 1987.
[2] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.
[3] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.
[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 005, July 3, 1987,
[5] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.

In October, the United States tabled a comprehensive negotiating proposal regarding protection of intellectual property rights. The United States proposed a GATT intellectual property agreement to reduce distortions and impediments to trade caused by deficient protection and enforcement. The proposed agreement would set out norms to be implemented at the national level, with enforcement aided by GATT consultation and dispute settlement mechanisms. Some delegations viewed the U.S. proposal favorably, and others argued that the proposal went beyond the Uruguay Round Ministerial Declaration. Other delegations raised concerns that the U.S. proposals and others tabled thus far raised complicated issues regarding, among other things, the relationship of GATT action to work in other organizations such as the World Intellectual Property Organization.[6]

Trade-related investment measures

The group's mandate is to examine GATT articles that could apply to trade restrictive and distorting effects of investment measures and to develop means to avoid their adverse effects on trade. In the first stages, negotiators are identifying relevant GATT articles and defining areas of negotiation. Subsequently, the group will negotiate on proposals tabled by participants.[7]

In June meetings, four countries tabled papers describing the trade restrictive or distorting effect of investment measures. The papers identified measures such as local content and export performance requirements, domestic sales requirements, local equity and remittance restrictions, and technology transfer requirements. Certain GATT articles were cited as relevant to the trade effects of these measures. The most frequently cited articles included those on national treatment (art. III), antidumping and countervailing duties (art. VI), publication of trade regulations (art. X), quantitative restrictions (art. XI), subsidies (art. XVI), and state trading (art. XVII).[8]

In October, the group began a detailed examination of GATT articles identified as relevant to the trade effects of certain investment measures. Many participants expressed the view that art. III (on national treatment) was applicable to local content requirements that resulted in local products receiving more favorable treatment than imported products. GATT provisions on antidumping (art. VI) and subsidies and countervailing measures (art. XVI) were also discussed with regard to export performance requirements.

[6] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 011, Nov. 12, 1987.
[7] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 22.
[8] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 005, July 3, 1987.

While some delegations argued that export performance requirements could result in dumped and subsidized exports, other delegations doubted the link and called for specific evidence of these effects.[1] By early November, the group had completed its initial review of GATT articles related to trade effects of investment measures and asked the Secretariat to prepare a compilation of views as a basis for further discussion.[2]

Natural resource-based products

Tariffs, NTM's, and tariff escalation affecting trade in processed and semiprocessed natural resource products is the focus of these negotiations. Negotiators are first reviewing the work undertaken since 1982 by the Working Party on Natural Resources in order to develop a factual basis and to determine negotiating techniques. Later, requests and offers may be tabled.[3]

In April, participants raised several potential topics for negotiations. Among the topics were price fixing, dual-pricing policies (resulting in subsidies), restrictive business practices condoned by governments, government involvement (in terms of support, subsidy, ownership, and management) in trade, access to supplies, restrictions, and taxes on exports, and tariff escalation.[4] The October meeting continued discussions of issues raised earlier. Also, participants reviewed the scope and definition of issues to be covered by the group.[5]

At the November meeting, a leading natural resource-producing country tabled a proposal calling for the elimination of tariffs and nontariff measures on natural resource-based products within 10 years. Under this proposal, all relevant tariffs would be bound and a freeze would be imposed on export subsidies. Participants discussed this and other proposals and planned how to proceed to the next phase of negotiations.[6]

Textiles and clothing

The objectives of the textiles and clothing negotiations are to develop a means to eventually integrate this sector into the GATT. Initially, the work of various GATT groups responsible for covering these issues is being reviewed, and existing documentation updated. Later, the group plans to examine specific techniques for integrating the sector more fully into the GATT regime.[7]

Work of Standing Committees

Standing committees of the GATT attended to their regular responsibilities in 1987, as described below. Some committees were less active this year than in previous years because of the demands of Uruguay Round activities on the resources of the Secretariat and country delegations. The Group on Quantitative Restrictions and Other Nontariff Measures is no longer included in this section because it was dissolved last year as having completed its aims. Also, because the work of the Committee on Trade and Agriculture is presently subsumed by the Uruguay Round negotiating group on agriculture, it did not meet in 1987.

The Consultative Group of 18 (CG-18)

The CG-18, which operates like a steering committee of the GATT, met once in 1987.[8] Discussions of the group focussed on the role of the Uruguay Round and ongoing GATT activities vis—vis current economic conditions. Members observed that continuing tensions in trade policy are keeping protectionist pressures alive. Whereas the Uruguay Round may offer medium and long-term solutions to some of these frictions, the group noted, existing GATT mechanisms must be employed to alleviate current trade disputes. The group urged firm observance of the Uruguay Round standstill and rollback commitments and pushing forward negotiations as rapidly as possible.

Tariff Concessions

The Committee on Tariff Concessions, mandated by the Tokyo Round of Multilateral Trade Negotiations, was established in 1980. The Committee manages the gradual reduction of tariffs and oversees maintenance of GATT tariff schedules.[9] It also provides a forum for discussion on any tariff-related concerns. As part of this mandate, 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

[1] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 009, Oct. 27, 1987.
[2] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 011, Nov. 12, 1987.
[3] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 12.
[4] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 004, May 22, 1987.
[5] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 010, Nov. 3, 1987.
[6] GATT, "News of the Uruguay Round of Multilateral Trade Negotiations," Press Release No. NUR 012, Dec. 10, 1987.
[7] "The Uruguay Round - Decisions of 28 January 1987," GATT Press Release No. 1405, Feb. 5, 1987, p. 13. For further details on Uruguay Round activities on textiles see ch. 3.
[8] 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 was made permanent in 1979. Its membership, consisting of both developed and developing country members, rotates annually.
[9] *GATT Activities 1986*, Geneva, June 1986, pp. 23-24.

2-10

Description and Coding System (the Harmonized System).[1]

During 1987, the bulk of the Committee's activity focused on article XXVIII negotiations associated with member's transposing tariff schedules into the Harmonized System.[2] At the July deadline for submitting the results of negotiations to the Committee, five countries had completed negotiations.[3] These countries annexed their transposed GATT schedules to the text of the Geneva (1987) Protocol.[4] As other countries had not completed their negotiations, the Committee decided to establish a second Protocol with a deadline of November to annex the new schedules. Both Protocols enter into force on January 1, 1988.

The Committee continued its ongoing efforts related to the Harmonized System data base and the compilation of looseleaf schedules of GATT tariff concessions.[5] More delegations were urged to join the data base in order to achieve greater transparency. Also, delegations that had not as yet submitted their schedules in looseleaf form were urged to do so. By the end of 1987, 46 contracting parties had submitted the looseleaf schedules.

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. 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 monitors the operation of the "enabling clause."[6]

During 1987, the Committee met in June and October to discuss several issues regarding the trade of developing countries. Members reviewed developments in the Uruguay Round as well as recent developments in international trade. The implementation of part IV and the enabling clause were also reviewed. Other items of the Committee's agenda included an assessment of the work of its subcommittees, the expansion of trade among developing countries, and technical assistance to developing countries.

As part of its review of the implementation of part IV and the enabling clause, the Committee considered notifications made by various governments. For example, Norway notified the Committee of changes in its GSP scheme that brought seven additional products and four new countries under its auspices. Japan also notified improvements in its GSP scheme.

The Committee examined the role of the Subcommittee on Trade of the Least Developed Countries in 1987.[7] The Committee Chairman noted that the Subcommittee will be expected to review Uruguay Round issues relevant to least developed countries on a continuing basis. He urged that the Subcommittee meet more frequently than in the past and invited Committee members to suggest action for future work of the Subcommittee.

In reviewing technical assistance activities, representatives of developing countries noted the usefulness of technical assistance activities in helping to improve their participation in negotiations. Some delegations raised suggestions on coordination of technical assistance related to the Uruguay Round negotiations.

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 XVIII[8] can be applied in conjunction

[1] The Harmonized System was implemented by many countries on Jan. 1, 1988. Developed by the Customs Cooperation Council in Brussels, the Harmonized System unifies and standardize the nomenclature used in the classification of traded goods for duty and statistical purposes. For more details, see the section on the Harmonized System in ch. 1.

[2] To adopt this new nomenclature structure, contracting parties needed to renegotiate tariff concessions under art. XXVIII to reestablish the balance of concessions achieved in previous tariff rounds and agreements.

[3] These countries were Japan, Finland, Sweden, Norway, and New Zealand.

[4] Contracting Parties agreed to use a comprehensive protocol to publish the results of the Harmonized System negotiations.

[5] GATT members view the data base, in conjunction with the tariff study file, as an important asset in the Uruguay Round negotiations.

[6] 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 clause also provides for adherence by developing countries to the obligations of GATT membership that is commensurate with each country's level of economic development.

[7] The term "least developed countries" refers to those countries that are the least developed of the developing countries. 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.

[8] 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.

with consultations with the Committee on Balance of Payments Import Restrictions. In accordance with procedures and decisions adopted by the Contracting Parties, the Committee regularly holds consultations with countries invoking such restrictions for the duration of the measures.[1] The Committee monitors the restrictions and the country's progress in moving toward liberalization.[2] All countries whose trade may be affected by import restrictions may participate in the consultations.

Both full consultations and consultations under simplified procedures, known as miniconsultations, are undertaken. In 1987, the Committee conducted full consultations with Israel and India. Miniconsultations were held with Ghana, Pakistan, and Sri Lanka. The Committee recommended that full consultations be held with Pakistan in 1988.

Textiles

Much of the work related to trade in textiles in the GATT during 1987 focused on organizational issues for the textiles negotiating group, plus the required annual review of textiles and clothing by the Textiles Committee.[3]

The Textiles Committee met twice in December 1987, which were the first two meetings of the group under the 1986 Protocol of Extension. During the first meeting, the Committee undertook the annual review of the Multifiber Arrangement (MFA) as required under article 10:4. As part of the review, the Committee considered reports by the Textiles Surveillance Body (TSB), the Subcommittee on Adjustment, and statistical reports on recent developments in demand, production, and trade in textiles and clothing.[4] The report by the TSB covered developments in textiles trade since the inception of MFA IV on August 1, 1986, as the previous annual report only focused on issues through MFA III, which expired on July 31, 1986.[5]

Textiles and clothing negotiations are intended to develop a means of eventually integrating 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.[6]

In late January 1987, the Contracting Parties agreed on organizational matters for the Uruguay Round negotiations, including how to handle the subject of trade in textiles. At the January meeting, a proposal by India, a major textile-producing country, that a separate group for bringing textiles under the GATT framework be established was accepted by the Contracting Parties.

The negotiating group on textiles held five meetings in 1987. At the first meeting, the Secretariat was requested to update a 1984 study on trade in textiles. The updated version was presented to the negotiating group at its fifth meeting of the year in December. The Secretariat's study reviews the economic importance of textile and clothing industries in major countries and country groups, traces the evolution of policies affecting trade in textiles and clothing of developed and developing countries, and outlines the activities of the Working Party on Textiles and Clothing.[7]

In assessing the work on the updating and other textile trade-related reports done in the first year of the group's work, the members generally agreed that the accomplishments to date were sufficient to allow the group to proceed to its next phase of work. The group ended the year agreeing that subsequent work would focus on modalities and techniques for achieving the objectives of the group—integrating the textile and clothing sectors into the General Agreement—based on proposals to be submitted by participants.

In its 1986 report to the Textiles Committee, the Subcommittee on Adjustment stated that it would begin in 1987 "to organize its work and to consider how best to achieve the objective of a more comprehensive report to the Committee, and what additional material and information or supporting analysis it could expect from the Secretariat."[8] Part of the Subcommittee's 1987 work in this regard focused on how questionnaires used for collecting textile and clothing trade information could be improved. The Subcommittee developed questionnaires seeking (1) information on autonomous adjustment processes and government policies relevant to article 1:4 and (2) de-

[1] Declaration on Trade Measures Taken for Balance-of-Payments Purposes, adopted by the Contracting Parties on Nov. 28, 1979. GATT, *Basic Instruments and Selected Documents*, Supp. 26th, p. 205.

[2] *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 Nov. 28, 1979. GATT, *Basic Instruments and Selected Documents*, Supp. 26, p. 205.

[3] For a description of the Textiles Committee, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, July 1985, pp. 46–48.

[4] The TSB's role is to supervise the implementation of the MFA.

[5] For a discussion of the extension of the MFA, see *Operation of the Trade Agreements Program, 38th Report*, USITC Publication 1995, July 1987, pp. 1-7 to 1-12.

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

[7] The Working Party was set up "to examine the modalities of further trade liberalization in textiles and clothing including the possibilities for bringing about the full application of GATT provisions to this sector."

[8] 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.

velopments in textiles and clothing production and trade, including measures designed to facilitate adjustment relevant to article 10:2. Countries were also encouraged to provide a general statement about their textiles and clothing policies and industries. The Subcommittee on Adjustment provided a progress report on its recent 1987 work at the December meeting of the Textiles Committee. At that time, the subcommittee reported on the submissions received as of early November regarding adjustment in member countries.

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 negotiated 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 to negotiate stems from the right of affected countries to suspend unilaterally "substantially equivalent concessions or other obligations."

[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.

In 1987 a number of article XIX actions were notified or in effect as a result of previous notifications (see table 2-1). During 1987, the ECnotified the GATT that it was taking emergency action with respect to imports of certain squid from Poland. The measures were in effect from July 10, 1987. The EC (United Kingdom) implemented emergency measures on urea from Poland and Hungary in January 1987. The measures set a quota of 12,000 tons on urea from Hungary and of 9,000 tons on urea from Poland. In October 1987, South Africa notified the GATT that it would take article XIX action on optical fiber and optical fiber bundles from October 16, 1987. The action imposes a 25-percent duty on the products previously bound in the GATT as duty free.

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.[2]

[2] 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."

Table 2-1
Article XIX actions in effect as of Dec. 31, 1987

Implementing country	*Type of product*	*Date notified*[1]
Australia	Filament lamps	July 1983
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	Dried grapes	Nov. 1982
European Community	Morello cherries	July 1985
European Community	Sweet potatoes	May 1986
European Community	Digital quartz watches	May 1984
European Community	Squid	July 1987
European Community	Urea	Jan. 1987
South Africa	Optical fiber and bundles	Oct. 1987
United States	Heavyweight motorcycles	May 1983
United States	Specialty steel	July 1983

[1] Date of distribution of notification.

Source: GATT.

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.[1] 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.[2] 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—vis the offending country. However, such authorization is rarely requested.[3]

A determination to improve the dispute settlement process formed part of the 1982 Ministerial Declaration and is now a subject of the Uruguay Round negotiations. Some progress on modifications has resulted from the 1982 initiative and widespread sentiment that the process was cumbersome and time consuming.[4] For example, a roster of nongovernmental experts to serve on dispute settlement panels was developed. In 1987, experts from the roster were called upon to serve on panels and new names were added to the list.[5]

Consultations

During 1987, 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 (art. XXIII:2) stage by the end of 1987, are described below.

Colombia requested consultations in February 1987 with the EC concerning import duties affecting Colombian bananas exported to Italy. In July, Colombia informed the Council that the consultations under article XXII:1 had led to a satisfactory settlement of the matter.

In November 1987, Argentina requested article XXII:1 consultations with the EC regarding one aspect of the EC implementation of the Harmonized Systems due to be implemented on January 1, 1988.

Panels requested by the United States

Canadian measures on exports of unprocessed salmon and herring.—In March 1987, the United States informed the Council that it has conducted article XXIII:1 consultations with Canada regarding Canada's ban on the export of unprocessed herring and salmon and requested the establishment of a panel. The Council agreed and the panel was formed by April 1987. The report of the panel was presented to the Annual Session of the Contracting Parties in December. The Contracting Parties did not adopt the report but agreed to refer the report to the Council for consideration.[6]

EC Third-Country Meat Directive.—In October 1987, the Council considered a request by the United States to establish a panel on the EC's directive setting regulations for meat-handling facilities. The United States argued that the regulation was inconsistent with article III (on discrimination against imported products) and nullified or impaired U.S. benefits under the GATT. At the December Annual Session of the Contracting Parties, the establishment of a panel was authorized.[7]

Indian import restrictions on almonds.—In June 1987, the United States informed the Council that it was holding article XXIII:1 consultations as well as consultations under the dispute settlement provisions (article 4.2) of the Import Licensing Agreement concerning India's licensing regime and tariffs affecting U.S. almond exports. In July, the United States requested that a panel be established on the issue. In November, the Council agreed to establish a panel and authorized the Council Chairman to consult with the parties on the members and terms of reference for the panel.

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. In March 1987, the dispute was settled as a result of bilateral discussions between Japan and the United States.

[1] The panel is composed of persons selected from the delegations of contracting parties not engaged in the dispute and sometimes of another individual chosen from a roster of candidates compiled by GATT members. The panel members are expected to act as disinterested mediators and not as representatives of their governments.

[2] 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.

[3] 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.

[4] 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.

[5] The Contracting Parties adopted the roster proposal at the end of 1984. In November 1985, they approved a list of candidates for this roster and since that time have continued to maintain the list and have called upon individuals from the list to participate in panels.

[6] Canada agreed to adoption of the panel report at the meeting of the GATT Council in March 1988.

[7] For further details see the "European Community" section of ch. 4.

Japanese restrictions on imports of certain agricultural products.—In October 1986, a panel was established at the request of the United States to examine Japanese restrictions on imports of certain agricultural products. The United States argued, among other things, that the Japanese restrictions, in effect since 1963, on 12 categories of agricultural products,[1] are administered contrary to GATT article XI, which deals with quantitative restrictions. In February 1987, the parties agreed to the panel's terms of reference and members.

In December, the report of the panel was presented at the Annual Session of the Contracting Parties. The Contracting Parties agreed to refer the report to the Council for consideration.[2]

Followup on EC tariff preferences on citrus products.—In 1984, the report of the panel examining this U.S. complaint was completed.[3] However, the report was unable to achieve adoption by the GATT Council. Frustrated with EC blockage of the Council's adoption of the panel report, the U.S. President instituted unilateral action under section 301 of the Trade Act of 1974. Through these means, the dispute was finally resolved in August 1986 with an agreement between the United States and the EC. According to the United States Trade Representative (USTR), final implementation of the terms of this agreement awaits passage of the U.S. omnibus trade bill by the Congress, which contains a provision granting the U.S. President authority to effect the agreed upon tariff reductions.[4]

Panels examining U.S. measures

Complaint by the EC on Section 337 action on aramid fibers.—In June 1987, the EC informed the Council that it had requested consultations under article XXIII:1 with the United States in April and May with little response. In July, the EC requested the Council to establish a panel to examine the U.S. section 337 (patent infringement) case on aramid fibers. In October, the Council established a panel. By November, the panel's members had been chosen and its terms of reference were established.

Complaints by Canada, the EC, and Mexico regarding U.S. Superfund reauthorization.—In November 1986, the EC requested article XXII:1 consultations with the United States on internal taxes on petroleum, petroleum products, and chemical derivatives.[5] In November, Canada also requested article XXIII:1 consultations with the United States on the superfund measure, and Mexico requested further information on the legislation. In February 1987, the Council considered requests from Canada and the EC to establish a panel on the matter, and a request by Mexico for the good offices of the Director General.[6] In June 1987, the panel report was presented to the Council and adopted. The Council also took note of the U.S. statement that the penalty rate was not likely to be applied. In December, several contracting parties urged the United States to take measures to comply with the recommendations of the panel report.

EC complaint on tax reform legislation on small passenger aircraft.— In December 1986, the EC 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.

The EC asked the Council to establish a panel in April 1987 and again in May 1987. The Council took note of the position of the EC and other countries that the U.S. tax measure was inconsistent with the nondiscrimination requirements of article III of the GATT and of the U.S. statement that the measure was no longer in effect. The EC agreed that a panel would not need to be established at this time, but urged that a panel be established promptly if the U.S. takes action to revive the measure.

Complaints by Canada and the EC on the customs user fee.— In November 1986, 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

[1] The products involved are preserved, concentrated, or sweetened milk and cream; processed cheese; dried leguminous vegetables; starch and inulin; groundnuts; prepared or preserved meat of bovine animals; certain other sugars and syrups; fruit puree and pastes; fruit pulp and pineapple; fruit and vegetable juices; tomato ketchup and sauce; and certain food preparations. See GATT, *GATT Activities 1986,* Geneva: June 1987, p. 56.

[2] For further details see the "Japan" section of ch. 4.

[3] 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. The panel concluded that the EC preferences would be inconsistent with art. 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. See GATT, *GATT Activities 1984*, Geneva, June 1985, p. 37.

[4] For more details on this subject, see the section of ch. 5 on the enforcement of trade agreements and responses to unfair foreign trade practices, the U.S./EC citrus dispute.

[5] 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 art. III, which deals with national treatment.

[6] Use of the good offices of the Director General is part of special procedures made available to developing countries to resolve a trade dispute.

Reconciliation Act of 1986.[1] In March 1987, the Council considered requests by the EC and Canada to establish a panel. The parties had agreed to the panel members and its terms of reference by May 1987. In November, the report of the panel was completed and circulated to the parties. It was scheduled for consideration by the Council in 1988.[2]

EC complaint against Japan on the U.S./Japan semiconductor arrangement.—In March 1987, the EC requested that the Council establish a panel to examine the arrangement between the United States and Japan on trade in semiconductors.[3] The United States is not a party to the case, but was, however, given special third-party status. The Chairman of the Council was authorized to hold consultations between the parties. In April, the Chairman reported on the consultations and the Council agreed to establish a panel. Negotiations on the terms of reference and members of the panel were completed in June 1987.[4]

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 1987.[5]

Nicaraguan complaint against the U.S. trade embargo.[6]—In July 1985, Nicaragua requested the formation of a panel on the U.S. imposition of a trade embargo against Nicaragua.[7] The panel report was considered at the Council meeting in early November 1986 and the Council chairman agreed to discuss the report with the parties, but the discussions yielded no positive results.

Nicaragua continued to raise the issue in the Council throughout 1987, and the Chairman continued to attempt to hold consultations among the parties. In November 1987, Nicaragua complained to the Council of the continued imposition of the trade embargo against Nicaragua for an additional six months. Nicaragua requested and the Council Chairman agreed to facilitate further consultations between the parties.

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 February 1987, the Council agreed to establish a panel.

The panel concluded that Japanese taxes on certain imported alcoholic beverages were inconsistent with article III:1 and 2 regarding discrimination against imported products. Further, the panel found that taxes on certain liquors were applied in a manner that afforded protection to domestic producers. At the same time, the panel did not find that Japanese labeling practices on liquor bottles were inconsistent with its GATT obligations. The panel recommendation, adopted by the Contracting Parties, recommended that Japan bring its taxes on certain alcoholic beverages into conformity with GATT obligations.

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 inconsistent with the GATT.[8] As a result, the EC claimed the Quebec liquor board actions resulted in imports receiving less favorable treatment than domestic products. The panel report ruling against the Canadian practices was completed and circulated to the parties in November 1987. After the report was circulated, Canada and the EC attempted to arrive at a bilateral solution.[9] In March 1988, the report was adopted by the Council.

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. The Council established a panel in November 1984. The panel report was considered bythe Council in September and November 1985 but was not

[1] 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.

[2] The report was adopted at the February 1988 Council meeting.

[3] In August 1987, the EC and the United States held consultations under art. XXIII:1 concerning certain aspects of the U.S./Japan semiconductor agreement. No panel has been requested.

[4] The panel issued its report and sent it to the Council for consideration in early 1988.

[5] 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 USITC on the matter. Canada postponed further action in the GATT to await the outcome of any further Presidential action. As of May 1988, the President had not acted on the USITC's report submitted in September 1985, nor had he released the report to the public.

[6] Effective May 7, 1985, the President banned all trade with Nicaragua (Executive Order No. 12513, May 1, 1985) and justified this measure under art. XXI (national security exemption) of the GATT.

[7] 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).

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

[9] *European Report*, No. 1361, Nov. 28, 1987, p. V- 8.

adopted.[1] Although Canada reported to the Council in February 1986 that the Provincial tax measure had been rescinded, it will not agree to adoption of the report. Canada and some other delegations remain opposed to certain rulings of the panel.[2]

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

The GATT permits regional trading arrangements among countries that agree to abolish trade barriers between each other under article XXIV of the General Agreement as an exception to the general rule of MFN treatment. This exception recognizes the value of "closer integration of national economies through freer trade." These country groupings must meet certain rules that are meant to ensure that the arrangements facilitate trade without causing harm to trade with outside countries.[3] Therefore, the GATT normally sets up working parties to examine trade aspects of newly formed customs unions or free-trade areas and requires the members of such arrangements to report on its functioning on a biannual basis.

In March 1987, the Council agreed to establish a working party to examine the Third ACP-EEC Convention of Lom. Consultations to designate a chairman lasted until July 1987, when a chairman was finally designated and the working party began its examination.

In October 1985, the Council established a working party to examine the U.S.-Israel Free-Trade Agreement. In May 1987, the Council considered and adopted the working party's report. The Council also agreed that the U.S. and Israel, in accordance with GATT practice under article XXIV, would report every two years on developments under the agreement.

In October 1987, Canada and the United States informed the Council of the free-trade arrangement concluded between them on October 3, 1987.

In February 1986, the GATT Council agreed to set up a working party under article XXIV:5 to examine the effect of the 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.

During 1987, negotiations on enlargement by the EC were continued with several interested contracting parties.[4] Argentina was concerned, in particular, about the effect of Spain's accession on its trade relations with the EC. During 1986, 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. Most U.S.-EC issues related to enlargement were resolved bilaterally in early 1987.[5]

Negotiations on Modification of Schedules (art. XXVIII)

Article XXVIII provides the mechanism by which a contracting party may modify or withdraw tariff concessions. The contracting party wishing to take this action must enter into negotiations not only with the 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.[6] Its provisions are also used when a tariff rate is 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.

Negotiations on the adjustments to GATT tariff schedules are being undertaken in conjunction with adoption of the Harmonized System tariff nomenclature by certain contracting parties.[7] 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 1987 under article XXVIII. During 1987, the United States held Harmonized System discussions under article XXVIII with many of its trading partners, as did many other contracting parties, to protect the value of previously negotiated GATT trade concessions.

Accessions to the GATT (arts. XXVI and XXXIII)

Article XXXIII contains the normal procedures for accession under which the Contracting Parties may accept the accession of a new mem-

[1] The report concluded 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. It further suggested that the Contracting Parties call on Canada to ensure that the actions of the Ontario Province conform to those obligations. 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*, Ibid.

[3] GATT, *GATT Activities 1986*, Geneva: June 1987, p. 64.

[4] 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 art. XXIV: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.

[5] For more details on this subject, see the ch. 2 section on EC enlargement.

[6] 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."

[7] See also the section in ch. 1 on the Harmonized System.

ber by a two-thirds majority vote.[1] Article XXVI provides for accession under simple procedures for former territories applying the GATT rules on a de facto basis.[2]

The Uruguay Round negotiations continued to spark significant interest during 1987 in seeking accession to the GATT by nonmember countries.[3] During the Tokyo Round, a number of countries that were not contracting parties were allowed to participate fully in negotiations. For this round, however, the rules on participation are more restrictive.[4]

In 1987, Botswana and Antigua and Barbuda joined the GATT under the simple article XXVI declaration. Morocco joined in 1987 undergoing the full entry negotiations. In 1987 10 applications were under consideration. China, Costa Rica, Tunisia, Algeria, Bulgaria, and Bolivia and Lesotho applied for full accession.[5] Honduras, El Salvador, and Guatemala—each applied for provisional membership.

The total number of Contracting Parties in 1987 was 95. A full list of GATT members, as of December 31, 1987 is presented in the following tabulation:

[1] The process of accession under art. 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 Uruguay Round.

[2] 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.

[3] During 1986, Hong Kong (previously represented by the United Kingdom) and Mexico acceded to the GATT.

[4] In the Tokyo Round, allowance was made for countries that were not contracting parties to participate in negotiations. However, Part 1, Section F of the Ministerial Declaration of the Uruguay Round essentially limits participation in these negotiations to contracting parties or countries that have applied for accession to the GATT as of a certain date. A copy of the Ministerial Declaration is contained in app. A of *Operation of the Trade Agreements Program, 38th Report, 1986,* USITC Publication 1995, July 1987.

[5] Lesotho became the 96th Contracting Party in early 1988.

Contracting Parties to the GATT (95, plus 1 provisional accession)

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

[1] New members in 1987.
[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 (29)

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

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 1987,[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 (subsidies and countervailing duties, government procurement, standards, import licensing procedures, customs valuation and antidumping), and three are sectoral agreements (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 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 1987, no new signatories acceded to the code, thus 25 signatories remain (Spain and Portugalwithdrew as individual members and are now members under the auspices of the EC).[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 may also 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 national legislation, reports on CVD actions, and notifications on subsidy programs submitted by signatories. In 1987, the Committee also undertook dispute settlement procedures regarding certain issues raised by signatories.

Dispute Settlement[5]

During 1987, the Committee continued its handling of two disputes raised in 1986 and held consultations on a new complaint. Following up on the two 1986 cases, the Committee examined reports of panels established after unsuccessful conciliation efforts. No previously outstanding panel reports were adopted by the Committee this year.[6]

In June 1987, the Committee adopted the report of the panel on the U.S. countervailing duty on Canadian softwood lumber products. A special conciliation meeting held in July 1986 failed to resolve the issue and the Committee agreed in August 1986 to establish a panel. However, since the United States and Canada were able to arrive at a bilateral solution, the full panel report was not released. The report was instead limited to a brief factual description of the proceedings and some details of the bilateral solution.

[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 sets up a panel upon the request of either party, and draws 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.

[6] Panel reports on EC export subsidies on wheat flour and on pasta products were submitted to the Committee in 1983 but are still pending. 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.

A panel report on the U.S. definition of industry concerning wine and grape products, completed in March 1986, also awaits adoption. 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 were temporarily granted standing, as part of the wine-producing industry, to file petitions with the USITC alleging injury or threat of injury resulting from dumped or subsidized wine imports.

Table 2-2
Signatories to the Tokyo Round agreements: Status as of Dec. 31, 1987

(Accepted (A); signed, acceptance pending (S); provisional acceptance (P); new member 1987(*))

Countries	*Standards*	*Gov't procurement*	*Subsidies*	*Bovine meats*	*Dairy products*	*Customs valuation*	*Import licensing*	*Civil aircraft*	*Anti-dumping*
Contracting Parties:									
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				P					
Botswana						A			
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	
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]			
Mexico	A*					A*	A*		S*
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		A		A
Portugal	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
Sweden	A	A	A	A	A	A	A	A	A
Switzerland	A	A	A	A	A	A	A	A	A
Tunisia[4]	A			A					
Turkey			A			A[1]			
United Kingdom	A[1]							A[1]	
United States	A	A	A	A		A	A	A	A
Uruguay			A	A	A				
West Germany	A[1]							A[1]	
Yugoslavia	A		S	A		A	A		A
Zimbabwe						A*			
Noncontracting Parties:									
Bulgaria				A	A				
Guatemala				A[1]					
Lesotho						A			
Paraguay				P					
Total signatories	39	12	25	27	16	27	27	22	24

[1] Reservation, condition, declaration, or any combination.
[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.

2-20

Source: The GATT

In October 1987, the Committee considered a panel report on Canadian countervailing duties on EC beef. The EC first complained in an August 1986 meeting of a Canadian CVD investigation on imports of boneless manufactured or processed beef from the EC. By October 1986, the Committee had agreed to establish a panel. At the request of Canada, however, consideration of the panel report was postponed and a special meeting regarding the dispute was held in December.

In May 1987, a special meeting was held for consultations regarding a U.S. complaint on Canada's imposition of a countervailing duty on imports of grain corn from the United States.[1]

Notification and Review

Through Committee review of notifications, signatories can examine each others' subsidy programs and raise questions regarding consistency with the agreement.[2] Under the exercise in which signatories submit national CVD laws for examination by the Committee, 22 of the 25 members have thus far presented their legislation. During 1987, the Committee examined the legislation of India, Korea, Pakistan, and the Philippines. The Committee was also notified of amendments to countervailing duty laws or regulations by Australia, Brazil, and Japan.

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. For the first half of 1987, signatories notifying that no countervailing duty actions were taken included Austria, Brazil, Chile, Finland, Hong Kong, India, Israel, Japan, Korea, the Philippines, Sweden, Switzerland, Turkey, and Yugoslavia. Countervailing duty actions were notified by Australia, Canada, New Zealand, and the United States. For the second half of 1987, countervailing duty actions were notified by the EC, Canada, and the United States.[3] A summary of semiannual reports on CVD actions taken in 1987 appears in appendix table B-1, except for the report of the United States.[4]

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 submitted no new draft guidelines to the Committee in 1987. Moreover, the draft guidelines submitted to the Committee in 1985 on application of the concept of specificity remain unadopted due to U.S. concerns. In June 1987, the Committee agreed to suspend the activities of the Group due to the heavy workload required of several members in the Uruguay Round negotiations. The Committee agreed that the Group would reconvene as necessary.

[1] See also the "Canada" section of ch. 4.
[2] 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.
[3] Second half 1987 notifications received as of May 1988.
[4] U.S. CVD actions are discussed and listed separately in ch. 5.

Government Procurement Code

The Government Procurement Code entered its seventh year of operation in 1987.[1] The Code requires governments to allow foreign firms to compete for Government contracts for goods that meet specified criteria.[2] It also establishes 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 1987. The primary focus of the Committee's work concerned phase two of renegotiation of the agreement as required in article IX:6(b). The Committee also discussed problems in implementation and administrative matters.

Renegotiations

During 1987, the Committee pursued objectives agreed upon at its November 1986 meeting relating to phase two of the renegotiations under article IX:6(b).[3] The Committee assigned the Informal Working Group on Negotiations additional responsibilities.[4] The Committee decided that the

[1] The 12 signatories to 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. Each signatory selects which of its agencies it will submit to code coverage. For further details, see the *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 1871, p. 71.
[3] 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, had 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, by covering additional entities, and/or by lowering the minimum contract amount, below which purchases are exempt (the threshold level).
The Committee completed the first phase of renegotiations on November 21, 1986. The committee made decisions on textual amendments to the agreement, on the inclusion of goods leasing contracts, on how to calculate the threshold in national currencies, and on procedures for finalization of the text of a Protocol of Amendments.
[4] The Informal Working Group was established in 1985 to redraft proposals to the Code. The group met in February, May, July, and October 1987.

Informal Working Group would handle broadening and improvements in addition to service contracts. The Informal Working Group met in July and October and adopted detailed work plans in the areas of broadening coverage and including service contracts. The first stage of the work program on broadening the agreement will entail submissions from members with a view to clarifying the possible spheres of application that the agreement might cover. This phase is to be completed by February 1988. The second phase of the work plan will involve an elaboration of the appropriate approaches to expanding the agreement. The situation will be reviewed and negotiations will take place on the basis of agreed techniques and modalities during the third stage of the work plan.

In the area of service contracts, the first stage of the work plan will consist of clarifying the applicability of the procurement Code to service contracts and to identifying the problems to be further examined. The examination will be carried out on the basis of information submitted by members.

At its October meeting, the Committee agreed that members will continue to limit application to transactions involving more than 150,000 special drawing rights (SDR) until the date of entry into force of the Protocol Amending the Agreement (Feb. 14, 1988). New thresholds will take effect on that date on the basis of SDR 130,000 in accordance with the Committee's decisions of November 1986.[1]

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 solution to this dispute was proposed by the EC at the Committee's meeting on February 12, 1987, whereby the EC would reduce its threshold by the equivalent of the average effective rate of the different VAT regimes in the EC, or 13 percent. This proposal would be implemented jointly with the new threshold for contracts (130,000 SDR's) provided for in the amendments to the agreement. The United States accepted this solution on the condition that the 13 percent was the average effective rate for the EC, that no major changes to the overall average level of VAT were foreseen and that this was a practical, nonlegalistic solution. A deadline of February 27, 1987, was set for members to submit their objections to the proposal. At its May meeting, the Committee noted that it had received no objections, and therefore the proposed solution was formally adopted.

The Committee continued its review of 1985 national statistics at three of its meetings in 1987. Proposals were presented to improve statistical work including a more detailed breakdown of product categories, introduction of statistical analysis and greater comparability between national statistics. The deadline for submission of 1986 statistics was set for September 30, 1987. The review of the 1985 statistics was concluded at the Committee's October 1987 meeting with the proviso that any outstanding questions could be taken up at the first meeting in 1988.

Administrative Matters

The Committee examined national implementing legislation and practices at its meetings of February, May, and October 1987. At the October 1987 meeting, it was agreed that information from the EC concerning the accession situation of Spain, Portugal, and Greece would be circulated at a later date. The Committee took note from one member concerning its revised national legislation and from another member concerning its new procedures in the area of supercomputer procurement. The Committee conducted its seventh annual review at the October 1987 meeting.

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 standards[2] do not create unnecessary obstacles to trade.[3] As of December 31, 1987, there were 39 signatories to the Code.[4] The Committee on Technical Barriers to Trade, which administers the Code, met three times in 1987 to exchange information and discuss problems in implementation, improvements to the Code, and possible expansion of its coverage. The Committee continued discussions regarding mutual acceptance of test data generated by other parties, improving transparency in bilateral standards agreements, increasing transparency in the activi-

[1] See *Operation of the Trade Agreements Program, 38th Report, 1986*, USITC Publication 1995, p. 2-18.

[2] Compliance with a technical regulation is mandatory, and compliance with product standards is voluntary. Both technical regulation and standard are terms referring to a technical specification for a product, which includes any of the following: (a) the specification of the characteristics of a product, including, but not limited to, levels of quality, performance, safety or dimensions; (b) specifications related to the terminology, symbols, testing and test methods, packaging, or marking or labeling requirements applicable to a product; or, (c) administrative procedures related to the application of (a) or (b).

[3] 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 open further national standards setting procedures to foreigners by allowing interested foreign parties time to comment on proposed standards, technical regulations and certification systems that may affect trade.

[4] Mexico became a signatory in 1987. At its meeting in March 1987, the Committee agreed to grant observer status to the People's Republic of China. The 39 signatories to the Code are listed in table 2-2.

ties of regional standards bodies, and developing proposals for consideration in the Uruguay Round. The fourth meeting on Procedures for Information Exchange was held in conjunction with the October Code Committee meeting. The Committee also met in restricted session on four occasions to pursue its investigation of a case raised by the United States against the EC's Animal Hormone Directive.

During 1987, the Committee continued its discussion of various approaches to the issues of testing, inspection, and type approval. Facilitating the mutual acceptance of test data and reducing the unnecessary costs of duplicative testing and burdensome administrative procedures were identified by the United States as key areas for improving the Standards Code in 1985 during the Code's "third year review." The following year, the Committee agreed that any testing and inspection activities carried out by members should be based on the principles and rules of internationally recognized "guides" on laboratory recognition issued by the International Standards Organization and the International Electrotechnical Commission. In 1987, the Committee adopted a U.S. proposal recommending that members provide information on steps taken to implement these principles and rules in their inspection and testing activities. Several members presented information on the implementation of these "guides" in their countries. The subject of testing, inspection, and type approval will continue to be discussed during the Uruguay Round talks.

Since 1985, the United States has expressed concerns about the lack of transparency in the activities of regional standards bodies such as the European Conference of Postal and Telecommunications (CEPT).[1] During telecommunication talks between the United States and the EC in February 1987, the CEPT announced that it was considering establishment of a sixty-day period during which interested parties could submit comments to CEPT on its draft standards. The United States views this as a positive step.

The Committee discussed how its work on standards could be organized to serve in a supportive role for the Uruguay Round, particularly the relation of the Committee's work to that of the Uruguay Round Negotiating Group on MTN Agreements and Arrangements. The Committee compiled a non-exhaustive list of subjects that might be addressed in the Uruguay Round to further clarify, improve, or expand the standards Code. The United States supported the inclusion of testing, inspection, and type approval[2]; transparency in bilateral standards-related agreements; transparency in regional standards activities; and processes and production methods as topics for discussion. At its June 1987 meeting, the Committee agreed that the list would be submitted to the Negotiating Group on MTN Agreements and Arrangements.

The EC's animal hormone directive was again a topic of discussion in 1987. In January 1987, the United States initiated bilateral consultations with the EC under art. 14.1 of the Code's dispute settlement procedures. Bilateral consultations were held in February and the United States submitted a written proposal under art. 14.2, but the two sides failed to reach a compromise. At the March 1987 meeting of the Committee, the United States notified the Committee that if a resolution to the issue were not reached in the near future, it would request an investigation of the matter by the Committee under art. 14.4 of the agreement. Accordingly, after another round of talks in April, the United States resubmitted its request for an investigation which was then initiated on May 22.[3] The Committee's investigation into the case ended inconclusively in September 1987 when the Committee agreed to meet again as appropriate.[4]

Agreement on Import Licensing Procedures

In 1987, the Committee on Import Licensing held four meetings (the seventeenth through the twentieth) in March, May, September, and October. In addition, signatories held informal consultations during the year. Discussions on compliance with the Agreement on Import Licensing Procedures (the Agreement) and on the work program continued.[5] Signatories communicated to the Committee changes in their laws, regulations and administrative developments relevant to the Agreement, and updated their responses on the GATT questionnaire on import licensing procedures. The Committee also requested new information regarding the documentation signatories required for entry into their customs territory.

[1] At the Committee's October 1986 meeting, the United States noted that some regional bodies do not provide opportunities for suppliers from non-member countries to participate in the development of their standards or receive certification under their system. The United States specifically cited the CEPT as one such organization.

[2] "Type approvals" authorize the sale of all products of a particular type from a particular company. See *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725, p. 67, fn. 2.

[3] Under the terms of the Agreement, either Party to a dispute may request the establishment of a Technical Experts Group (for issues relating to questions of a technical nature) or Panel if, after 3 months of the Committee's investigation, no satisfactory solution has been reached. In July, a U.S. request for a Technical Experts Group was blocked by the EC.

[4] See the ch. 4 section on the EC for further details on this issue.

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

At the March meeting, China asked to be admitted as an observer. Several signatories, including the United States, welcomed the request, and China was granted observer status on that date. On March 27, the Agreement entered into force for Poland, after Poland's instrument of ratification was accepted in February. Poland signed the Agreement in April 1986. Mexico became a signatory in July, subject to ratification by its Government. As of October 9, 1987, the Agreement had 27 signatories.[1] In the 1987 meetings, the

Committee discussed the relationship of its work to the Uruguay Round. Signatories agreed that certain records issued by the Committee should be transmitted to the Negotiating Group on the MTN Agreements. Many stressed that a free flow of information in both directions between the Committee and the Negotiating Group was desirable.

Customs Valuation Code

The Customs Valuation Code establishes a uniform system of rules to determine the customs value for imported goods.[2] The Code 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.[3] 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. In 1987, Spain followed Portugal's 1986 action and withdrew from the Code individually in order to be represented by the EC. Mexico and Zimbabwe joined the Code in 1987, bringing to 27 the total number of signatories.[4] In May 1987, the Committee granted China observer status to attend meetings. China becomes one of three countries with observer status (including Bulgaria and Ecuador) that are not contracting parties. In addition, India requested and was granted a further extension of its request for delayed implementation of the provisions of the Code.[5] India promised, however, that it would be in a position to fulfill Code obligations in the near future when enactment of amendments to customs legislation is completed.

Committee Activities

During 1987, 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 1987, the Committee examined the national implementing legislation of Argentina, Brazil, Czechoslovakia, Korea, and Lesotho.

In 1987, the Committee continued its review of 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. Both items will remain on the agenda as long as relevant material is being submitted by signatories for review.

At its May and November meetings, the Committee continued to discuss the activities of private inspection companies involved in the valuation of goods on behalf of governments (a practice known as preshipment inspection). The issue, raised by the United States, also drew concern from other signatory countries.[6] One observer country that employs preshipment inspection submitted a statement of its government's position regarding the practice. The Committee agreed to keep the matter on the agenda pending further developments.

Technical Committee

In October 1987, the Technical Committee reported that it had adopted two instruments elaborating on technical matters. One adopted text commented upon the application of paragraph 2 of the decision of the Committee on Customs Valuation on the valuation of carrier media bearing software for data processing equipment (VAL/8). The second item adopted was an advisory opinion on the conversion of currency in cases where a contract provided for a fixed rate of exchange.

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[1] For a full listing of the signatories, see table 2-2.

[2] The Customs Valuation Code, formally titled the Agreement on Implementation of Article VII, entered into force internationally on Jan. 1, 1981, although the United States and the EC agreed to implement the agreement on July 1, 1980.

[3] The Code 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 applied 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 is 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.

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

[5] 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, Korea, New Zealand, Norway, Romania, South Africa, Sweden, Switzerland, the United States, and Yugoslavia.

[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. See also, *Preshipment Inspection Programs and their Effects on U.S. Commerce,* USITC Publication 2003, August 1987.

Antidumping Code

The Antidumping Code prescribes the proper conduct for antidumping investigations and the imposition of antidumping duties based on provisions of the General Agreement.[1] It sets guidelines for the use of these measures and related practices such as retroactive application of antidumping duties and price undertakings.[2] The Code also obligates developed countries to give special consideration to the developing countries before applying antidumping duties. In July 1987, Mexico signed the Code ad referendum, 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 1987, the Committee received notification of amendments to antidumping laws of regulations from Australia,[4] Brazil,[5] the EC,[6] and Japan[7]. It also reviewed the antidumping legislation of Sweden,[8] India,[9] Korea,[10] and Pakistan.[11]

Parties to the Code report antidumping actions to the Committee on a semiannual basis. During the first half of 1987, countries reporting that no antidumping actions were taken included Austria, Brazil, Czechoslovakia, Hong Kong, Hungary, India, Japan, Norway, Poland, Singapore, Sweden, Switzerland, and Yugoslavia. Antidumping actions reported by Australia, Canada, the EC, Finland, and Korea for the first half of 1987 and by Canada and New Zealand for the second half are contained in appendix table B-2.[12] Actions undertaken by the United States are also reported to the Code Committee; however, these are discussed and listed separately in chapter 5.

Ad Hoc Group on Implementation of the Code

During 1987, the Committee considered a draft recommendation regarding the definition of input dumping[13] that had been submitted in 1984 by the ad hoc group. The Committee remained unable to agree to adopt the recommendation. Meanwhile, the ad hoc group continued to discuss proposed recommendations on 3 subjects: (1) price undertakings in antidumping proceedings involving imports from developing countries, (2) revision of price undertakings, and (3) termination of price undertakings.[14] Although discussions of methods for determining a constructed value and cumulative injury assessment were concluded, the group was unable to agree on draft recommendations to submit to the Committee. The group agreed to discontinue its discussions on the issue of definition of "sale" and to revert to the matter in the future.[15]

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. This Code also seeks to eliminate NTM's, such as the use of official export credits and certain government purchase policies. No new countries joined the Code in 1987, leaving at 22 the total number of signatories.[16]

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[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 the Code members.

[4] Customs Notice No. 87/169 on new procedures for the processing of petitions.

[5] Decree No. 93.941 of Jan. 16, 1987, and Customs Policy Commission Resolution No. 00-1227 of May 14, 1987.

[6] Council Regulation No. 2336/86 on collecting duties upon imports into Spain and Portugal, Notice on procedures for reimbursement of antidumping duties, and Council Regulation No. 1761/87.

[7] Guidelines for the conduct of antidumping and countervailing duty investigations.

[8] Ordinance on Dumping and Subsidy Investigations of Sept. 5, 1985.

[9] The Customs Tariff (Second Amendment) Act of 1982 and related Customs Tariff Rules of 1985.

[10] Art. 10 of the Customs Act and Art. 4 of the Presidential Decree of the Customs Act.

[11] Ordinance No. III of 1983.

[12] Second half 1987 notifications received as of May 1988.

[13] Input dumping refers to export sales of a product, whether or not itself dumped, that contains inputs purchased internationally or domestically at dumped prices.

[14] An "undertaking" normally occurs when the investigating country accepts an offer by the exporter concerned to take unilateral price-related action so as to eliminate the injury caused by the imports. When an undertaking is accepted, the investigation is terminated without duties being imposed.

[15] 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 has not resumed to allow for the continuing efforts by the ad hoc group.

[16] See table 2-2 for a full listing of this Code's membership.

The Committee on Trade in Civil Aircraft held two regular meetings and two special meetings in 1987. In 1986, the Committee finalized work on the transposition into the Harmonized System nomenclature of the Annex to the Agreement, which enumerates the products covered by the Code. In December 1986, the Committee adopted the Protocol Amending the Annex to the Agreement. The protocol was open for signature throughout 1987 and entered into force on January 1, 1988, for those signatories who have accepted it. The Committee also exchanged views on further negotiations aimed at improving the Agreement, U.S. aircraft maintenance regulations, ways to improve statistical reporting of aircraft trade data, and government mandated offsets in civil aircraft sales.

U.S. officials requested the first special meeting of the GATT Aircraft Committee in March in order to discuss the Airbus dispute within the GATT framework.[1] The United States alleges that the Airbus project is contrary to the obligations of the Airbus partner governments under the Civil Aircraft Code, specifically articles 4 and 6, which prohibit unfair inducements for potential purchasers and trade distorting subsidies. The Committee agreed that clarification of these articles would be discussed in regular ongoing sessions, as long as the discussion related to civil aviation in general rather than Airbus in particular. In 1987, the Aircraft Committee met for a second special session in July, as well as several informal meetings, to discuss interpretation of articles 4 and 6.

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] With no new members joining in 1987, 16 signatories (including the EC representing its member states) constituted the total membership of the IDA[4] The United States is no longer a member.[5] During the Council's two meetings in 1987, it evaluated the world market for dairy products,[6] assessed price levels, and reviewed the functioning of the Arrangement.

With respect to market conditions the Council observed that the world market for dairy products had shown improvement in 1987 and that efforts to contain world milk production were beginning to show results. Further, it concluded that the international market for butter and anhydrous milk fat remained fragile as some country efforts to dispose of dairy surpluses in early 1987 had contributed to market uncertainties throughout the year. Also, 1987 import demand for cheese and milk powders recovered from the low levels of 1986.

During 1987 price reviews, the Council decided to raise minimum export prices for certain dairy products. Effective June 25, 1987, minimum prices per ton for skimmed milk powder and buttermilk powder were raised to $765 from $680, and prices for whole milk powder were raised to $900 from $880. Then, on September 23, 1987, the minimum export prices were raised again to $825 per ton for skimmed milk powder and buttermilk powder, to $950 per ton for whole milk powder, and to $1,120 per ton for certain cheeses.

At its September meeting, the Council reviewed the functioning of the IDA. The Council agreed to devote some of its subsequent meetings to discussion of working methods such as improving documentation and exchange of information for the Committee and Council proceedings.

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] Total membership of the Arrangement is 26 signatories.[8] The signatories include all major beef exporting and importing countries, except the U.S.S.R. 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 1987, the International Meat Council (IMC), which administers the Arrangement, continued to consider several proposals intended to improve its effectiveness. The Council did not adopt the proposals but agreed to continue to discuss them in its next meetings. The proposals suggest the use of several objective criteria or in-

[1] For a discussion of the Airbus dispute, see the 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] 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*, USITC Publication 1725, p. 72.

[6] To accomplish this task, the Council normally considers such items as national policies, food aid, data regarding products, and reports of the Committees that oversee the three protocols.

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

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

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dicators for determining the presence and extent of imbalances within world meat markets.[1]

The IMC also discussed a background paper prepared by the Secretariat on support and intervention mechanisms in place in producer countries. The IMC agreed that the Secretariat should continue to send an annual questionnaire on bo vine meat to certain contracting parties and GATT observers that are not members of the Arrangement.

The Meat Market Analysis Group (MMAG) is a subsidiary body of the IMC that is responsible for reviewing the situation and outlook for the bovine meat market. The MMAG observed that since mid-1986, price recovery had occurred in a number of the international markets for bovine meats. However, the MMAG noted that a trend of decreasing beef and veal consumption is occurring in an increasing number of countries.

[1] These proposals stem from discussions held over the past few 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. For further details, see the *Operation of the Trade Agreements Program, 36th Report, 1984*, USITC Publication 1725 p. 73.

CHAPTER 3

TRADE ACTIVITIES OUTSIDE THE GATT

INTRODUCTION

Although the General Agreement on Tariffs and Trade (GATT) provides the broad international framework for conducting international trade, several other organizations also deal with international trade issues, notably the Organization for Economic Cooperation and Development (OECD and the United Nations Conference for Trade and Development (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 and 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, the U.S.-Israel Free-Trade Area Agreement, the U.S.-Soviet Grain Agreement, and progress on trade agreements in the services sector.

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

The OECD is essentially a forum for industrialized countries to consult and coordinate a broad range of economic issues facing them.[1] Its objectives are to (1) promote the 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. The following section is limited to the organization's main trade-related activities.

Ministerial Declaration

On May 12 and 13, representatives from the OECD met in Paris for their annual ministerial conference. Highlights of the conference were a commitment made by the ministers to advance reform of agricultural trade and a pledge by West Germany to expand its domestic economy.

On the subject of agricultural trade, the final communiqu issued by the ministers urged member countries to develop a more rational approach in their domestic agricultural policies. They pledged "a progressive and concerted reduction of agricultural supports" across all commodities and countries. Despite the political difficulty of the task, the ministers declared that the swelling farm-production supports, which artificially boost prices and lead to immense agricultural surpluses, must be superseded by a new system. Specifically, the communiqu stated that price guarantees or other production-support measures should be replaced by direct farm income support. The United States greeted the consensus on agriculture as a significant step forward, giving political impetus to the Uruguay Round of GATT negotiations, in which liberalizing trade in agriculture is a major objective.

Turning their attention to international trade in general, the ministers made several points. They noted that competitive international markets provide "the most powerful means of promoting economic efficiency and growth." In urging discipline in strengthening and expanding the open multilateral trading system, they called for a reversal of restrictive trade measures. Restrictive trade measures, they noted, interfere with markets and structural adjustment efforts, harm consumer interests, reduce investment incentives, and thus hamper economic growth.

On the subject of the Uruguay Round of GATT negotiations, the ministers committed themselves to resisting protectionist trends and producing results beneficial to all countries, developed and developing. To that end, the ministers vowed that OECD member countries would advance comprehensive proposals on the various negotiating topics in the GATT discussions, abide by their standstill and rollback commitments, and resist domestic protectionist pressures.

In another development at the conference, West Germany made a commitment to expand its economy in June if domestic economic growth falls below a 2-percent annual rate. The United States had long been urging West Germany and Japan to take action to stimulate domestic demand, thereby to rely less on export-led growth and to help cut the U.S. trade deficit. The German commitment was part of an agreement in which Japan repeated its pledge to stimulate its domestic economy and the United States pledged to reduce its budget deficit.

Agricultural Trade

The question of how to reform world agricultural trade has been a subject of OECD work for several years. An economic report presented by

[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.

the OECD Secretariat at the ministerial meeting[1] singled out distortions in agricultural trade as the issue that requires the most immediate attention. The report also cited reversing the erosion of the international trading system as the top priority of member governments. Agricultural support programs, the report noted, are costly and breed tension among trading partners that can threaten the open-trading system as a whole. The report stated that there is no economic justification for protecting agricultural trade from market forces. It also noted that if social grounds for farm support policies exist, such assistance should be separated from production incentives.

A methodology developed by the OECD in its recent work on agricultural support programs measures the relative levels of assistance provided by member governments. The system uses producer and consumer subsidy equivalents to determine the share of assistance in the value of each country's agricultural output.[2] For 1985, the OECD determined that the subsidy equivalent represented 70 percent of the value of output of major agricultural products in Japan. The comparable figure for the United States was 20 percent, and for the EC, 40 percent.

The OECD, which released its report on the subsidy equivalents during the ministerial meeting, found that, during 1979–81, on average about 32 percent of the sales value of the 11 commodities studied consisted of the subsidy equivalent. The OECD's findings are summarized in table 3–1. The OECD also found that the bulk of the subsidies in member countries are accounted for by Japan, the United States, and the EC. Dairy products and rice top the list of individual commodities subsidized in OECD countries, according to the report, with the subsidy equivalent making up over 60 percent of their sales values. Wool and soybeans, at about 10 percent each, had the lowest subsidy element in the sales values of each of the commodities studied.

The OECD research concluded that world markets are unable to further absorb the surplus production brought on by the high subsidy levels. This situation sharpens trade tensions, increases commodity price fluctuations, hampers economic growth, precipitates retaliatory trade measures, hinders growth in the developing countries, and does not effectively support farm incomes. The OECD concluded that such circumstances, if allowed to continue, could cause "dire consequences," leading to "a cycle of gluts and shortages that could not fail to damage the world economy."

[1] OECD, *National Policies and Agricultural Trade* (Paris, 1987).

[2] Both of the subsidy equivalents are designed to measure all policies that assist producers and consumers of agricultural commodities. The producer subsidy equivalent is defined as the payment that would be required to compensate farmers for the loss of income resulting from the removal of a given policy measure. The consumer subsidy equivalent corresponds to the implicit tax on consumption resulting from a given policy measure and to any subsidies to consumption. They are a broader measure of assistance than nominal or effective rates of protection. See OECD, *National Policies and Agricultural Trade*, 1987.

Table 3–1
Producer subsidy equivalents by commodity and country, average 1979–81

(In percent)

Commodity	*United States*	*Canada*	*EC*	*Australia*	*Japan*	*New Zealand*	*Nordic countries*[1]	*Mediterranean countries*[2]	*Austria*	*OECD average*[3]
Dairy	48.2	66.5	66.8	20.8	83.3	18.0	70.8	68.4	77.9	63.5
Wheat	17.2	17.6	[4]28.1	3.4	95.8	[5]-8.2	56.6	10.7	[6]21.1	21.5
Coarse grains	13.1	13.3	27.9	2.9	107.1	5.3	54.7	14.8	19.5	19.0
Beef and veal	9.5	13.1	52.7	4.0	54.9	12.5	61.6	17.6	42.9	30.0
Pig meat	6.2	14.5	21.7	2.7	14.0	7.4	23.5	16.7	32.2	16.5
Poultry meat	6.3	25.7	16.4	2.5	20.5	4.7	43.4	19.4	28.4	14.0
Sugar	17.1	12.5	25.0	[5]-5.0	48.4	([7])	33.4	39.7	39.4	26.6
Rice	5.4	([7])	13.6	14.4	68.8	([7])	([7])	41.9	([7])	61.0
Sheep meat	([7])	([7])	45.0	3.1	([7])	18.2	63.5	14.8	([7])	28.5
Wool	([7])	([7])	([7])	3.9	([7])	16.3	0	26.9	([7])	9.4
Soybeans	6.9	([7])	36.2	([7])	108.1	([7])	([7])	21.9	([7])	9.0
Average, 1979-81	16.0	23.9	42.8	4.7	59.4	15.5	56.1	26.1	42.8	32.1

[1] Finland, Iceland, Norway, Sweden, and Switzerland.
[2] Portugal, Spain, and Turkey.
[3] Based on national currencies converted to U.S. dollars at prevailing exchange rates.
[4] Common and durum wheat.
[5] Negative numbers indicate a tax on producers.
[6] Wheat and rye.
[7] Not calculated.

Source: OECD, *National Policies and Agricultural Trade*, Paris, 1987.

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Export Credits Arrangement

The Arrangement on Guidelines for Officially Supported Export Credits (the arrangement) was designed to regulate government-sponsored 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.[1]

Change in Export Credit Rules

After a 3-year campaign by the United States to strengthen international discipline in the use of mixed credits, representatives of the OECD agreed in March 1987 on a strategy for restraining the use of subsidized export credits to developing countries. The so-called "mixed credits" reduce the effective interest rate on loans by mixing development aid with commercial export financing.

The new rules, taking effect in phases, will make mixed credits more expensive for lending countries. Prior to the rule change, countries with relatively low interest rates enjoyed a built-in competitive advantage over higher interest-rate countries like France, Italy, and the United Kingdom. The advantage enjoyed by low interest-rate countries will be ended under the new plan.[2]

The scheme set up a two-stage transition to a more transparent system of export credits. In July 1987, the minimum grant element of a mixed-credit offer to developing countries rose from 25 percent to 30 percent. In July 1988, the grant element will rise to 35 percent. The minimum grant proportion of mixed-credit offers to the least developed countries will climb to 50 percent. Raising the grant element is intended to ensure greater transparency of the system and to deter the use of mixed credits as a tool of export promotion by making them more costly.

The participants also agreed to revamp the method for calculating the grant element of mixed credits. Revision of the grant-element formula will make it more difficult for exporting countries with low interest rates to meet the minimum grant-element thresholds. Previously, a 10-percent interest rate was used in determining the subsidy element of mixed credits. On the basis of a proposal offered late in the negotiating process, greater reliance on market interest rates as a guideline will be used for calculating the grant element under the revised scheme.

Another aspect of the revision increased the minimum interest rates on commercial loans that benefit from subsidies on official export credits. This change eliminates subsidies on export credits to relatively rich countries and reduces those subsidies in other cases. Recipients most likely to be affected by this particular modification are the Soviet Union and OPEC members.

Interest-Rate Change

Minimum interest rates that member countries may now charge on officially supported export credit offers are presented in table 3–2.[3] Minimum interest rates for export-financing offers set by the automatic adjustment mechanism fall into three categories of recipient countries (relatively rich, intermediate, and relatively poor) for two main time periods of financing (2–5 years and over 5 years). The short term interest rates rose by six-tenths of 1 percentage point for all three country groups to 10.15 percent for relatively rich, 8.85 percent for intermediate, and 8.00 percent for relatively poor. Long-term interest rates for relatively rich and relatively poor countries also rose by the same increment, to 10.40 percent and 8.00 percent respectively. Long-term interest rates for intermediate countries were unchanged at 9.35 percent. Interest rates were last changed on July 15, 1986.

[1] 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.

[2] Three low interest-rate countries—Japan, Austria, and Switzerland—withheld final approval of the plan until the very end of negotiations because of this factor.

[3] The OECD-authorized minimum interest rates are reviewed each January and July and are subject to automatic revision. A movement of one-half of one percent in the weighted-average bond rates denominated in U.S. dollars, West German marks, British pounds sterling, French francs, and Japanese yen induces automatic adjustment of the minimum interest rates.

Table 3–2
Minimum interest rates, for officially supported export credits, by repayment periods,[1] guidelines set on Jan. 15, 1988

(In percent)

	2 to 5 years		*Over 5 years*	
Country type[2]	*Present*	*Former*	*Present*	*Former*
Relatively rich	10.15	9.55	10.40	9.80
Intermediate	8.85	8.25	9.35	9.35
Relatively poor[3]	8.00	7.40	8.00	7.40

[1] The rates adopted in July 1986 are shown in the "Former" column.
[2] Relatively rich countries are defined as having a per capita Gross National Product (GNP) over $4,000; intermediate countries, per capita GNP between $681 and $4,000; and relatively poor countries, 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.

Source: OECD.

Information, Computer, and Communications Policy

In December 1987, a meeting of the OECD's Information, Computer, and Communications Policy Committee was convened. The meeting focused on challenges and opportunities presented by information technology and the need to improve conditions for international diffusion and trade in this sector. Specific subjects discussed at the meeting were information and communications technologies for economic development, experiences and challenges of telecommunications policies, and improving international rules affecting telecommunications. The final outcome of the meeting was a Chairman's concluding statement, which contained observations and recommendations by and for member countries.[1]

On the subject of information and communications technologies for economic development, the concern was expressed that the potential for economic growth and job creation offered by information and communication technologies was not being fully realized. Constraints on diffusion of information and communications technologies were linked to insufficient training in the technologies and a lack of awareness by workers, managers, and the public of the benefits the technologies may produce. Intellectual property protection, tariffs, nontariff barriers, and data privacy were also identified as issues imposing constraints on diffusion of information and communications technologies. Many member countries shared the view that coordination of government and private-sector initiatives would help remedy this problem.

On the subject of experiences and challenges of telecommunications policies, the Chairman's conclusions noted that diverse approaches to telecommunications policies in member countries are being undertaken that reflect national interests mixed with increasingly larger international dimensions of telecommunication policy. In line with this observation, the Chairman stated that member countries are less focused on competition versus monopoly in determining telecommunications policies and instead are concerned with the direction and pace of establishing new regulatory and market structures in the sector.

The Chairman's conclusions made several points regarding establishment of rules affecting the global information economy. It was noted, for example, that liberalizing international trade in information and communications services will be essential for world growth in new and related sectors. The conclusions stated that goals of liberalizing international trade in information and communications services should include general trade concepts such as transparency, nondiscrimination, and universality, plus more specific issues such as differences in national standards, intellectual property regimes, and demands for privacy protection. In addition, creating universal rules governing information and communications technologies was stressed as an essential requirement to ensure diffusion of the technologies worldwide at the lowest possible cost.

Investment

When the OECD was formed, in 1960, the free international movement of private capital flows was cited as a generally desirable objective, with members agreeing to "pursue their efforts to extend the liberalization of capital movements." In 1961, this principle of liberalization was embodied in the Code of Liberalization of Capital Movements (the Code), to which all members adhere. The Committee on Capital Movements and Invisible Transactions (CMIT) oversees application of the Code. Its oversight functions include scrutinizing restrictions and recommending relaxation or removal.

In 1987, the OECD released a report detailing investment restrictions in member countries.[2] The report, the organization's most comprehensive to date,[3] outlines laws, regulations and administrative practices employed by member countries and their States, Provinces, regions, autonomous units, etc., as they affect foreign investment. The report is intended to serve as a reference tool to those in business and government in the member countries as well as to the CMIT for its work in promoting liberalization of investment restrictions. The report contains (1) descriptions of general (not sector-specific) measures affecting foreign investment, (2) listings of restrictions on local financing, including access to domestic capital markets or requirements for investment to be financed through capital imported from abroad, and (3) an inventory of sector-specific controls and impediments to direct investment.

Another study published by the OECD in 1987[4] highlights two major developments in international direct investment. The first is the growth of the United States as a host of international investment. The role of the United States as a host of OECD foreign investment grew from 29 percent of all OECD international investment during 1975/79 to 53 percent during 1980/83. The study also reported that foreign investment from the United States dropped by more than one-half in the 1980s.

[1] OECD, "High level meeting of the Committee for Information, Computer and Communications Policy, The Information Economy: Policies and International Consensus, Chairman's Concluding Statement," OECD, Dec. 3-4, 1987.

[2] OECD, *Controls and Impediments Affecting Inward Direct Investments in OECD Member Countries* (Paris, 1987).

[3] Previous surveys of regulations and administrative practices affecting foreign investment in OECD countries were published in 1979 and 1982.

[4] OECD, *International Investment and Multinational Enterprises: Recent Trends in International Direct Investment* (Paris, 1987).

The other development detailed by the OECD study is the fall in direct investment in developing countries following the 1981–82 recession. This change, characterized as a "serious concern" by the OECD, is seen, in part, as a response to the debt crisis faced by some developing countries. A parallel trend in international investment from the OECD countries over the last decade is a fall in investment in Latin America and a rise in investment in the newly industrialized countries of South and East Asia.

Protectionism and Structural Adjustment

At the May ministerial meeting, OECD ministers noted recent progress in efforts to undertake structural adjustment policies, but pointed to "major distortions and rigidities" that plague OECD economies. Improving the growth potential of member economies requires more competition in product markets, responsiveness in the factor markets, and an efficient public sector, the ministers stated. To ensure effective, growth-oriented adjustment policies, the ministers agreed that international economic cooperation must lie at the foundation of national economic adjustment efforts. Whereas the fruits of such efforts may only be realized in the medium term, ministers agreed that economic opportunities, confidence in the future, efforts to strengthen noninflationary growth and reduce employment would receive a boost from immediate implementation of such policies.

By the end of 1987, the OECD reported that recent developments in structural reform of trade policies had been mixed. In its semiannual report on trade and economic developments,[1] the OECD singled out discussions on trade liberalization currently underway in the Uruguay Round of GATT negotiations as "the most positive development" regarding liberalization of trade in traditional and new areas. The report pointed out that some major recent liberalization efforts, such as the U.S.-Canada Free-Trade Agreement or continued reduction of intra–EC barriers, have been bilateral or regional and not multilateral. The OECD termed the continuing use of bilateral approaches as unfortunate, but noted that such efforts are increasingly made pursuant to GATT rules. In the wake of the stock market crisis of late 1987, the OECD stressed the heightened importance of further progress in liberalizing world trade flows. Similarly, in reference to recent restrictive actions, such as a prospective U.S. trade bill, the report termed "recent and prospective developments in trade policies" a particular matter for concern. The report predicted that more unilateral protectionist measures would weaken confidence and adversely affect world economic performance.

[1] OECD, *OECD Economic Outlook* No. 42 (Paris, December 1987).

CUSTOMS COOPERATION COUNCIL

In 1987, the Council (whose members now number 102) focused upon the task of obtaining the entry into force of the Harmonized System Convention.[2] The Convention entered into force on January 1, 1988, and as of January 15, 1988, had 38 Contracting Parties (including Canada, the EC, and Japan) and 15 signatures subject to ratification. The Interim Harmonized System Committee completed its work and began the transition to the Harmonized System Committee provided for in the Convention.

The Council's funding problems, which had become serious during 1986, became critical in 1987, with the United States and other nations failing to supply full arrearages and current assessments. The situation resulted in the implementation of a hiring freeze and compelled reductions in expenditures. Despite this fact, the Council's work in the application and enforcement of the agreements for which it is responsible continued in 1987. During 1987, the Council pursued its efforts to simplify and further harmonize customs procedures and documentation, encourage trade mark and copyright protection, and fight illegal drug trafficking. The Council also prepared a manual for use by airlines and customs service organizations on electronic data transmission and the treatment of consignment carriers.

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD was created as an organ of the United Nations General Assembly in 1974 for the purpose of promoting international trade, especially with a view to accelerating economic advancement of developing countries. Since its inception, UNCTAD's role has been limited largely to exchanges of views on trade and aid programs among countries that are at different stages of economic development and have different economic systems.[3]

UNCTAD convenes in conference once every 4 years. In the interim, the Trade and Development Board (TDB), UNCTAD's governing body, oversees UNCTAD's functions.[4] The TDB holds two or more regular sessions per year and an occasional special session. In 1987, the TDB held the second part of its 33d session in March,

[2] See section of ch. 1 on the Harmonized System.

[3] 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.

[4] 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.

a special session in May largely devoted to preparations for UNCTAD VII, and the first part of its 34th session in October. Also in 1987, UNCTAD's seventh quadrennial conference bringing together all member countries was held in Geneva. The following sections discuss the trade-related topics that have been the focus of ongoing work since UNCTAD VI, the outcome of UNCTAD VII, and activities of the organization since the conference.

UNCTAD VII

The seventh quadrennial UNCTAD conference was held in Geneva from July 7 to August 3, 1987. Marathon bargaining sessions between the developed and developing countries finally resulted in a mutually acceptable declaration 3 days after the Conference was scheduled to end. The key topics of the conference were international trade, primary commodities, debt and financial resources for development, and the problems of the least developed countries. The Final Act of the conference reflects areas on which all member countries were able to agree on an assessment of the issues in the four areas and on recommended policies and measures.

The United States entered the conference with several main objectives. First, the United States sought to redirect UNCTAD discussions to a constructive exchange of ideas and policy dialogue on economic development. In the U.S. view, the organization has strayed from this focus in recent years, with the United States instead becoming the target of criticism by the developing countries in UNCTAD. In line with this goal of returning UNCTAD's focus to its original purpose, an attempt was made to limit the organization's involvement in issues more appropriately the work of other international organizations, such as the IMF, the World Bank, and the GATT. Second, the United States sought to introduce consideration of the importance of the private sector in development. This topic has never previously been the subject of extensive UNCTAD deliberations. Third, the United States tried to persuade developing countries of the importance of structural adjustment of their own economies to contribute to a domestic environment conducive to development. Finally, the United States emphasized that it did not come to UNCTAD VII to engage in a month-long word-by-word drafting exercise, which characterizes many UN conferences. The United States maintained that such an attempt to paper over real differences between countries through ingeniously drafted texts would be futile as those differences would remain long after the conference adjourned. Instead, the United States sought to have a final outcome delineating areas of convergence and divergence.

Major U.S. objectives on international trade at the conference included urging respect for the responsibilities and primacy of the GATT in defining trading rules and undertaking multilateral trade negotiations, emphasizing the role of the private sector and free markets in development, and encouraging recognition by member states of the importance of domestic economic policies in helping to solve problems of international trade. The United States maintained that the role of organizations such as UNCTAD in the Uruguay Round had been clearly defined in a decision of GATT's Trade Negotiations Committee on observer organizations.

The developing countries at UNCTAD sought a "blueprint for a universal, non-discriminatory, comprehensive, stable and predictable trading system." This goal was based on their assessment that the present international trading environment contains a plethora of restrictions and discriminatory arrangements detrimental to the trade interests of developing countries. The developing countries also sought respect by developed countries for commitments to standstill and rollback of protectionist measures, special and differential treatment of developing countries, improving both market access and GSP schemes, a role for UNCTAD in the Uruguay Round, and an expanded mandate on trade in services.

Of key importance to the United States was the recognition in the Final Act of the "critical role" of the Uruguay Round in the international trading system. Although no specific role for UNCTAD in the round was defined, the Secretariat was instructed to "follow closely" developments in the round, and to provide technical assistance on request to developing countries to facilitate their participation in the round. The UNCTAD Secretariat's existing mandate to study trade in services was reaffirmed and slightly expanded to include analysis of issues such as the implications of technological change on services.

The document that resulted from negotiations at the conference is refered to as the Final Act. Although the trade section of the Final Act contained no mention of the private sector, market forces, or domestic policies, UNCTAD did hold an "Enterprise Symposium" during the 2 days preceding the conference, which emphasized the importance of entrepreneurship in developing countries. One of the recommendations regarding international trade in the Final Act of UNCTAD VII was for governments to consider establishing independent, transparent national mechanisms, similar to the USITC, to evaluate protectionist measures sought by firms or sectors.

In the area of primary commodities, the major U.S. objectives were recognition of the crucial role of market forces and the private sector in commodity sectors, discussion of commodity issues in a producer-consumer context (rather than a developed-developing country context), assurance of GATT's competency regarding trade negotiations on commodities, and encouragement of

the UNCTAD Secretariat to analyze global structural changes affecting the commodity sectors.

The Final Act recognized the need for improved functioning of commodity markets and the improvement of existing commodity agreements, and noted that the Common Fund for Commodities might soon be implemented.[1] The conference also recognized the opportunity presented by the Uruguay Round for improving market access, which, along with price-stabilization agreements, is a major issue of importance to developing countries.

On the subject of debt and resources for development, major developing-country proposals included convening an international conference on money and finance aimed at reforming the international monetary system; IMF surveillance of exchange rates, trade and capital flows, and fiscal equilibrium of principal developed countries; and boosting international liquidity through a new allocation of Special Drawing Rights (SDRs) by the IMF.

The proposals for an international conference on the monetary system and IMF surveillance of developed countries were rejected. Agreement was reached that commercial banks should be more flexible in debt renegotiations, although the United States resisted demands that banking regulations be changed to facilitate debt relief for developing countries. The debt strategy endorsed by UNCTAD notes that rescheduling programs should consider the medium term development objectives of developing countries. While not rejecting the current case-by-case debt strategy, this wording recognizes the complaint by debtors that their 5-year economic planning programs may be pushed aside when short-term austerity is required by debt rescheduling. Concerning the SDR allocation, the United States maintained that a need for new international liquidity had not been convincingly demonstrated.

The final agenda item focused on the problems of the least developed countries.[2] The Final Act identifies the primary importance of national development efforts by this group of developing countries, calls upon developed countries to meet the internationally agreed upon aid targets, and recommends easing debt repayment and rescheduling terms for those countries.

At the fall 1987 meeting of the TDB, a decision was passed formally integrating the outcome of the conference into UNCTAD's ongoing work.[3] The decision instructed intergovernmental bodies of UNCTAD to follow up and keep under review implementation of policies and measures in the Final Act that fall under the terms of reference of their respective bodies. The TDB also decided to review the interrelationships among policies and measures defined in the Final Act that pertain to the TDB's regular agenda item on the interdependence of problems of trade, development finance and the international monetary system, and to contribute to international cooperation aimed at improving the systems, structures, and arrangements that underpin international economic relations.

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.[3] 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. . . ."[4] Eighteen commodities were initially identified for IPC action. To date, agreements covering natural rubber, jute, and tropical timber have been concluded within the framework of the IPC.[5]

In 1980, the Common Fund for Commodities (CFC) was conceived by developing countries as a mechanism with three accounts. The First Account is to provide financing on attractive terms for price stabilization activities through international buffer stock operations. The Second Account is to provide concessional loans or grants to developing country producers for such activities as productivity improvements, research, market promotion, and vertical diversification. The 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.

[1] For a discussion of the Common Fund for Commodities, see the following section.

[2] The least developed are those countries having an average GDP per capita of about $200, most of which are located south of the Sahara in Africa.

[3] TDB Decision 350 (XXXIV) "Arrangements for the follow-up and for the review of the implementation of the Final Act of UNCTAD VII."

[3] 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.

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

[5] 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."

The CFC, designed to finance commodity buffer stock operations for price stabilization, requires ratification by 90 member states accounting for at least two-thirds of the Fund's directly contributed capital of US$470 million to become operational. While the number of states exceeded 90 in 1986, it was not until UNCTAD VII that several more countries, the largest being the Soviet Union, announced their intentions to ratify the Common Fund, virtually assuring that the two-thirds threshold will also be met. The United States does not participate in the Common Fund or buffer-stock operations, preferring to rely on market forces to determine commodity prices. The conference recognized that entry into force of the Common Fund "might further the conclusion of international commodity agreements with economic provisions."

By the end of 1987, the CFC had received nearly enough ratifications to bring the agreement into force. On December 9, 1987, the Soviet Union became the 99th country to finish ratification procedures for the agreement. Its 5.78 percent of directly contributed capital to the Fund brought the proportion of ratifications to 66.00 percent, 0.67 percentage points shy of the level needed to complete the operation requirements. This final threshold is expected to be overcome in the near future, as several other UNCTAD member states are in the process of ratifying the agreement.

In September 1987, the second session of the Intergovernmental Group of Experts on the Compensatory Financing of Export Earnings Shortfalls was held.[1] The group noted that the Final Act of UNCTAD VII recognized shortfalls in commodity export earnings for developing countries as an obstacle to development and directed the Group to take account of the implications of these shortfalls. Members of the group agreed that such shortfalls negatively affect economic and social development, particularly for the least developed and the highly indebted countries which are most heavily dependent on commodity export earnings. The group noted that the IMF was in the process of reviewing the operations of its Compensatory Financing Facility (CFF), which is designed to stabilize export earnings. The group reaffirmed its conclusions from the first session, that commodity export earnings shortfalls were a "matter of concern" to the entire international community, and announced it would make further recommendations after the IMF completes its CFF review.

[1] The first session of the group was held in 1986. See USITC, *Operation of the Trade Agreements Program, 38th Report, 1986*, USITC Publication 1995, July 1987, p. 3-6.

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, to 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 the TDB annual review.[2]

Documentation prepared by the UNCTAD Secretariat for the annual review of protectionism and structural adjustment included "Problems of Protectionism and Structural Adjustment, Part I: Restrictions on Trade."[3] In its review, the Secretariat outlined trade actions and trade-related legislation in 1986 and provided an assessment of trade measures taken by developed and developing countries.

The Secretariat made three main observations regarding restrictions on trade during the previous year. It noted that (1) although there has been pressure for protectionist legislation in many developed countries, no major changes were enacted by legislatures, including that of the United States, during 1986; (2) certain socialist countries, including China, have taken steps to facilitate international trade; and (3) a prominent feature of trade actions is "continued resort to bilateral solutions to trade frictions."

On the subject of relaxing trade restrictions, the Secretariat observed that although some nontariff measures (NTM's) had been relaxed by certain developed countries, other measures were introduced in different sectors. The use of NTM's by developing countries was characterized as "pervasive in all sectors." "Positive developments" regarding observation of standstill commitments by developed countries were noted by the Secretariat, but little rollback of protectionist measures was accomplished.

In its report to the TDB on protectionism and structural adjustment, the Secretariat also considered the subject of whether developing countries, in practice, receive special and differential treatment by the developed countries.

[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, "Protectionism and Structural Adjustment, Problems of Protectionism and Structural Adjustment: Part 1, Introduction and Restrictions on Trade; and Part 2, Trends in Production and Trade in All Sectors and Their Underlying Factors." TD/B/1126 Parts I and II, Jan. 22, 1987.

Four main findings were presented on this topic: (1) detailed analysis of tariffs and NTM's cast doubt on whether developing countries receive, in practice, special and differential treatment; (2) even considering preferential tariff rates for developing countries, the trade-weighted average tariff rates applied by developed countries to imports from developing countries in 1983 were higher than those applied to imports from all countries for food products, chemicals, and manufactures; (3) major developing country exports were labor-intensive products, which faced unusually high tariffs even under GSP benefits; and (4) NTM's on nonfuel imports of developed countries from developing countries affected a larger part of such imports than from developed countries.

In Part II of its review of protectionism and structural adjustment, "Trends in Production and Trade in all Sectors and their Underlying Factors," the Secretariat noted recent changes in the structure of production and trade, and delineated the main policy features of the international restructuring process.

In reference to structural changes in production and trade, the Secretariat stated that agricultural production increased substantially during 1975-85, and did so at a faster rate in developing countries than in developed countries or in Eastern Europe. The share of agricultural products in total world trade, however, declined over the same period. A long-term decline in real agricultural prices was also found by the Secretariat.

In the industrial sector, a marked slowdown of growth between the periods 1975–79 and 1979–83 was observed by the Secretariat for all groups of countries. In addition, during 1980–84, the UNCTAD Secretariat observed that the value of total world trade fell by 1.2 percent per year, and trade in manufactures increased by 1 percent per year.

The Secretariat's report on protectionism and structural adjustment to the TDB delineated the main elements of the policy aspects of the international adjustment process. It stated that the agricultural sector in many developed countries continues to be insulated from the international competition and adjustment process. In the industrial sector, however, the pace of structural change was observed to be faster in developed countries than in developing countries or in Eastern European countries. Still, policies intended to maintain noncompetitive industries have, according to the Secretariat, "continued to retard structural adaptation in the industrial sector."

On the subject of structural adjustment, the Secretariat's report to UNCTAD VII presented several observations and policy options for member countries. In recognizing the importance of domestic adjustment efforts, the Secretariat noted that "unless domestic policies are adequately related to international discipline, serious risks to economic stability and performance will inevitably emerge." To facilitate domestic structural adjustment in a transparent and predictable manner, the Secretariat recommended that governments establish independent agencies from which domestic industries could request assistance and protection. In line with domestic policy readjustments, reform of the international trading system should also be undertaken, the Secretariat stated. Adherence to commitments of standstill and rollback of protectionist measures by countries is necessary in this context, according to the Secretariat. Other policy options suggested by the Secretariat included periodic review by member countries of their protectionist measures with a view to reconsidering the appropriateness of continuing such measures, and replacing nontariff measures with most-favored-nation tariff rates or tariff quotas to improve transparency of restrictions and facilitate liberalization.

The Final Act of UNCTAD VII contained several elements of the Secretariat's policy options regarding protectionism and structural adjustment. It stated that the annual review of protectionism and structural adjustment by the TDB should continue as currently mandated, should be expanded to take into account the special interests of developing countries, and should analyze the main components and effects of structural adjustment policies and policy options. Another element of the Final Act encouraged governments to establish transparent national mechanisms for evaluating requests for protectionist measures by firms or sectors. It also recognized both the importance of a healthy international economy for facilitating structural adjustment and the relevance of domestic policies in the international economy.[1]

Trade Relations Among Countries Having Different Economic and Social Systems

Promoting trade and economic cooperation among countries having different economic and social systems[2] has been one of UNCTAD's subjects of particular interest.[3] In its report to

[1] For a discussion of the outcome of UNCTAD VII, see the preceding section.

[2] The subject "Trade Relations Among Countries Having Different Economic and Social Systems" can refer to either East-West trade or East-South trade, the latter being trade between centrally planned economy countries of Eastern Europe and the developing countries. "Intersystems trade" is another way to express the same concept.

[3] For a discussion of recent UNCTAD work on this subject, see *Operation of the Trade Agreements Program, 38th Report*, July 1987, USITC Publication 1995, pp. 3-7 to 3-8. See also a report by the UNCTAD Secretariat, "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." TD/B/1104, June 25, 1986.

UNCTAD VII[1] The Secretariat noted that the potential for growth in intersystems trade has been hampered by slow growth in the world economy. However, it noted that not only a healthy economy but also "new measures" aimed at increasing this trade were needed. The Secretariat proposed that a program of such measures be considered by the conference.

In a decision of September 1985,[2] the TDB requested that an ad hoc group of experts meet for 1 week sometime before the convening of UNCTAD VII "to consider prospects for trade and economic cooperation among countries having different economic and social systems . . . including ways, means and measures for expanding the volume and diversifying the structure of this trade and development of economic cooperation," with particular emphasis on East-South trade. The ad hoc group of experts met in January 1987, and reported to the Spring session of the TDB. In its report, the group concluded that economic factors such as low economic growth, and political factors such as "the deteriorated climate of East-West relations in the early 1980's" resulted in only moderate growth rates in intersystems trade compared with earlier periods. The group observed that expansion of intersystem trade and economic cooperation depended on a healthy, predictable international economic context, including respect for trade rules and principles, financial liquidity for indebted countries, stable and adequately remunerative commodity prices, and greater access to world markets.

Several issues were raised and proposals made during the meeting of the ad hoc group of experts on intersystems trade. These included adherence to the rules and principles of the international trading system, increasing the share of manufactured goods imported by the socialist countries of Eastern Europe from developing countries, and improving GSP programs. The group also stated that the role of UNCTAD in promoting intersystems trade and economic cooperation should be enhanced. To that end, the group of experts concluded that UNCTAD should continue analysis of intersystems trade, and improve the efficiency and scope of its consultative machinery.

In the Final Act of UNCTAD VII dealing with international trade, members agreed on several points related to intersystems trade. They agreed that further analytical work should be undertaken by UNCTAD on the subject, with particular attention to East-South trade. It was recommended that such work should use better and more transparent statistics and consider "product structure, geographical coverage and the respective roles played in this trade by various developing countries." The Conference requested that the TDB consider specifying a program aimed at increasing promotion of intersystems trade, in particular East-South trade. In the same vein, the Secretariat was requested to undertake consultations for strengthening trade relations among countries having different economic and social systems, particularly East-South trade. As a means to promote East-South trade, the socialist countries of Eastern Europe were requested by the conference to broaden their economic relations with developing countries, particularly through diversifying imports from developing countries; further improve their GSP schemes; facilitate credit and financing to developing countries; continue and expand economic assistance to developing countries; and pay special attention to the need of the least developed countries.

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.[3] The system was designed to facilitate the industrialization of developing by giving them Preferential Tariff Rates in developed-country markets, thus accelerating their economic growth. The UNCTAD Special Committee on Preferences is responsible for overseeing the GSP.

In its annual review of the GSP, the Committee on Preferences summarized major developments regarding the implementation of GSP schemes worldwide and advanced several conclusions for improving the effectiveness of GSP as a tool of trade policy.[4] The Committee noted that GSP programs have made a significant contribution to the export earnings of developing countries. In 1986, over $40 billion worth of imports from developing countries were granted preferences in developed-country markets. In 1976, when all GSP schemes were in place, the figure was $12 billion. Part of the growth in the value of preferences the Committee identified was caused by higher numbers of beneficiary countries, expanded product coverage of preference schemes, and liberalization of some limits on GSP programs.

[1] UNCTAD "Revitalizing Development, Growth and International Trade: Assessment and Policy Options," June 1987, TD/B/329/Rev. 1.

[2] Board Decision 321 (XXXI), Sept. 27, 1985.

[3] For a discussion of the operation of the U.S. GSP system in 1987, see ch. 5. See also 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.

[4] UNCTAD, Trade And Development Board, Special Committee on Preferences, "Review of the Implementation, Maintenance, Improvement and Utilization of the Generalized System of Preferences," TD/B/C.5/113, Aug. 7, 1987.

In its annual review of GSP, the committee pointed out, however, that despite these improvements, the benefit of GSP for increasing developing country export earnings could be higher. For example, GSP aids only about one-fourth of developing country exports of dutiable products (one-third for the least developed countries). Other limitations cited as reducing the potential benefit of GSP programs for developing countries were that preferential tariff margins provided by GSP programs have been eroded by post-Tokyo Round MFN tariff reductions, and that there has been some growth in restrictions in some schemes, including "graduation" of a country out of beneficiary status.

The committee identified four possible ways to improve the effectiveness of GSP as a tool of trade policy. These ways are: (1) granting across-the-board duty-free treatment, including agricultural goods; (2) further liberalizing limitations on GSP schemes imposed by preference-giving countries; (3) expanding product coverage of GSP benefits to include more products of interest to both the developing and the least developed countries, such as footwear, textiles, and agricultural products; and (4) further liberalizing and harmonizing rules of origin.

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.[1]

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 1987 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 long-run 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 are not specifically designed to minimize price fluctuations. Instead, they seek to promote research and market development.

At the end of 1987, the United States was participating in six of the eight international commodity agreements, specifically those 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 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 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.

In 1987, the United States completed ratification procedures for the new International Wheat Agreement, which had been renegotiated in 1986. Also in 1987, a new agreement for cocoa entered into effect, and agreement was reached on a renegotiated natural rubber agreement. The agreement covering tin has ceased to function for all practical purposes since the collapse of the price of tin in 1985.

Somewhat higher prices for certain metals and agricultural raw materials in 1987 over the previous year's level resulted in an overall rise in

[1] For a more detailed discussion of the goals of the GSTP, see *Operation of the Trade Agreements Program, 38th Report 1986*, July 1987, USITC Publication 1995, p. 3-8.

the IMF's index of nonoil commodity prices. After 3 years of consecutive declines, the index rose by over 6 percentage points to 79.4 in 1987.[1] Agricultural raw materials, on average, were priced 33.5 percent above 1986 levels, reflecting both strong demand and cuts in the supply of certain commodities. Metal prices went up by 19.1 percent in 1987, caused by supply difficulties, significant increases in consumption of the commodities in developed countries, and low inventories.

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. However, in February 1986, as coffee prices had increased above the ceiling specified in the agreement, the ICO suspended all coffee export quotas. Following the suspension, coffee prices declined significantly through 1986 and part of 1987. The ICO composite price reached a low in July 1987 and placed significant pressure on producer countries to reinstate quotas. On October 6, 1987, producer and consumer members of the ICO finally agreed on a compromise quota system for the 1987/88 crop year. The ICC agreed to establish the global quota at 58 million 60-kilogram bags (a bag is equivalent to about 132 pounds), of which 54.4 million were allocated to the larger producers entitled to a "basic" quota. The remaining 3.6 million bags were assigned to the smaller producers, which are exempt from quota cuts.

In 1987, the trigger prices for upward and downward quota movement remained unchanged from those in effect since 1981/82. The trigger prices operate so 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. Quotas can be reduced a maximum of 7.0 million bags during the 1987/88 crop year. Cuts and increases will be effective after intervals of only 10 working days in contrast to the 15-day period required previously.

Special arrangements were designed for the first quarter (October–December) of the 1987/88 crop year in order to allow the ICO composite coffee price to reach the preferred level of $1.30 in an orderly manner. These arrangements were to be suspended if prices reached $1.15 during the quarter and the regulations for the rest of the year would take effect. A rise in the index price above $1.15 per pound on November 23 resulted in the suspension of the transitional arrangements. Table 3–3 indicates that during 1983–87, the monthly average of the ICO's com-

[1] The index is calculated in dollar terms with 1980=100.

Table 3–3
Green coffee: International Coffee Organization monthly average composite indicator prices, on the basis of the 1979 agreement, 1983–87

(Per pound)

Month	*1983*	*1984*	*1985*	*1986*	*1987*
January	$1.27	$1.38	$1.35	$2.04	$1.18
February	1.24	1.41	1.33	1.91	1.16
March	1.23	1.43	1.32	2.04	1.01
April	1.23	1.44	1.32	1.92	1.04
May	1.26	1.48	1.32	1.77	1.11
June	1.24	1.45	1.31	1.54	1.02
July	1.24	1.41	1.21	1.49	.96
August	1.25	1.43	1.20	1.54	.98
September	1.27	1.42	1.19	1.81	1.05
October	1.36	1.36	1.26	1.63	1.11
November	1.37	1.38	1.41	1.49	1.16
December	1.40	1.34	1.75	1.31	1.15
Average	1.28	1.41	1.33	1.71	1.08

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

posite indicator price (1979 basis) ranged from 96 cents to $2.04 per pound.

In 1987, the monthly average composite indicator price ranged from a low of 96 cents per pound in July to a high of $1.18 per pound in January. The relatively low composite prices during 1987 were primarily due to the prospect of a substantially increased harvest in South America and the fact that export quotas were suspended from January–September.

For coffee year 1987/88, the ICO agreed to limit imports from nonmembers to 297,118 60-kilogram bags. Country limits were specifically provided. However, this area continues to be a source of dispute between producers and consumers as some producers are willing to sell to nonmembers at a lower price once their export quotas to members have been exhausted. As a result, prior to the suspension of the quota system, a two-tier market had developed and coffee had been illegally shipped from quota to nonquota markets. U.S. Department of Agriculture (USDA) officials report that those members who support tighter controls propose to pursue enforcement through the ICO and not bilaterally.

Market shares for the 1987/88 crop year were set by a producer-developed formula that provided that 70 percent of the quotas for the countries with basic quotas were considered the fixed part of the quota and 30 percent would be based on verified stocks. The fixed part is derived from an average of exportable production for coffee years 1982/83–1987/88 (excluding the lowest year) and an average of exports to members for 1982/83–1987/88 (excluding the lowest year). These quotas were then further adjusted for historical and political factors. USDA officials report that in return for consumer acceptance of the producer-based formula for 1987/88, which changed the formula so that 84 percent of the quota was fixed (based on exportable production and a percentage for exports to member countries) and 16 percent based on verified stocks at the end of the 1987/88 crop year.

Sugar

The 1984 International Sugar Agreement (ISA) entered into force on January 1, 1985, following expiration of the 1977 ISA. 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 United States has participated in both the 1984 ISA and its predecessor agreements. The International Sugar Organization (ISO), located in London, administers the agreement.

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. The 1977 ISA was generally ineffective in controlling the free-market price of sugar.[1] Under the auspices of the 1984 ISA, negotiations are under way to work out a new agreement, more effective than the 1977 ISA. During 1982-84, the target price range in the ISA was 13 to 23 cents per pound. The actual price has been below that range since February 1982. Table 3–4 presents the world market prices for 1982–87.

The 1987 ISA was concluded on September 11, 1987. Like the 1984 ISA, it is merely an administrative agreement with no economic provisions to control prices through a system of buffer stocks. The only change the 1987 ISA makes with regard to previous agreements is the method of financing the ISO. Rather than an even split between importers and exporters, importers are liable for only 42.5 percent of the costs, with exporters accountable for the remaining 57.5 percent. This change was made primarily to distribute more equitably the burden of payment between the two groups since there are more exporters than importers that are signatories to the ISA.

The 1987 ISA was to run for 3 years beginning January 1, 1988, and be renewable annually for a maximum of 2 additional years. However, the 1987 ISA has not yet come into force because of a lack of sufficient signatories. As of December 29, 1987, only the exporting countries of Argentina, Austria, Belize, Colombia, Congo, Costa Rica, Cuba, the EC, Fiji, Guatemala, Guyana, Nicaragua, Peru, and Swaziland and the importing countries of Finland, Japan, Norway, Sweden, and West Germany were signatories to the new agreement. Ratification of the 1987 ISA by the signatory countries is also required before it comes into force; as of January 7, 1988, only the EC, Fiji, Guyana, and South Africa had ratified the agreement. The 1984 ISA has been extended until March 1, 1988, to give the other signatory countries time to ratify the 1987 ISA.

[1] 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. 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 3-4
Raw sugar: Monthly world market prices on the basis of the 1977 agreement,[1] 1982-87

(In cents per pound)

Month	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*
January	12.90	6.03	6.97	3.62	4.86	6.49
February	13.07	6.43	6.64	3.70	5.57	7.38
March	11.26	6.20	6.42	3.83	6.95	7.56
April	17.83	9.58	5.99	3.42	8.33	6.68
May	8.11	9.45	5.61	2.82	7.63	6.73
June	6.84	10.74	5.53	2.78	6.33	6.44
July	7.80	10.53	4.54	3.18	5.55	6.10
August	6.77	10.56	4.05	4.39	5.57	5.62
September	5.76	9.43	4.10	5.12	4.68	6.10
October	5.03	9.69	4.64	5.01	5.39	6.65
November	6.52	8.33	4.36	5.48	5.95	7.26
December	6.31	7.67	3.55	5.32	5.73	8.25
Average	9.02	8.72	5.20	4.06	6.04	6.77

[1] ISA, 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.

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 to less developed nations by exporting nations and wealthier importing nations, and information collecting. The various functions of the IWA are administered by the International Wheat Council, the only commodity organization to which the United States belongs 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 and signatures were affixed in June 1986; the new expiration date is June 30, 1989. The new IWA was ratified by the U.S. Senate November 17, 1987, and signed by the President December 18, 1987. While continuing the functions and organizational structure of the old agreement, the new IWA expands the scope of research and reporting to include information of other grains besides wheat; it also increases pledges under the Food Aid Convention. The renewed IWA still has no power to intervene in markets to regulate prices. The principal difference between the old and the new IWA is that the new arrangement now down-plays the language of the previous arrangement regarding eventual price intervention.

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

During marketing year 1987/88,[2] world utilization of wheat[3] rose to 521.4 million metric tons (mmt), from 517.4 mmt the previous year. Total world production in 1987/88 was down to 500.8 mmt, from 500.9 the previous year. During the same period, world wheat exports rose from 97.8 mmt to 100.1 mmt.[4]

According to the USDA, U.S. exports of wheat in marketing year 1987/88 rose from 37 mmt to 40 mmt, i.e., the United States accounted for 40 percent of world wheat exports. Total non-U.S. world wheat exports declined to 60.1 mmt in 1987/88, from 60.8 mmt the previous year. The world wheat situation is characterized by persistent growth in import demand, largely for milling quality wheat, as importing countries continue to respond to relatively low world wheat prices. Export prices for wheat[5] having declined over several years, rebounded during 1987 to $110 in January 1987, and to $125 in December 1987.[6]

The USDA projects that U.S.S.R. wheat imports during 1987/88 will hit the highest levels since 1984/85. Heavy wheat imports are likely as a result of attractive world wheat prices and the reduced quality of the 1987 Soviet wheat crop (substantially below the quality of the crop of last

[2] July 1987 to June 1988, using U.S. Department of Agriculture projections as published in various Foreign Agriculture Service publications.
[3] World wheat and wheat flour utilization based on an aggregate of differing local marketing years from *World Grain Situation and Outlook*, USDA- FAS, FG 14-87, December 1987.
[4] The same figures apply to world imports since world exports and world imports are equal.
[5] Basis FOB, U.S. dollars per metric ton, U.S. Gulf, No. 2 hard winter wheat.
[6] As of Dec. 8, 1987, "Export Prices for Wheat and Corn," USDA-FAS, *World Grain Situation and Outlook*,. If CIF Rotterdam prices are considered, U.S. No. 2 Dark Northern Spring Wheat, 14 percent protein, was quoted as of the same date at $147.

year). The U.S.S.R. has purchased both milling and feed quality wheat from the European Community; it purchased milling wheat from the United States under the Export Enhancement Program.[1]

Cocoa

Agreement on the 1986 International Cocoa Agreement (ICCA)[2] 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.[3]

In January 1987, the 1986 ICCA went into effect as the requisite number of cocoa producing and consuming member countries provisionally ratified the accord.[4] 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.

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 1.4-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 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. Prices in the new ICCA are to be based on Special Drawing Rights (SDR's) to moderate currency fluctuations.[5] The price ranges of the 1986 ICCA are as follows:

	SDR's/ton	*Aprox. cents/lb.*
Upper intervention price (must sell)	2,155	132
May sell price	2,100	129
Median price	1,820	111
May buy price	1,540	94
Lower intervention price (must buy)	1,485	91

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 3 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.

Tin

Although the Sixth International Tin Agreement (ITA), which was to formally expire on June 30, 1987, was granted a 2-year extension by delegates to the International Tin Council (ITC) in April 1987, for all practical purposes the agreement has ceased to function.[6] Export quotas, the principal mechanism used by the ITC to manage tin prices, have not been reimposed since they expired in March 1986. In addition, since the ITC Buffer Stock Manager, who formally intervened on the London Metal Exchange (LME)[7] to support tin prices, announced in October 1985 that he could no longer support tin prices at the ITA floor price of $5.65 per pound due to credit problems, the price of tin has fallen to as low as $2.40 per pound.[1] Since the tin-price collapse in 1985, the ITC has concentrated on fighting legal

[1] For a discussion of the U.S.-Soviet Grain Agreement, see the following section.

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

[3] U.S. Department of State, "International Commodity Agreements," GIST, August 1985.

[4] 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.

[5] For 1987, the average SDR exchange rate was 0.77 SDR/U.S. dollar.

[6] The Sixth ITA has been ratified by 6 producer countries, including Australia, Indonesia, Malaysia, Nigeria, Thailand, and Zaire, and by 19 consumer nations. The United States is not a member of the Sixth ITA.

[7] Because of the tin price collapse and ITC credit problems, tin is no longer traded on the London Metal Exchange (LME) and is now traded on the Kuala Lumpur Tin Market (KLTM), a much smaller market.

challenges by creditors and issuing statistical reports. Given the problems associated with the operation of the Sixth ITA, there were no plans in 1987 to begin negotiations for a Seventh ITA.

Declining tin prices prompted steps to bolster prices by the Association of Tin Producing Countries (ATPC), a group of tin producers formed in September 1983 to leverage higher prices for tin.[2] On March 1, 1987, the ATPC agreed to limit tin exports among all member nations to no more than 96,000 metric tons from March 1 to February 29, 1988. In addition, China and Brazil, the two largest producers outside the ATPC, agreed not to take advantage of these quotas to increase exports. Despite these quotas, tin prices have remained far below the former ITA floor price, with prices on the Kuala Lumpur Tin Market remaining near $3.00 per pound throughout 1987. Tin traders attributed the price weakness to certain ATPC countries who exceeded their export quotas and to larger than expected exports by China. Chinese exports of tin in 1987 increased sevenfold over exports for 1986 despite Chinese promises to restrain exports. Recently, the ATPC announced that producer inventories of tin fell from 104,000 metric tons at the end of 1985 to 60,000 metric tons on July 1987 and were expected to reach 40,000 metric tons by February 1988. The ATPC feels that when inventories fall to 20,000 metric tons, tin prices should strengthen as demand and supply are brought into balance.

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. By yearend 1987, GSA had disposed of 4,075 metric tons of tin, down 26 percent from the total of 5,490 metric tons disposed of in 1986.[3] The drop in sales reflected U.S. sensitivity to the concerns of tin-producing countries, which feared further price declines. The Association of Southeast Asian Nations (ASEAN) has long urged the GSA to abide by the Memorandum of Understanding (MOU) between its tin-producing countries and the United States. The MOU, a nonbinding resolution that is in effect through 1988, informally limits GSA tin sales to 3,000 metric tons per annum in order to avoid depressing tin prices. However, the GSA position is that the terms of the MOU allow sales above the 3,000 metric ton limit if the United States consults with the ASEAN nations prior to such sales.

[1] See *Operation of the Trade Agreement Program, 38th Report, 1986,* USITC Publication 1995, pp. 3-13 and 3-14, for a complete discussion of the tin-price collapse.

[2] The ATPC consists of Malaysia, Indonesia, Thailand, Australia, Bolivia, Zaire, and Nigeria, and acts independently of the ITC. The ATPC was formed by producers who felt that tin prices established by the ITC were too low.

[3] The entire U.S. strategic tin stockpile as of Dec. 31, 1987, equaled 177,053 metric tons.

Natural Rubber

The International Natural Rubber Agreement (INRA), which was finalized and signed on October 6, 1979 (INRA 1979), came into force provisionally on October 23, 1980.[4] The United States joined INRA in May 1981. The purpose of INRA, the first commodity agreement concluded under UNCTAD's Integrated Program for Commodities, is to stabilize world prices without disrupting long-term market trends and to ensure adequate supply. The buffer stock established in the agreement provides the mechanism to keep prices and supply stable. 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 operations of the agreement.

On March 20, 1987, the major producing and consuming countries of natural rubber reached a new accord (INRA 1987) and decided to allow the current INRA arrangements to lapse after October 1987. The new 5-year pact reportedly provides greater flexibility to move prices in line with market forces. Although producers had largely to accede to consumers' demands in the compromise solution, which includes a high degree of price flexibility, the agreement removes the threat to prices that a heavy liquidation of the buffer stock would have posed had the talks failed.[5] Under INRA 1987, the reference price remains at 201.66 Malaysian/Singapore cents per kilo (43.6 U.S. cents per pound).[6] INRA 1987 was not in effect as of the end of 1987 and industry sources expect it will be many months before this new agreement comes into force.[7]

[4] For more details on the background of INRA, see *Operation of the Trade Agreement Program, 33rd Report, 1981,* USITC Publication 1308, pp. 91-94; and *Operation of the Trade Agreement Program, 38th Report, 1986,* USITC Publication 1995, pp. 3-14 and 3-15.

[5] The Economist Intelligence Unit, *Rubber Trends,* No. 114 (London, June 1987), p. 3. For more details on the operation of the buffer stock see *Operation of the Trade Agreement Program, 33rd Report, 1981,* USITC Publication 1308, pp. 91-94; and, *Operation of the Trade Agreement Program, 37th Report, 1985,* USITC Publication 1871, pp. 103-105.

[6] The Economist Intelligence Unit, *Rubber Trends,* No. 114 (June 1987), pp. 12 and 13, reports that the INRA 1987 also provides for an automatic adjustment of at least 5 percent whenever the market price, during the 6-month period preceding a price review, has on average been above or below the "may sell" or "may buy" trigger levels. In addition, if the natural rubber buffer stock, currently at 360,000 metric tons reaches 400,000 metric tons, the buffer stock manager will defend the "floor" price (i.e, lower indicative price) of 150 Malaysian/Singapore cents per kilo (32.4 U.S. cents per pound) by making contingency purchases of up to 150,000 metric tons of natural rubber. Finally, unlike the situation with INRA 1979, under INRA 1987 bank loans can no longer be used to finance the buffer and contingency stocks.

[7] *Press Communique,* International Natural Rubber Council, Fourteenth Session, Apr. 30 and May 4-5, 1987, at Kuala Lumpur; The Economist Intelligence Unit, *Rubber Trends,* No. 116, December 1987, pp. 2 and 11, and International Natural Rubber Organization "Decision taken and resolutions adopted at the Fourteenth Session of the International Natural Rubber Council," Reference: ED/Mem/369, May 7, 1987, pp. 10 and 11.

Under the authority granted by the International Rubber Council, the buffer-stock manager reportedly will sell about 2,000 metric tons of natural rubber a month from the stockpile to help cover stock maintenance costs and INRO headquarters expenses. The buffer-stock manager of the INRO stated that he will not disrupt the market but aims to keep prices from exceeding the "must sell" level of 242 Malaysian/Singapore cents per kilo (52.3 U.S. cents per pound).[1] In addition to these required sales, trade sources report that there have been substantial sales from the buffer stock in response to price increases since the agreement expired in October 1987.[2]

Worldwide consumption of natural rubber reached 4.495 million metric tons in 1987, representing a 2.0 percent increase over the 4.405 million metric tons consumed in 1986.[3] Worldwide production of natural rubber in 1987 is estimated to have been 4.590 million metric tons, representing an increase of 3.0 percent over the 1986 production level of 4.455 million metric tons. Natural rubber production rose faster than demand. As a result, the natural rubber stock increased in 1987 by approximately 95,000 metric tons over that of 1986. The total world stock of natural rubber reached 1.625 million metric tons in June of 1987, the last month for which data are available.[4]

Jute

The International Jute Agreement (IJA),[5] the second commodity agreement to be negotiated under the framework of UNCTAD's Integrated Program for Commodities, completed its fourth full year of operation in 1987. The objectives of the IJA are to (a) improve structural conditions in the jute market, (b) enhance the competitiveness of jute and jute products, (c) maintain and enlarge existing markets as well asto develop new markets for jute and jute products, (d) develop production of jute and jute products with a view to improving their quality for the benefit of importing and exporting members,and (e) develop production, exports, and imports of jute and jute products so as to meet the requirements of world demand and supply. These objectives are to be met through implementing research and development projects, market promotion, and cost reductions in production and processing. Unlike some intergovernmental commodity agreements, the IJA has no authority to stabilize world prices or supplies through the establishment of buffer stocks, pricing-level measures, or export quotas.

The International Jute Organization (IJO), which administers the IJA with the assistance of the International Jute Council (IJC), conducted the seventh session of the IJA at its headquarters in Dacca, Bangladesh, in April 1987. It approved a new project to improve retting and marketing of jute and proposals for two more projects, strengthening extension services for jute and allied fibers and farm management analysis of jute based cropping system. Members discussed future market-promotion activities for Western Europe, Japan, and the United States and approved funding for a seminar on "development of simple jute seeders suitable for various soil tillage conditions." The session concluded with a presentation of a written report on market prospects for jute geotextiles.

The eighth session of the IJA was held in Yogyakarta, Indonesia (the first meeting not held at IJA headquarters) from October 29 to November 4, 1987. Topics discussed were ways to improve IJO's data base, especially information from producing countries, and the concept of stabilizing prices and supplies of jute and jute products. Also discussed were the renegotiation of the IJA, scheduled to expire in January 1989, and whether to amend the IJA to require mandatory project funding by all members. Currently, project funding is done on a voluntary basis.

World production of jute fiber fluctuated widely during crop years 1983/84 through 1987/88 (table 3-5). Production reached a high during crop year 1985/86, resulting from bumper crops in all major producing countries, coupled with increased plantings in response to relatively high jute prices in the previous crop year. However, world production of jute fiber declined by over 40 percent in crop year 1986/87 as a result of reduced plantings following a drop in prices from the 1985/86 season, crop damage caused by flooding in the major producing countries, and expectations of continued difficulties in marketing the fiber. Despite this decline in production, jute remained at a historically high level of stocks (2.0 million metric tons), as a result of carryover from the previous season.

[1] Industry sources report that the buffer stock manager sold an estimated 12,000 metric tons of natural rubber from the INRO stockpile during September 1987 since INRO's 5-day moving average exceeded the "may sell" level of 50.2 U.S. cents per pound for the first time since March 1984. (Economist Intelligence Unit, *Rubber Trends*, No. 116, December 1987, pp. 2 and 11.)

[2] On the basis of information obtained during a telephone conversation on Mar. 16, 1988, between a staff member of the United States International Trade Commission and an official at the U.S. Department of Commerce.

[3] Economist Intelligence Unit, *Rubber Trends*, No. 116, December 1987, pp. 17 and 18.

[4] Ibid., p. 10. This source reports that stocks of natural rubber increased by 2.2 percent in the 12 months prior to June 1987.

[5] The IJA membership consists of 4 producing/exporting countries, Bangladesh, India, Nepal, and Thailand, and 24 importing countries, including the United States, the European Community, and a number of developing countries.

Table 3-5
Jute fiber:[1] World production, by principal sources, crop years 1983/84 to 1987/88

(In thousands of metric tons)

Source	*1983/84*	*1984/85*	*1985/86*	*1986/87*	*1987/88*[2]
India	1,188	1,436	2,207	1,440	1,170
Bangladesh	956	922	1,548	983	684
China	510	746	2,060	710	600
All other	510	477	599	524	476
Total	3,164	3,581	6,414	3,657	2,930

[1] Includes kenaf and other allied fibers.
[2] Projected.

Source: United Nations, Food and Agriculture Organization, *Jute, Kenaf and Allied Fibers: Quarterly Statistics*, September and December 1987 issues.

The world's largest producers of jute are India, Bangladesh, and China, which together accounted for 86 percent of world output in crop year 1986/87, down from 91 percent in crop year 1985/86. China accounted for the most of the decline, as it switched a large amount of acreage to rice and other food crops. The largest jute producer is India, accounting for 39 percent (1.4 million metric tons) of world output in crop year 1986/87, followed by Bangladesh and China with 27 and 19 percent, respectively.

These three producers also accounted for slightly more than 90 percent of world exports of jute fiber, which totaled 511,000 metric tons in crop year 1986/87, slightly below the level of the previous crop year. However, total exports in crop year 1986/87 were about 11 percent higher than the 1984–87 annual average of 460,0000 metric tons. Exports from Bangladesh, which accounted for 79 percent of world shipments (403,000 tons), were slightly less than the previous season, reflecting saturation in demand in international markets and a limited availability of the required top grades of fiber. India and China, which consume the majority of the jute fiber grown locally, accounted for a combined 14 percent of total world exports.

World exports of jute products (principally yarn, sacking, bags, carpetbacking, and fabrics) totaled 1.1 million metric tons in crop year 1986/87, slightly less than those in the previous season, but near the average annual level during 1984–87. Bangladesh, the largest exporter, shipped 484,000 metric tons in 1986–87, an increase of 1,200 metric tons from the previous year. India, the second leading exporter, shipped 270,000 metric tons, and Thailand, the third largest, exported 108,300 metric tons in 1986/87, representing increases of 6 percent and 27 percent, respectively, over the previous crop year. Among the individual products, hessian (fabric) and carpetbacking exports from both Bangladesh and India recovered considerably, whereas sacking exports from Bangladesh and Nepal fell significantly.

World imports of jute fiber totaled 484,000 metric tons in calendar year 1986, an increase of 18 percent over the previous season's 411,000 metric tons. The world's largest importer in 1986 was Pakistan, accounting for 25 percent of the total, followed by China and the U.S.S.R., with 8 percent each. Other major importers included the United Kingdom and Bulgaria, accounting for 5 and 4 percent, respectively. The United States accounted for 3 percent of the total.

World imports of jute products in 1986 totaled 1.2 million metric tons, an increase of 1 percent over the previous year. The U.S.S.R. and the United States were the largest single importers of jute products in 1986, accounting for 12 and 10 percent of total world imports, respectively. The European Community as a whole accounted for 21 percent of total world imports in 1986. The EC's imports of 238,400 metric tons in 1986 represented an increase of 14 percent over the previous year's level.

Demand for jute fiber is derived largely from demand for jute products such as hessian (burlap fabric), carpetbacking, bags, and sacking. These products are also made of other materials, particularly polypropylene, a manmade fiber. Although the price of polypropylene is usually higher than that of jute, the use of the synthetic is often preferred because of its greater durability, tensile strength, and its tear and mildew resistance. The uncertainty of jute supplies also affects its level of use. Jute farmers often shift their acreage between jute and other crops such as rice, depending on crop prices. This situation, coupled with unfavorable weather conditions, political unrest, and labor strikes, often makes it difficult to forecast crop sizes. As a result, many manufacturers prefer to use polypropylene, for which delivery is more reliable, to avoid possible interruptions or alterations in their production schedule.

Since manmade fibers such as polypropylene are derivatives of oil, the price of crude oil affects their prices. World oil prices increased significantly during the first half of 1987 and then declined in the latter part of the year. However,

polypropylene price increases reflected a tight supply situation for this product, and some manufacturers shifted to jute fiber.

During 1986/87, the competitive position of jute fiber relative to polypropylene was the most favorable since the early 1980's. Although prices of raw jute had increased since the beginning of 1987, those of polypropylene increased at a higher rate (table 3-6).

Although prices of both jute and polypropylene carpetbacking, an important market for jute, increased from their low levels in 1986, jute remained extremely competitive with the manmade fiber. In the United States, the largest market for carpetbacking, jute backing was about 5 to 10 percent lower in price than comparable polypropylene backing. Jute's share of the carpetbacking market was approximately 30 percent in 1987. A price comparison of typical constructions of carpetbacking that compete with each other is shown in table 3-7.

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. Since its entry into force, 18 producer countries and 23 consumer countries have signed the agreement. These countries account for over 95 percent of the trade in tropical timber.

The objectives of the ITTA reflect a recognition by the governments concerned that tropical timber is a commodity that, unlike many others, is harvested from mostly virgin forests, is a product of highly fragile ecosystems, and is renewable, under certain conditions, only over a long time span. Broadleaved hardwood forests need minimally 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 lies in the fact that tropical forests not only yield valuable timber for export but also play an important role in the protection of the planetary environment and as a life-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.

Table 3-6
Polypropylene and jute fiber: Average annual prices, 1984-86, and quarterly prices, first-third quarters 1987

Period	*Polypropylene*	*Jute*	*Ratio of jute to polypropylene*
	Per ton	*Per ton*	*Percent*
1984	$822	$653	79.4
1985	736	673	91.4
1986	696	335	48.1
1987:			
January-March	749	340	45.4
April-June	816	388	47.5
July-September	948	414	43.7

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

Table 3-7
Jute and polypropylene carpetbacking: Average annual prices, 1984-86, and average quarterly prices, 1987

(In cents per linear yard)

	Type 1		*Type 2*	
Period	*Jute (6 oz.)*	*Polypropylene (16 x 8)*	*Jute (5.5 oz.)*	*Polypropylene (16 x 6)*
1984	87	80	80	72
1985	85	86	77	78
1986	73	79	64	71
1987:				
1st quarter	78	82	67.5	74
2d quarter	77	82	66	74
3d quarter	78	82	68.5	72
4th quarter	77	82	66.5	78

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

Under terms of the ITTA, the Secretary General of the United Nations convened the first session of the organization 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 Yokahama, Japan, as the permanent headquarters site for the organization, and the appointment of the Malaysian representative as the Executive Director.

The second session was held in Yokohama, Japan, on March 23–27, 1987. The major accomplishments of this meeting were the establishment of three permanent committees: The Committee on Economic Information and Market Intelligence; the Committee on Reforestation and Forest Management; and the Committee on Forest Industry. In addition, the organization received voluntary contributions of $2 million from Japan, $1 million from Switzerland, and $600,000 from the Netherlands. These contributions were for use in carrying out project activities. The Executive Director was authorized to begin work on certain preprojects and to submit a list of full project proposals before its third session.

The third session met during November 16–20, 1987. The key developments were the review of the work program, including identification of project proposals to be undertaken in the field of R&D, reforestation, and market intelligence. Also, officers for the three permanent committees were elected.

The ITTA is the third commodity agreement to be negotiated under the framework of UNCTAD's IPC. Its objectives are to provide an effective framework for cooperation and consultation between tropical timber producing and 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.[1] To these ends, the ITTA seeks to promote research and development aimed at improving forest management and wood utilization, improving market intelligence, encouraging increased and further processing of tropical timber in member producing countries, encouraging reforestation and forest management activities, improving marketing and distribution of tropical timber exports of producing members, and encouraging national policies aimed at sustainable utilization and conservation of tropical forests and their genetic resources and at maintaining the 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.

[1] 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, sawnwood, veneer, and plywood.

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.[2] 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. The program is based on the idea that 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) ensure national and MFN treatment, (2) protect the freedom to transfer profits and other funds across borders, (3) provide prompt and fair compensation in the event of expropriation, and (4) establish procedures for dispute settlement. This treaty model is an updated version of the original BIT prototype treaty and dates from early 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.[3] By late 1987, no BIT's had been ratified by the Senate. Negotiations continue on BIT's with a variety of developing countries in Africa, Asia, and Latin America.

United States-Israel Free-Trade Area Agreement

The U.S.-Israel Free-Trade Area Agreement,[4] the first such free-trade agreement (FTA)

[2] 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.

[3] The 10 countries are Morocco, Turkey, Panama, Egypt, Senegal, Haiti, Zaire, Cameroon, Bangladesh, and Grenada.

[4] An FTA is an agreement in which participating countries remove substantially all trade barriers with respect to each other. GATT article XXIV establishes an exception to GATT obligations, in particular the MFN obligation, for FTA's provided : (1) duties and restrictions on "substantially all the trade" between the members are eliminated; and (2) each members' duties and regulations are not more restrictive than those existing prior to the FTA. The GATT also permits interim agreements that lead to the formation of an FTA "within a reasonable length of time".

entered into by the United States, became effective on September 1, 1985, with the first of a series of tariff reductions and eliminations.[1] 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 presently incorporated into the GATT, such as trade in services, intellectual property rights, and trade-related performance requirements.[2]

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

The year 1987 was the second full year of operation for the FTA. In terms of total dollar value of trade, U.S. exports to Israel have been growing modestly. In 1987, U.S. exports to Israel amounted to $2.1 billion, a rise of 18 percent over the level of the previous year. U.S. imports from Israel in 1987 rose by 9 percent over the previous year's level, to $2.6 billion. The bilateral trade balance, a deficit of $572 million in 1987, remained in Israel's favor for the third year. For a list of leading goods in U.S.- Israel trade during 1987, see appendix tables B-3 and B-4.

Table 3-8 lists imports of the top 10 items imported from Israel under the U.S.-Israel FTA. The total reported value of imports under the FTA was $763 million, or about 29 percent of total U.S. imports from Israel. The top two items, both diamonds, accounted for over $140 million worth of imports in 1987. Radios, telephones and other electrical equipment were also leading goods imported under the FTA in 1987.

Rules of origin requuirements of the U.S.-Israel FTA restrict eligibility for the preferenctial treatment established by the agreement to articles which are wholly the growth, product, or manufacture of a party or is a new or different article of commerce that has been grown, produced, or manufactured in a Party; which are imported directly from one Party into the other Party; and for which the sum of (i) the cost or value of the materials produced in the exporting Party, plus (ii) the direct costs of processing operations performed in the exporting Party is not less than 35 percent of the appraised value of the article at the time it is entered into the other Party. Israwli imports from any sourcer that undergo sufficient processing in Israel to conforme with the rules of origin of the U.S.-Israel Fta could be exported to the United States under the preferences of the agreement. This could include Israeli imports from the EC, which may enter Israel under a preferential arrangement between Israel and the EC. Likewise, U.S. exports, which may enter Israel under the FTA, could be subsequentlyu shipped to the EC under Israel's preferential arrangement with the EC if such goods have under-

[1] 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.
[2] The United States has retained its rights under the MFA to restrain disruptive imports of textiles and apparel from Israel.

Table 3-8
Leading U.S. imports for consumption[1] from Israel, under special-duty provisions of the U.S.-Israel FTA, 1985-87

(In thousands of dollars)

TSUSA item No.	Description	1985	1986	1987
520.3200	Diamonds weighing not over 0.5 carat	18,780	141,619	115,556
520.3300	Diamonds weighing over 0.5 carat	9,924	63,764	24,774
685.3300	Radio apparatus and parts n.s.p.f	0	0	19,319
709.1540	Electro-surgical apparatus, n.s.p.f	3,375	15,829	18,401
688.4280	Electrical articles and parts. n.s.p.f	8,915	48,677	17,983
676.3077	Other data processing machines, n.s.p.f	0	1,226	13,430
684.5940	Telephonic apparatus and parts, n.s.p.f	0	13,754	13,337
740.1400	Jewelry, precious metals, etc	4,608	20,299	12,315
660.3500	Vapor power units and parts thereof	0	3	11,049
475.2528	Unleaded gasoline	0	0	10,227
	Total of items shown	45,602	305,172	256,391
	All other	85,547	428,988	506,141
	Total all commodities	131,149	734,160	762,533

[1] Customs value.

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

gone sufficient processing in Israel to conform with the rules of origin of that arrangement. Research conducted at Tel Aviv University[1] found that agoods with low transport costs, high tariffs barriers in either the United States or the EC, and goods in which Israel is already competitive have the most potential bor being traded between the EC and the United States via preferential arrangements with Israel.

United States-U.S.S.R. Grain Agreement

The current U.S.-Soviet 5-year Long-Term Grain Agreement (LTA) spans the period October 1, 1983-September 30, 1988. The LTA calls for Soviet purchases of at least 9 million metric tons (mmt) of U.S. grains during each agreement year, which coincides with the U.S. fiscal year. At least 4 mmt of the total must be wheat and 4 mmt corn. Up to 1 mmt grain can be substituted with soybeans, with each metric ton of soybeans counting as 2 metric tons of wheat or corn.

Disagreement between U.S. and Soviet officials over the purchase price of grain has led to purchase shortfalls under the LTA during the past 3 agreement years.[2] The LTA specified only "prevailing market prices." The Soviets have apparently interpreted the LTA to allow them to purchase U.S. grain at world market prices, whereas U.S. exporters thought they could sell their grains at going U.S. prices.[3] The two prices differed widely.

In 1983/84, Soviet purchases significantly exceeded the minimum quantities. In 1984/85, total Soviet grain purchases were twice the minimum quantity. However, this was due to unusually large corn purchases, whereas purchases fell below the required 4 mmt level. In 1985/86, the Soviets did not adhere to either the required total grain purchase or the minimum wheat portion.[4]

During the fourth agreement year (October 1986–September 1987), total Soviet purchases amounted to 8.24 mmt, falling short of the 9.00mmt overall minimum requirement. U.S. deliveries consisted of 4.07 mmt of wheat, 4.10 mmt of corn, and 0.07 mmt of soybeans. During the second and third agreement years, Soviet purchases also fell short of the minimum requirements.[5]

Prospects for the fulfillment of LTA brightened in April 1987 when the U.S. Department of Agriculture (USDA) announced the Soviet Union's eligibility for the subsidized purchase of 4 mmt wheat under its Export Enhancement program (EEP).[6] The Soviets took advantage of the discount and placed orders for the entire 4 mmt of U.S. wheat before the fourth agreement year ran out on September 30, 1987. During the fourth quarter of calender 1987, the Soviets accepted a further offer of 4.815 mmt EEP wheat. Thus for the fifth, and last, agreement year (October 1987–September 1988), Soviet wheat purchases during the quarter exceeded the LTA-stipulated minimum requirement for the entire agreement year.

Overall Soviet grain imports fell precipitously, from 55.5 mmt during the purchase year July 1984–June 1985 to 29.9 mmt during July 1985–June 1986, and to 28.5 mmt during July 1986–June 1987.[7] But according to USDA estimates,[8] Soviet import demand is on the rise again and will climb to 32.0 mmt during July 1987–June 1988. The primary causes for this are the decline in Soviet milling quality wheat production and a sudden increase in the demand for protein feed due to the fast growth of the liv estock sector dur-

[1] Seev Hirsch, Igal Ayal, and Shlomo Kalish, "Israel and a bridge to the United States and the European Economic Community." Working paper no. 926/87, The Israel Institute of Business Research, Tel Aviv University, March 1987.

[2] See, *47th Quarterly Report . . .*, USITC Publication 1893, pp. 36,37, and *49th Quarterly Report . . .*, USITC Publication 1958, p. 45.

[3] U.S. exporters faced a particular disadvantage in the glutted Soviet wheat market during the third agreement year and the first part of the fourth agreement year. See, *51st Quarterly Report . . .*, USITC Publication 2025, pp. 33,34.

[4] General Accounting Office, *International Trade, Alternative Trading Practices for International Grain Trade,* (GAO/NSIAD-87-90BR) March 1987.

[5] During the second agreement year (October 1984– September 1985), Soviet purchases of U.S. grain amounted to 15.75 mmt of corn but only 2.89 mmt of wheat. During the third agreement year (October 1985–September 1986), Soviet purchases of U.S. grain amounted to 6.81 mmt corn, 1.52 mmt soybeans, and 0.15 mmt wheat. (United States Department of Agriculture, Economic Research Service, Centrally Planned Economies Branch, Agricultural Trade Analysis Division: *USSR: Agricultural Performance Flat in 1987,* February 1988.) For the circumstances surrounding default 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 . . .*). For the circumstances surrounding default during the third agreement year, see *49th Quarterly Report . . .*, USITC Publication 1958, March 1987, pp. 44–46.

[6] Under EEP, the Commodity Credit Corporation increases the quantity of U.S. export shipments from its stock. The amount of increase is calculated to allow for the effective reduction of the exported commodity's purchase price to a stipulated level. For details, see *Agricultural Information Bulletin,* No. 515, "Increased Role for U.S. Farm Export Programs," April, 1987.

[7] Reduction in overall Soviet import demand for grain was attributed to both the shortfall in Soviet hard- currency earnings on sales of oil and natural gas and to the above-average grain production during the third agreement year, October 1985–September 1986. The Soviet grain output increased from 172.6 mmt in 1984 to 191.7 mmt in 1985 and to 210.0 mmt in 1986. The average annual output was 205.0 mmt during 1976–1980. See, *49th Quarterly Report . . .*, USITC Publication 1958, pp. 45,46 and USDA Economic Research Service, op. cit. p. 1.

[8] Interview with USDA Economic Research Service, Centrally Planned Economies Branch, Agricultural Trade Analysis Division, Feb. 25, 1988.

ing 1987.[1] In November 1987, the U.S.S.R. contracted for 1.3 mmt U.S. soybean meal and 0.8 mmt U.S. soybeans. This was the first Soviet order of U.S. soybean meal since 1979 and it represented nearly 15 percent of the Soviet protein meal market in 1987. U.S. soybean exports to the Soviet Union made up also about 15 percent of total Soviet soybean imports in 1987.[2]

Soviet complaints about the quality of U.S. grains were not an issue in U.S.-Soviet grain negotiations during 1987.[3]

The outlook for another grain deal with the Soviet Union is uncertain. Soviet efforts to ensure self-sufficiency in grains are vast, but the projections for output appear unrealistic.[4]

Progress on Services Trade Agreements in 1987

Global trade in services has been estimated at a minimum of $700 billion annually.[5] In the United States, the size of the services sector as a share of the economy continued to grow in 1986. Exports of services reached $151 billion, compared with imports of $114 billion, resulting in a trade balance of $37 billion in 1986. Employment in the sector reached nearly 74 million in 1986, continuing several years of new job expansion in the sector. Employment in the goods sector has remained relatively constant at about 25 million over the past 7 years. Investment in new plant and equipment reached $225 billion in 1986, about $8 billion over the previous year's level. New plant and equipment investment in the goods sector was $154 billion in 1986.[6]

Although figures such as those cited above imply that the service sector is an increasingly important element of the U.S. and other industrialized economies, a study published by the OECD in 1987 suggests that claims of such trends might be exaggerated.[7] The work draws into question the reliability of statistics which are commonly used to depict the service sector on two major bases. First, it notes that the service sector is often defined to include business and government activities. A narrower definition of services which excludes the government element, the study points out, more closely corresponds to common perceptions of services. Using this definition, the OECD average share of GDP accounted for by services falls from 58 percent to 44 percent, about the same average proportion as for goods.

The second basis the OECD uses in arguing that the service sector may be smaller than commonly estimated involves producer services (services used in the process of manufacturing goods). The OECD noted increased use of contracting specialists by businesses for services such as cleaning, security, data processing, and advertising. When in-house provision of such services is replaced with contractors, the demand for services may appear to expand suddenly, whereas in reality the amount or type of service provided remains unchanged. When seen in this context, the relative decline in manufacturing and rise in services as a share of GDP may be seen as a partial reflection of this trend.

Services Activities in Multilateral Forums

For several years, the United States has been advocating liberalizing services trade. In 1987, Uruguay Round discussions on trade in services intensified, with substantive proposals for establishing rules governing services trade advanced by the United States and the European Community. The following sections outline the ongoing work programs on services trade issues in the GATT, OECD, and UNCTAD. Trade-agreements activities in three major services industries (telecommunications, maritime services, and insurance) will then be discussed. Each of these industries was significant in terms of international developments in 1987.

General Agreement on Tariffs and Trade

At the September 1986 GATT Ministerial in Punta del Este, the participats agreed to include trade in services on the agenda of the Uruguay Round Negotiations. The first full year of work for the Uruguay Round Group on Negotiations of Services (GNS) was 1987. The GNS ended the year cautiously optimistic about prospects for their future work. In 1987, the United States and the EC presented their proposals for establishing GATT rules on trade in services. The Chairman of the group, Colombia's GATT Ambassador, Felipe Jaramillo, urged all GATT members to present proposals in 1988 for the services discussions. Having a large number of negotiating pa-

[1] According to USDA projections, state purchases of milling quality wheat in 1987 fell below the 30.4 mmt level of 1986. USDA Economic Research Service, Centrally Planned Economies Branch, Agricultural Trade Analysis Division, *CPE Agriculture Report,* Vol. 1, No. 1, January–February 1988,

[2] According to USDA estimates, the U.S. share might rise to 50 percent of total Soviet imports of both soybean meal and soybeans in 1988, Ibid., p. 15.

[3] During 1986, the Soviets complained about the quality of wheat they received from U.S. sellers. See, *48th Quarterly Report . . .,* USITC Publication 1932, p. 37.

[4] Actual grain output in 1987 fell short by an estimated 20 mmt from the plan of 232 mmt. The 1988 plan calls for 235 and the 1990 plan for 250–255 mmt of grain output. USDA *CPE Agriculture Report,* p. 4. For a detailed survey of current Soviet efforts to improve agricultural performance see studies in "U.S. Congress, Joint Economic Committee, Gorbachev's Economic Plans, Vol. 2 (Washington, DC, 1987), pp. 1–139.

[5] Ronald K. Shelp, "Trade in Services," *Foreign Policy,* Fall/Winter 1986/87, p. 70.

[6] Data on the U.S. economy are from the Coalition of Service Industries, *The Service Economy,* December 1987, Vol. 2, No. 1.

[7] OECD, "Goods and Services in OECD Economies," *OECD Economic Studies,* Paris, Spring, 1987.

pers on the table, Jaramillo saoid, would provide trade ministers at the December 1988 midterm review of the Uruguay Round with a clear idea of what member countries want for trade in services and how to resolve any differences.

Discussions in the GNS in 1987 included the applicability to services trade of GATT concepts that have long been applied to goods. For the first phase of the negotiations, the group agreed to discuss five specific concepts. These concepts, which may form part of the basis for future service-sector disciplines, are (1) national treatment, (2) transparency, (3) coverage of the multilateral framework for trade in services, (4) existing international disciplines and arrangements, and (5) measures or practices limiting the expansion of trade in services.

The talks included discussion of the relevance of the concept of national treatment under Article III of the General Agreement to trade in services given the differences between goods and services trade. On the subject of transparency, discussions included questions concerning the extent to which this concept would be practically applied, particularly in reference to developing countries. Other concepts discussed included nondiscrimination, and labor intensive services. There was also discussion of statistical and definitional issues regarding trade in services.

The U.S. proposed a framework agreement in 1987 that would formalize rules governing trade in services. The United States views creation of a framework agreement on services as a first step in a negotiating process that would also include establishing specific service-sector agreements. The main concepts outlined for a framework are that (1) it "should be designed to achieve a progressive liberalization of a wide range of service sectors in as many countries as possible;" (2) it should recognize "the sovereign right of every country to regulate its services industries," and only regulate measures whose "purpose or effect" is to restrict market access by foreigners; (3) it should ensure "agreement by countries to avoid adopting new restrictive measures on foreign service providers"; (4) it should seek a "progressive and time-phased liberalization of world services markets which contribute to development in a positive way, without compromising any individual country's development objectives;" (5) its framework should apply to "cross border movement of services" and to the establishment of foreign branches and subsidiaries; and (6) it should allow broad yet flexible coverage, with the goal of extending its coverage to a wide variety of service sectors. Some delegations reacted to the U.S. proposal by stating that it did not sufficiently take into account the concerns of developing countries.

The EC also tabled a proposal on services trade in 1987. The goal of the proposal was described by EC External Relations Commissioner Willy de Clerq as being intended "to establish exactly the same kind of system for services as was established for goods in 1947 at GATT." In line with this reasoning, the EC proposal notes that the key issue in negotiating a services agreement is how to achieve a major expansion of trade in services, thereby boosting growth in the world economy while respecting the policy objectives that have led to international and national regulation of services and promoting the development of developing countries. To that end, the EC proposal applies GATT concepts such as nondiscrimination, national treatment, transparency, and standstill and rollback to trade in services.

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."[1] The work program has taken a two-part approach. Committees with sectoral expertise are identifying and evaluating obstacles to trade in specific service industries. In 1987, work was completed on the securities industry. Meanwhile, the Trade Committee and its working party, are establishing a general framework for considering service trade issues.

Part of the ongoing work of the OECD related to trade in services is a work program of the Committee on Financial Markets (CFM) to analyze issues related to trade in the financial services sector. Much of the work to date has focused on identifying obstacles to trade in financial services.[2] In 1987, the CFM released its analysis of international trade in securities.[3] The OECD identified three general categories of obstacles to international trade in securities. The first type of obstacle is explicit governmental policies intended to exclude or circumscribe foreign participation in the securities market. The second category of obstacles is official regulations or officially condoned private practices serving to exclude foreign operations from a significant portion of the domestic securities market.[4] The final major category of obstacles involves barriers to cross-border activities in securities, such as exchange controls and discriminatory taxes. The report recommends that future efforts to liberalize the sector should attempt to deal with these obstacles.

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[1] OECD, "OECD Council Meeting at Ministerial Level Communique," *The OECD Observer*, May 1982, p.6.
[2] OECD, *International Trade in Services: Banking* (Paris), 1984.
[3] OECD, *International Trade in Services: Securities* (Paris), 1987.
[4] Examples of such regulations include restrictions on secondary market dealing, membership in securities exchanges, or direct dealing with the investing public.

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Other measures identified by the report do not have a restrictive intent, but create "significant difficulties" for foreign securities-related firms. These measures, often the result of differences in regulatory systems and requirements between countries, may have the same restrictive effect on foreign participants as intentionally restrictive regulations. Two examples of types of such measures cited by the OECD study are: (1) establishment-related difficulties that may be caused by differences in institutional and regulatory regimes;[1] and (2) unintentional barriers to cross-border operations caused, for example, by domestic laws and their application, or regulatory limits on the level of foreign securities that institutional investors may hold.

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 focuses on reducing impediments to the international movement of people, goods, services, and capital and lowering duties on personal items of tourists. It also contains guidelines on how the objectives may be met. The Decision-Recommendation provides for a review of progress on meeting its objectives at least every 3 years and incorporates the updated OECD Code of Liberalization of Current Invisible Operations, which facilitates financial operations for tourists.[2]

In its annual report on tourism, released in September 1987, the OECD Tourism Committee reported modest growth in tourism among member countries in 1986 compared with 1985. The growth rate in tourism, the Committee pointed out, was hampered by extraneous factors, such as the fall in the value of the dollar against European currencies, fear of terrorism, and concern over possible effects of the Chernobyl accident. During 1986, arrivals at frontiers grew by 3 percent (compared with 5 percent growth in 1985), and nights spent in various forms of accommodation rose by 2 percent (the same rate as in 1985). Tourism receipts and expenditures in real terms were unchanged over 1985 levels. According to the OECD, receipts and expenditures each were over $90 billion in member countries in 1986.

In a report on shipping published in 1987[3], the OECD noted a rise in demand for shipping services in 1986 and early 1987.[4] Higher oil shipments largely accounted for a 2-percent rise in volume of seaborne trade in 1986 over the previous year, according to the report. The growth in demand, however, was insufficient to restore balance in the world's main shipping markets, even with continued contraction in the world commercial shipping fleet. The condition of maritime shipping services were also affected in oversupply of carriers, increased competition, and the fall of the U.S. dollar. The report noted that the fleets of OECD member countries were subject to continued governmental intervention by developing and nonmarket economy countries, serving to restrict access to cargoes and noncommercial rating policies by several state-trading shipping lines.

Attacking protectionism in international shipping was the goal of the Recommendation on Common Principles of Shipping Policy, adopted by the OECD Council in February 1987 after 7 years of negotiations. The Recommendation includes agreement on a detailed set of principles to preserve world competition in seaborne trade and strengthen the liberalization code on shipping. The agreement is designed to mitigate efforts by nonmember countries, especially Eastern European countries, to protect domestic merchant fleets through the use of central freight bureaus and other methods that determine which ship will carry specified cargoes. Although the principles are not compulsory, OECD member countries agreed on a standstill in the imposition of future restrictions hampering international competition in cargo trade. The resolution also calls for an examination by the OECD before the end of 1988 of all restrictions practiced by OECD member states. The OECD also plans to determine how, and on what schedule, identified restrictions will be modified to conform with the OECD Code of Liberalization.

United Nations Conference on Trade and Development

Issues related to trade in services have long been a 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 its report to UNCTAD VII,[5] the Secretariat, while recognizing that services are one subject

[1] An example would be regulations that separate banking and securities industries in one country, while banks may be free to engage in securities business in another.

[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] OECD, *Maritime Transport 1986* (Paris), 1987.

[4] For a more detailed discussion of international trade developments in the maritime services industry, see the preceding section.

[5] UNCTAD "Revitalizing Development, Growth and International Trade: Assessment and Policy Options," June 1987, TD/B/329/Rev. 1, p. 164.

of the Uruguay Round, noted several areas in which multilateral cooperation between developed and developing countries could take place. Such cooperation, UNCTAD pointed out, could strengthen service sectors in developing countries and enhance their services export-earnings potential. First, the Secretariat pointed to facilities for the exchange of experience among enterprises and governments of developed and developing countries regarding such issues as the contribution of producer services to economic development and the links between the service and manufacturing sectors. Second, the Secretariat stated that multilateral cooperation on technical assistance such as improving producer services in developing countries, implementing service export strategies, and improving statistics on trade and production of services could be pursued. Finally, the report identified financial support encouraged by investment incentive programs in developing countries as another area for multilateral cooperation. The Final Act of UNCTAD VII reaffirmed the UNCTAD Secretariat's existing mandate to study trade in services and to continue providing technical assistance to developing countries in the area of trade in services.[1] The mandate was slightly expanded to allow analysis by UNCTAD of issues such as the implications of technological change on services.

UNCTAD's Committee on Invisibles and Financing Related to Trade (CIFT) is instructed to review periodically developments in insurance, with particular reference to developing countries. As part of that mandate, the CIFT presented a report in 1987 covering recent developments in Insurance in developing countries.[2] The study found a relaxation of conditions for insurance firms to enter or operate in the markets of certain developing countries during the period reviewed. For example, Sri Lanka has decided to allow the number of new insurance companies operating in the private sector to increase. The report pointed out, however, that demand for insurance in developing-country markets has been depressed by a variety of economic factors such as balance of payments and external debt problems and depressed export prices, which have negatively affected investments, lowered imports and living standards, and cut demand for insurance.

[1] UNCTAD's mandate on trade in services is contained in resolution 159 of UNCTAD VI, and TBD decision 309 (XXX). Pursuant to these decisions, UNCTAD formally recognized the growing role of services worldwide, and directed the Secretariat to study services, including the role of the services sector in the development process. (Such work, it was recommended, should also include in-depth studies of the role of services in the development process.) Two of the major products the UNCTAD Secretariat has published based on this mandate are "Services and the Development Process," (TD/B?C.3/1008/Rev. 1)Aug. 2, 1984, and "Services and the Development Process: further studies pursuant to Conference Resolution 159 (VI) and Board decision 309 (XXX)" (TD/B/1100), July 2, 1986.

[2] UNCTAD, "Insurance in developing countries: developments in 1984-85," TD/B/C.3/222 Supp. 1, Jan. 16, 1987.

In November 1987, the Intergovernmental Group of Experts on Restrictive Business Practices held their sixth annual session to consider implementation of technical assistance and advisory and training programs as called for in UNCTAD's code on restrictive business practices.[3] The code was designed to control restrictive business practices (RBP's), including those of multinational corporations, which adversely affect international trade and, in turn, the economic development of developing countries.

The annual meeting of the Intergovernmental Group of Experts (IGE) on RBP's produced what UNCTAD described as "positive and forwardlooking results." The group requested the Secretariat to undertake a study of concentration of market power through mergers, takeovers, joint ventures and other acquisitions of control. The Secretariat was also asked to study the feasibility and desirability of conducting three additional studies on RBP's. Future work by UNCTAD on RBP's, as directed by the IGE, will include updating the model law for controlling RBP's and continuing the compliation of a handbook on RBP's.

Part of UNCTAD's activities in the area of RBP's in 1987 was a Regional Seminar on Restrictive Business Practices held in Bangkok in September. The seminar was the second such regional gathering held since the inception of the code in 1980. At the seminar, official representatives from 15 Asian countries were brought together with experts from West Germany, Norway, Sweden, and Japan. The seminars are part of UNCTAD's technical assistance, and advisory and training programs on RBP's for developing countries.

Discussions at the seminar focused on efforts, in the context of overall economic policies, to control RBP's legislatively, judicially, or administratively, especially those adversely affecting international trade. Identifying those RBP's that adversely affect trade was also a subject of discussion. The meeting concluded that RBP controls need to be strengthened both nationally and internationally. At the national level, legislation controlling RBP's, particularly practices such as collusive tendering, was called for. On the international level, the meeting concluded that bilateral and multilateral cooperation was essential for controlling "cross-border" RBP's.

Work on an international code of conduct on the transfer of technology has been on UNCTAD's agenda 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

[3] The formal title of the code is the UNCTAD Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.

on international transmission of information as a principle method of trading. A resolution in 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 November 1987, UNCTAD agreed on a resolution for submission to the U.N. General Assembly regarding future work on the code of conduct for transfer of technology.

Trade Developments in Selected Service Industries

Insurance services

Trade.—In general, the U.S. Government does not maintain comprehensive databases on domestic and international insurance services. However, the U.S. Commerce Department does conduct an annual survey of the reinsurance industry and follows developments in the life insurance industry.[1]

The U.S. insurance market is the largest in the world. Nearly half the global insurance sales are made in the United States, and because the majority of the firms operating in the United States are domestically owned, the U.S. industry ranks first in the number of original policies written. Despite this advantage, U.S. insurers continue to rely on foreign firms to offer reinsurance on their largest policies and thus often pay out more in reinsurance premiums than they receive, placing the industry in a net deficit position in reinsurance trade. In the case of life insurance, international business represents a small portion of total U.S. firm revenues. In 1986, roughly $3.2 billion of life, healths, and annuity premiums were attributed to foreign transactions compared with $282.2 billion total premium receipts received by U.S. insurers in the same year. However, despite the apparently small amount of direct business abroad, the average annual growth rate from 1975–1985 of 16 percent makes this international portion of receipts the fastest growing for the industry.[2]

In 1986, net exports of reinsurance amounted to $1.3 billion, showing no appreciable change from the 1985 level. Net imports were about $4.1 billion, representing a 30-percent increase over 1985 levels.[3] The loss ratio for reinsurance exports (losses paid as a percentage of premiums received) was 89 percent in 1986, up 9 percentage points from the loss ratio in 1985. In the same period, the loss ratio for imported reinsurance services was 70 percent, down 13 percentage points from 1985.[4]

The combination of premium receipts and losses for reinsurance indicates a negative current account balance for U.S. trade in reinsurance. Industry sources suggest that the negative flows are a result of several factors. First, for the past several years the reinsurance market has suffered from a capacity shortage relative to demand; (many firms will be unable or unwilling to offer reinsurance for certain high risk ventures) this shortage is expected to continue in the near future. Second, U.S. reinsurance providers are not expanding their share of the market as a result of recent unfavorable court settlements. These settlements require increased payments for risks, such as pollution control, that were not foreseen when projects were underwritten. Finally, the reinsurance industry is a high risk business in which profits and losses fluctuate widely from year to year.

Trade-related activities in 1987.—Trade barriers continue to exist in the insurance industry. Among the most common are overly restrictive reserve requirements, denial of right of establishment, discriminatory licensing procedures and restrictions on reinsurance opportunities. The United States has engaged in several bilateral efforts aimed at addressing foreign nontariff measures that restrict market access for U.S. insurance providers. These efforts include the recently negotiated U.S.-Canada FTA, which includes a chapter on services, a section 301 case involving Korea, and discussions with Taiwan under the auspices of the annual GSP review conducted by the USTR. In addition, insurance is under consideration for negotiation in the preliminary round of GATT framework negotiations in services for the Uruguay Round.[5]

The U.S. Commerce Department reported that although Korea has fulfilled many of its commitments made in August of 1986, it limits U.S. insurers to branch operations. Although Korea agreed to take steps to grant market access to U.S. insurance firms, the Korean Government denied a U.S. insurer's application for a joint-venture license with another Korean firm in August 1987. As a result, the United States requested negotiations and threatened to launch a new Section 301 investigation.[6] Korea subsequently agreed to allow joint ventures and will continue talks into 1988 to establish eligibility guidelines.

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[1] Many international insurance transactions take the form of reinsurance or risk sharing; that is, the original insurer lays off part of its liability by reinsuring with another carrier thereby diversifying its risk portfolio.

[2] American Council of Life Insurance, *1986 Life Insurance Fact Book,* 1986.

[3] Export and import data supplied by U.S. Department of Commerce, Bureau of Economic Analysis, from the international transactions accounts.

[4] Estimated by the staff of the U.S. International Trade Commission.

[5] Bilateral negotiation information supplied by the U.S. Department of Commerce, Office of Service Industries, September 1987, and the Industry Sector Advisory Committee on Services.

[6] For a discussion of actions taken pursuant to Section 301, see ch. 5.

Bilateral discussions with Taiwan in July 1987, under the new provisions on market access established in the Trade and Tariff Act of 1984 for the Generalized System of Preference Annual Review in 1986, resulted in an insurance agreement between the United States and Taiwan. Under the agreement, Taiwan admitted one property/casualty insurer, broadened the property/casualty licenses of two U.S. firms already in the market, and licensed one U.S. life and one health insurer. Beginning in 1987 and continuing through 1988, Taiwan will license four additional U.S. firms per year. Furthermore, U.S. firms are expected to receive full national treatment including the right to establish offices throughout Taiwan instead of being limited only to Taipei. Taiwan is also expected to propose a specific timetable to permit subsidiaries and joint ventures for U.S. firms and to amend the land law to allow U.S. companies to hold real estate for speculation.

Under the U.S.-Canadian FTA, service industries such as insurance will be assured right of establishment, the right to cross-border sales, the ability to request disciplines on public monopolies and a binding dispute settlement mechanism. Industry analysts expect the new agreement to benefit the insurance industry.

The insurance industry has for the most part recovered from the past global economic recession. As the industry becomes more stable, the growing internationalization of insurance services will be a key factor contributing to future changes in the operation of U.S. insurance firms. However, the most important issues affecting the industry are in the domestic area. The banking industry has increased pressure on Congress to allow banks to enter the insurance market through either direct underwriting and/or ownership of insurance companies. Industry analysts predict that banks may soon be entering the insurance market in some capacity. Increased competition from new market entrants, an expanding global market and new issues such as designing AIDS insurance will affect the industry for the next two decades and encourage firms to seek new overseas markets and innovative products that will ensure their profitability.

Maritime transportation services

Trade.—Maritime transportation services are classified in U.S. international transactions accounts under "other transportation." In 1986, the trade deficit in maritime transportation services rose to $2.2 billion, from $2.1 billion in 1985. In 1984, the sector recorded a deficit of $1.4 billion. Exports of maritime transportation services as a proportion of total U.S. international transportation exports decreased from 52 percent in 1985 to 50 percent in 1986; for imports, the share rose from 47 percent in 1985 to 49 percent in 1986.[1] The rise in the trade deficit was attributed to decreased earnings of U.S.-flag carriers, along with a decline in the share of U.S. foreign trade carried by U.S.-flag carriers.[2]

The U.S. maritime transportation services continued in 1987 to adjust to the effects of the Shipping Act of 1984.[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. The legislation overhauled the regulatory structure governing liner shipping into and out of the United States and helped pave the way for the realignment of the trans-Atlantic and trans-Pacific ocean carrier conferences. U.S. carriers have become more competitive as a result. However, the increased U.S. participation in the global market contributed to an overtonnaged international market and a decline in freight rates during 1987.[4]

Total U.S. exports of maritime transportation services, consisting of ocean freight, port expenditures, and charter hire amounted to $9.4 billion in 1986, up from $8.8 billion in 1985, with port expenditures accounting for 65 percent of exports in 1986. Total U.S. imports of ocean freight, port expenditures, and charter hire rose to $11.6 billion in 1986, 7 percent over the level of such imports in 1985. Ocean-freight payments constituted 80 percent of imports of maritime transportation services in 1986.[5]

Trade-related activities in 1987.—A significant recent development affecting the U.S. maritime transportation services industry was the Food Security Act of 1985, which amended Public Law 664, the Cargo Preference Act of 1954. P.L. 664 requires that at least one-half of all Government-generated cargo subject to the law be transported on privately owned U.S.-flag commercial vessels when they are available at fair and reasonable rates. The Food Security Act increased the minimum from 50 percent to 60 percent in 1986, 70 percent in 1987, and 75 percent in 1988, for agricultural cargoes under certain foreign assistance programs of the U.S. Department of Agriculture and the Agency for International Development.[6]

Restrictive measures impeding the U.S. maritime industry's foreign-service operations continue to exist. These measures include minimum rate structures, market access, cargo preference schemes, restrictions on the use of certain

[1] U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* (September) 1987.
[2] U.S. Department of Commerce, *U.S. Industrial Outlook 1988*, Ch. 59.
[3] Public Law 98-237, enacted Mar. 20, 1984.
[4] U.S. Department of Commerce, *U.S. Industrial Outlook 1988*, Ch. 59.
[5] Ibid.
[6] Food Security Act of 1985, Public Law 99-189 (46 App. U.S.C. 1241(b)(1)), enacted Dec. 23, 1985. The Cargo Preference Act of 1954, Public Law 83-664 (46 App. U.S.C. 1241 E-O).

equipment, and discriminatory port fees. U.S. industry sources have alleged that certain foreign governments have hindered efforts by U.S. shippers to integrate warehousing and ocean shipping. Section 13(b) 5 of the Shipping Act of 1984 allows the Federal Maritime Commission (FMC) to take action against any foreign country that impedes U.S. access to ocean trade between foreign ports.[1] The Act was amended in 1987 to cover intermodal transportation of cargo.[2]

A recent development that may affect maritime transportation services is the U.S.-Canada FTA. The FTA submitted for Congressional approval included the following three maritime-related provisions: export of Alaskan crude oil to Canada, elimination of the 50-percent penalty duty on nonemergency ship repairs done at U.S.-flag vessels in Canadian shipyards, and future negotiations on Government procurement.[3] The FTA provision that would allow the export of up to 50,000 barrels per day of Alaska North Slope crude oil to Canada[4] has been opposed by domestic shippers who contend that this arrangement will harm independent tanker and shallow-draft liquid bulk carriers because of shorter hauls, thus diminishing the U.S.-flag tanker fleet and threatening the nation's energy independence and security.

The Consultative Shipping Group (CSG), consisting of representatives of Belgium, Denmark, Finland, France, West Germany, Greece, Italy, Japan, the Netherlands, Norway, Spain, Sweden, and the United Kingdom, met with the European Community (EC) and the United States in March and November 1987 to reaffirm their policies to safeguard and promote competition in all sectors of ocean shipping. The participants agreed to continue to resist protectionist measures employed by third countries and endorsed the measures adopted by the EC to preserve competitive access to EC shipping. The group agreed to consult on a number of practices, including barriers to landside-activities practices and those resulting in the introduction of noneconomic tonnage into world markets that constitute impediments to fair trade in shipping. Additionally, the participants agreed to continue consultations aimed at maintaining competitive liner trade and supported the "Recommendation on Common Principles of Shipping Policy" prepared by the OECD.[5] The United States is not a formal member of the CSG, but has participated in the CSG meetings.

The United States also participates in the Maritime Transport Committee of the OECD. Two principal themes were pursued in 1987: (1) coordinating of developed-country positions within UNCTAD and development of a common statement of OECD members' shipping policy vis-a-vis nonmember developing countries and state trading countries, and (2) to reevaluating and restating intra-OECD shipping policy.[6]

An UNCTAD agreement affecting the maritime industry is the UNCTAD Liner Code. The Code is intended to improve the international liner conference system and to facilitate the expansion of seaboard trade. Algeria ratified the UNCTAD Liner Code in 1986, while Kuwait acceded to it the same year, and Belgium ratified the Code in 1987.[7] The United States remains opposed to the UNCTAD Liner Code since certain provisions encourage the continuation of "closed" conferences that would exclude U.S. participation. A number of countries adhering to the Code continued to seek the phasing out of open registries, the so-called "flag-of-convenience" or "free-flag shipping". The elimination of open registries would adversely affect shipowners, particularly in countries with high labor costs such as the United States, who register abroad to benefit from lower labor costs and political and tax advantages.[8] According to the International Transport Workers' Federation, the radical cost reductions achieved by obtaining cheaper, unproven registries come at the expense of lowering safety and living standards. Two proposals to resolve the proliferation of international open registries are that of using a world flag, controlled by a nonpolitical body that could more effectively supervise technical, legal, and safety standards; and that of using national registries operated by mariners of the same nationality.

The United States and the Soviet Union held negotiations on a bilateral maritime agreement in January and October 1987. These discussions, a continuation of negotiations begun in 1985, dealt with cargo sharing, port access, and other bilateral issues. The joint statement that was issued following the December 7, 1987, United States-Soviet Union Summit talks noted a maritime agreement as one of the important bilateral issues facing the two countries.

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[1] 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 that 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.

[2] 46 CFR sec. 587.1, p. 288.

[3] *Washington Letter,* Joint Maritime Congress, Nov. 9, 1987.

[4] Canada-United States Free Trade Agreement, Final Text, Dec. 9, 1987.

[5] United States/CSG joint statement, Nov. 5, 1987, p. 1.

[6] *MARAD '87 The Annual Report of the Maritime Administration for Fiscal Year 1987* (draft, June 1987), U.S. Department of Transportation, Maritime Administration.

[7] According to the United Nations, 74 countries were signatories to the UNCTAD Liner Code as of Dec. 31, 1987.

[8] *Washington Letter*, Joint Maritime Congress, Sep. 14, 1987.

The United States and Peru held negotiations that resulted in a May 1987 Memorandum of Understanding in which Peru agreed to issue renewable 2-year authorizations for foreign ocean carriers (third-flag carriers) to participate in U.S.-Peru trade. The agreement was Peru's response to a complaint filed with the Federal Maritime Commission under section 19 of the Merchant Marine Act of 1920, which empowers the Commission to adjust or address unfavorable shipping conditions. The dispute began in 1986 when Peru issued a decree reserving 100 percent of all cargoes in the trade for Peruvian carriers. Subsequent to a December 1987 ruling by the FMC suspending Peruvian carriers' tariffs (thus prohibiting them from operating in the U.S.-Peru trade), Peru rescinded the Memorandum of Understanding, activated earlier more generous access decrees, and has petitioned the FMC for reconsideration.[1]

The Federal Maritime Commission launched an investigation into Taiwan's maritime trading practices in April 1987 under section 19 of the Merchant Marine Act of 1920, and in December 1987 proposed sanctions against that country's carriers. The FMC is proposing to suspend the tariffs of Taiwan's carriers, which would result in banning Taiwan operations from the U.S. foreign trade. In support of this action, the FMC cited U.S.-flag carriers' difficulties in competing in the Far East trade, specifically in the areas of ownership and operation of dockside equipment and facilities, and the operation of container terminals at Taiwan ports by U.S. companies.[2] Third-flag carriers have indicated that, since they do not have extensive intermodal service in Taiwan, Taiwan's regulations do not affect them as much as they do U.S.-flag carriers.[3] Discussions between the United States and Taiwan in Taipei in late 1987 did not resolve the dispute.

The United States and Korea held discussions in May and November 1987 in which the United States received commitments from Korea to improve conditions for U.S.-flag carriers. The bilateral talks concluded with an agreement on the right to establish full-service shipping agencies by mid-1988, the application of national treatment in the use of container terminals by January 1988, and permission to form a shipowners' association to represent the United States and other foreign shipowners in Korea.[4]

The United States and Colombia held talks as a result of complaints from U.S. and third-flag carriers concerning Colombian cargo reservation practices. The practices were amended following internal discussions between the Colombian Government and the State-owned carrier company.

[1] *Washington Letter*, Joint Maritime Congress, Dec. 7, 1987.

[2] *Washington Letter*, Joint Maritime Congress, Jan. 25, 1988.

[3] *Washington Letter*, Joint Maritime Congress, Dec. 21, 1987.

[4] *MARAD '87* (draft, June 1987), U.S. Department of Transportation, Maritime Administration.

Telecommunications services

Trade.—In 1986, the U.S. settlement payments deficit rose to an all-time high of $1.2 billion, which represents an increase of nearly $300 million over that of the prior year.[5] The increase in the deficit indicates a growing imbalance in the volume of outbound transmissions that use foreign networks, thus requiring U.S. firms to pay foreign carriers for the service. Total U.S. revenues from international telecommunications services[6] after payments to foreign carriers rose from $1 billion in 1975 to $2.9 billion in 1985. Estimated revenues were just under $3.0 billion for 1986 and are expected to rise to $3.2 billion in 1987.[7] The growth in volume of international telecommunications services—telephone, telegraph, and telex—far outstripped the growth in revenues during 1975–86. In 1975, approximately 100 million messages were transmitted to and from the United States; by 1986, this number had risen to nearly 650 million. Revenues have not kept pace with volume for two reasons. First, rates declined more than 50 percent during 1975–86. Second, the portion of charges that U.S. firms keep after settlement with foreign carriers is declining.[8] In 1975, payments per call were split nearly evenly between U.S. and foreign carriers. However, over the succeeding decade, the settlement rates between the carriers did not fall as rapidly as the rates U.S. companies charged their subscribers. Consequently, by 1986, U.S. companies' share of charges on outgoing calls fell far below 50 percent in most cases and, in some instances, was actually negative.[9]

Trade related activities in 1987.—The move toward deregulation of telecommunications services and increased competition in some markets continued in 1987 throughout much of the developed world. Although each country's situation differs, common trends emerging in most deregulatory plans include the promotion of competition in the markets for value-added network services (VANS) and terminal equipment, and the separation of the regulatory function from the operation of the network. However, most countries

[5] "International Phone Service Trade Deficit Tops $1 Billion," *FCC Week*, Jan. 4, 1988, pp. 8–10.

[6] Telecommunications services are classified under the Standard Industrial Classification as items 4811 and 4821.

[7] U.S. Department of Commerce, *U.S. Industrial Outlook 1988*, ch. 33.

[8] All outbound international messages that are transmitted partially through a foreign network require payment from the originator to the foreign network for the use of its services. The rates of these payments are negotiated between U.S. and foreign carriers and are not necessarily linked to the rates at which the carriers bill their customers for service.

[9] "Imbalance in International Telephone Traffic Widening, FCC says", *Communications Daily*, Dec. 1, 1987, p. 1.

continue to restrict the provision of certain basic services, most commonly voice telephony and the network infrastructure, to the monopoly carrier.[1]

The Canadian Department of Communications announced a new telecommunications policy in July 1987 that would deregulate enhanced services and allow all service providers to connect nationwide with the public switched network. These companies had been prevented from offering their services nationally by the numerous autonomous regulatory authorities in Canada. The policy, similar to the one adopted in Japan a few years ago, would create two classes of carriers subject to national control. Type I carriers are companies that own and operate network facilities and provide basic telecommunications services. Type II carriers would not own the network, but would lease lines from Type I carriers and provide services such as computerized information or mobile radio services. The Canadian Government will limit foreign ownership of Type I carriers to 20 percent, but will not restrict foreign interests in Type II carriers.[2] In other developments in Canada, the U.S. and Canadian Governments negotiated an accord on telecommunications services as part of the U.S.-Canada FTA. The pact requires that the two countries maintain open access to their networks for enhanced services and prohibits cross- subsidization of deregulated services by monopoly carriers. Industry sources felt that although this agreement does little to change the current status of the U.S. and Canadian industries, it may become the prototype for other bilateral agreements in telecommunications services.[3]

Of all the countries in Western Europe, West Germany has been the most reluctant to relax regulation of the telecommunications industry. Consequently, it has come under increasing pressure from both the EC and the United States. However, at the conclusion of the Market Access Fact Finding (MAFF) talks in January 1988, German officials announced that legislation to restructure their telecommunications administration would be introduced within 2 months.[4] The key provisions of the legislation are that the telecommunications service operations would be separated from the postal service, regulatory authority would be transferred from the telecommunications administration to the Ministry of Communications, and the markets for VANS and terminal equipment would be opened to all competitors. The telecommunications service administration would remain the monopoly provider of voice telephony and the basic network.[5] MAFF discussions with Sweden in 1987 focused on proposed measures to liberalize the Swedish telecommunications industry. The Swedish Telecommunication Authority has announced plans to end its monopoly on PBX's and high-speed modems and to lift restrictions on third party traffic on leased lines, which are expected to facilitate the ability of U.S. firms to offer value-added services.[6]

In East Asia, Japan is allowing increased foreign participation in its telecommunications services industry and Korea has taken the first steps toward deregulating enhanced services. As a result of a series of MAFF talks with Korea, legislation was passed in July that legalized private corporate networks.[7] After lengthy negotiations, the Japanese Government has granted licenses to both consortia that sought to compete with Kokusai Denshin Denwa (KDD) in the Japanese telecommunications services market.[8] One consortium, International Digital Communications, has three non-Japanese partners that own a total of 33 percent of the venture, the maximum allowed by Japanese law.[9] Two U.S. firms entered the lucrative Japanese VANS market in 1987, and several others are planning to do so in the near future.[10] However, the potential of U.S. firms in this market may be limited by regulations recommended by the International Telecommunications Union (ITU) and proposed by the Japanese Ministry of Posts and Telecommunications. If adopted, these regulations would prohibit the proprietary protocols U.S. firms have developed to make their operations more efficient and less costly.[11]

During 1987, several cooperative efforts were under way in Europe to reorganize and unify telecommunications industries. In June, the EC issued the "Green Paper on the Development of the Common Market for Telecommunications Services and Equipment" which outlines a restructuring of European telecommunications policy. The principal recommendations of the study included the opening of all but the basic services market to competition, the adoption of one set of equipment standards throughout the EC, the separation of regulation and network operation activities, and the establishment of a European Telecommunications Standard Institute to de-

[1] *Telecommunications*, "European Telecommunication—Fact or Fiction?", October 1987, p. 46.
[2] "Canadians Propose National Interconnection of Enhanced Services," *Communications Daily*, Aug. 17, 1987, p. 3.
[3] "Telecom Industry Gets a Boost from Final U.S.- Canada Pact," *FCC Week*, Dec. 21, 1987, pp. 9-10.
[4] "U.S. and West Germany Wrap Up Market Access Talks", *FCC Week*, Feb. 1, 1988, p. 9.
[5] "Deregulating Germany," *Telecommunications*, October 1987, p. 126.
[6] Office of the United States Trade Representative, *Foreign Trade Barriers*, 1987, pp. 286-7.
[7] "U.S. Presses Korea to Open Telecom Market," *FCC Week*, Nov. 30, 1987,
[8] "Japan Grants Licenses, Private Cables Progress," *FCC Week*, Dec. 7, 1987, p. 6.
[9] "Japan Makes New Offer to Soothe KDD Controversy with U.S., Britain," *International Communications Week*, Apr. 10, 1987, pp. 4-5.
[10] "Tymnet, GE Information Services Enter Japan's Value-Added Market," *Communications Week*, Dec. 28, 1987, p. 6.
[11] "U.S. Telecom Groups Urge Administration to Fight New Japanese Regulator", *Inside U.S. Trade*, Feb. 12, 1988.

velop common standards.[1] EC officials plan to liberalize most services by 1989 and the remainder, except basic services, by 1992.[2] Such a restructuring of the telecommunications industries of EC countries' would present U.S. firms with new business opportunities unless new standards and regulations designed to slow entry into these markets are adopted. In addition to the EC proposals, the Conference of European Postal and Telecommunications Administrations (CEPT) has been planning and making recommendations for pan-European networks and standards. In September, a Memorandum of Understanding on the implementation of a pan-European digital cellular system by 1991 was signed by 13 CEPT members.[3] CEPT is also in the process of putting together an international network that will provide packet switching and protocol conversion services as well as private and public switched transport services.[4] However, CEPT's efforts to publish Integrated Services Digital Networks (ISDN) standards early in 1988 have run into difficulty. France and West Germany, the two largest network operators, are opposed to approving any ISDN standard before the International Telephone and Telegraph Consultative Committee (CCITT) specifications are published in late 1988.[5]

Telecommunications services are expected to be included in the Uruguay Round of the GATT negotiations. U.S. recommendations related to services in general include the adoption of nondiscriminatory rules and standards, open procedures for regulation and certification of equipment, equal treatment for imported and domestic products, a transparent procedure for rulemaking, and provisions for dispute settlement.[6]

The ITU's World Administrative Radio Conference for Mobile Services (Mobile WARC) met in October 1987, to revise the mobile communications services frequency tables. U.S. objectives at this conference were to gain approval of certain frequency allocations for a satellite navigation service known as radio determination satellite service (RDSS) and a mobile satellite service (MSS) which would provide land, maritime, and aeronautical services. The allocation for RDSS was granted, although the Soviet Union and its allies were vigorously opposed to it. Several countries, in addition to the United States, have expressed interest in offering services of this kind. MSS met with resistance from a number of countries and international organizations mainly because of the overlapping of land, maritime, and aeronautical frequencies. As a result, the amount of bandwidth allocated to MSS was only half of that requested.[7] Currently, several U.S. firms are in the process of forming a consortium to offer MSS in the U.S.-Canadian market in conjunction with Telesat Canada, but industry sources feel that the Mobile WARC decision could significantly slow the growth of MSS in North America.[8]

Two ITU conferences will be held in 1988. The World Administrative Radio Conference on the Use of Geostationary Satellite Orbit (Space WARC) will meet in August to determine a method of allotting orbital slots and new frequency bands for satellite communications among the countries of the world. Opposition to U.S. proposals is expected from developing countries that are concerned that the developed countries will get a disproportionate share of slots.[9] In November, the World Administrative Telegraph and Telephone Conference (WATTC) will consider a new definition of telecommunications services and changes in the regulatory framework that are now being drafted by the ITU. Both the United States and the United Kingdom objected strongly to the final draft document that emerged from the WATTC preparatory committees.[10] They feel that the draft proposals could bring many unregulated, value-added telecommunications services under ITU authority and regulation. Industry sources fear that if such a document were approved at the WATTC, it could slow the development of new telecommunications services.[11]

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[1] "EC Offers Radical Changes in European Telecom Plan," *Communications Week*, June 15, 1987, pp. 1, 77-8.

[2] "Sweeping Telecom Changes Advance in Europe," *FCC Week*, Dec. 7, 1987, pp. 4-5.

[3] "Pan-European Cellular Standards Lead the Way," *Telecommunications*, Nov. 1987, pp. 28-33.

[4] "Europeans Considering International Virtual Network," *Communications Week*, Mar. 9, 1987, p. 5.

[5] "ISDN Plan falters in Europe," *Communications Week*, Feb. 15, 1988, pp. 1, 47.

[6] "U.S. Proposes Framework for GATT Services Agreement," *Communications Daily*, Nov. 6, 1987, p. 3. For a discussion of the U.S. services proposal, see the preceding section.

[7] "WARC Gives U.S. Some Mobile Satellite Frequencies," *FCC Week*, Oct. 26, 1987, pp. 1-3.

[8] "U.S. Stymied at Mobile WARC," *Telecommunications*, December 1987, pp. 8 and 12.

[9] "FCC Advisory Group Develops U.S. Stance For Satellite Conference," *FCC Week*, Nov. 16, 1987, pp. 7-8.

[10] "WATTC 88-Keeping the Luddites at Bay," *Telecommunications*, January 1988, p. 1.

[11] "U.S. Committee Can't Reach Agreement on Proposed ITU Rules," *International Communications Week*, Feb. 27, 1987, p. 7.

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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 1987. Specifically, U.S. relations with the European Community (EC), Canada, Japan, Mexico, Taiwan, the Republic of Korea (Korea), and Brazil are discussed.

In 1987, the U.S. merchandise trade deficit was $158.2 billion, of which $130 billion (82 percent) was with the countries under review. The largest bilateral merchandise trade deficit in 1987 was with Japan at $57 billion (36 percent of the total U.S. merchandise trade deficit), followed by that with the EC with $22.9 billion (14 percent). (West Germany accounted for $16.1 billion of the U.S. deficit with the Community.) The U.S. merchandise trade deficit with the Asian newly industrialized countries (NIC's) covered in this report totaled $27 billion, or 17 percent of the total deficit.

U.S.-EC trade relations began the year with the threat of a major trade war erupting over EC enlargement. Threats of retaliation and counter-retaliation were made before the dispute was finally settled. The issue of EC subsidization of pasta was resolved in 1987, as part of the end of a long-term dispute that began over citrus products in the early 1970's. U.S. meat exports to the EC were affected by two Community directives in 1987. The oilseeds sector was the source of further U.S.-EC troubles. In response to the USTR's annual *Report on Foreign Trade Barriers*, the EC issued reports on U.S. trade practices that impede Community exports to the United States.

The United States-Canada Free-Trade Agreement and the negotiations leading to it were the most important bilateral issues in 1987. The agreement was concluded in October after intense last-minute negotiations and the threat of a collapse in the talks. The most significant U.S.-Canadian bilateral trade disputes during 1987 were over Canada's imposition of countervailing duties on imports of U.S. corn, and allegations that Canadian potash producers were dumping their products in the United States.

The U.S.-Japanese bilateral agenda was again crowded with numerous trade disputes intensified by contentious negotiations and another record bilateral trade deficit. The United States reacted to continued Japanese intransigence with specific retaliatory measures rather than prolonging bilateral discussions. In the first action, the President announced sanctions in the form of higher tariffs on certain electronic products for Japan's failure to enforce some provisions of the 1986 semiconductor agreement. Later, legislation was introduced banning Toshiba products after that company violated export control regulations and sold sensitive equipment to the U.S.S.R. In another incident, the Japanese Government blocked acceptance of a GATT dispute settlement panel's decision, which found that a majority of Japan's agricultural quota categories under consideration were GATT-inconsistent. Despite the series of confrontations, the two countries managed to exercise restraint in their actions and continued to consult to resolve the disputes.

Bilateral relations between the United States and Mexico improved significantly in 1986 with Mexico's accession to the GATT. The countries took another major step to improve commercial cooperation in concluding a broad framework agreement on principles and procedures of bilateral trade. Major bilateral issues included U.S. objections to the inadequacies of Mexican intellectual property rights protection, Government controls on foreign technology, and restrictive investment policies.

Taiwan is the fifth largest trading partner of the United States. In 1987, Taiwan had, after Japan, the second largest bilateral surplus with the United States. Major issues of concern to the United States during the year concerned tariffs, nontariff barriers, access to Taiwan's beer, wine, and tobacco market, and intermodal shipping.

The United States intentionally did not press Korea on trade issues during that country's highly sensitized Presidential campaign. Trade frictions escalated rapidly, however, following the December vote. Disputes revolved around currency revaluation, beef, cigarettes, insurance, and advertising.

Strained trade relations between the United States and Brazil continued in 1987. Frequent charges by U.S. producers about unfair export promotion practices led the United States to place restrictions on Brazil's shipments of steel and textiles, and the imposition of antidumping and countervailing duties on other imports from Brazil. Brazil's informatics policies continued to be a major area of contention and a section 301 case against Brazil in the area of pharmaceuticals was instituted.

THE EUROPEAN COMMUNITY

The Economic Situation in 1987

The EC's economy grew by just over 2 percent in 1987, confirming the fears that acceleration of growth, expected for 1987, would not materialize. In 1987, the EC registered a 2.4 percent average growth rate in real gross domestic product (GDP), down from 2.6 percent in 1986.

The variation in the rates of growth among member countries was substantial: West Germany and France experienced real GDP growth of 1.6 percent and 1.8 percent, respectively, whereas Spain, Portugal, Ireland, and the United Kingdom all saw their economies expand by at least 3 percent.

Improvement in the employment picture was also not forthcoming. The average number of registered unemployed remained stable at 16.1 million in 1987 for the EC-12. The unemployment rate decreased slightly from that in 1986 to an estimated 11.6 percent in 1987. Some countries experienced a decline in unemployment—the two newest members of the EC (Spain and Portugal), the Netherlands, Belgium, and in particular, the United Kingdom—but all other member states recorded rising unemployment. The rate of unemployment was 8.1 percent in West Germany, 10.8 percent in France, 13.8 percent in Italy, and 10.9 percent in the United Kingdom.

More favorable trends were reflected in the moderate rate of inflation in 1987 that declined from 3.7 percent in 1986 to an estimated 3.2 percent in 1987. For the first time since 1979, the EC recorded a lower rate of inflation than the United States.

EC industrial production rose an estimated 2 percent in 1987, the same increase as that in 1986, but lagged behind that of the United States and Japan, which recorded growth rates of 3.5 and 4.0 percent, respectively. Within the EC, figures varied widely among the member countries. Rates ranged from a decrease of 3.5 percent in Denmark, to no change in Germany, and an increase of 3.1 percent in the United Kingdom. The largest increases were in Spain (5 percent) and Ireland (9.5 percent). Industrial investment in the EC grew 8 percent in value and 5 percent in volume in 1987.

EC trade was very nearly in balance in 1987. Exports matched imports, unlike 1986 when exports outweighed imports by 2 percent. EC exports to third countries fell 1 percent in 1987, both in terms of value and in terms of volume, compared with those in 1986. Imports rose 1 percent in value and 6 percent in volume in 1987. Exports to industrialized third countries rose 1 percent in 1987, whereas exports to developing countries and to Organization of Petroleum Exporting Countries (OPEC) nations fell by 3 percent and 16 percent, respectively. Manufactured goods accounted for 81 percent of the EC's exports. With respect to imports, two product sectors experienced notable increases. The volume of imports of consumer durables other than cars rose 20 percent and imports of semidurable consumer goods increased 24 percent in 1987. Overall, imports of manufactured goods rose 8 percent. Imports from industrialized countries, developing countries, and Eastern bloc nations all increased by about the same rate as total imports. Spain and Portugal experienced the fastest growth in both imports and exports among EC member states.

Intra-EC trade rose 6 percent both in terms of value and in terms of volume in 1987 because of the stimulation of enlargement of the EC to include Spain and Portugal in 1986. Trade in manufactures, which accounts for about 76 percent of intra-EC trade, increased 8 percent. Intra-EC trade represented 59 percent of the member nations combined—intra-EC and third-country trade.

West Germany, with a record trade surplus of $70 billion for 1987, remained the world's largest exporter in 1987, after displacing the United States in 1986.

Merchandise Trade With the United States

The EC remained 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 nearly 9 percent in 1987 to $137.4 billion from $125.7 billion in 1986. However, the EC market increased its share of U.S. merchandise exports from 23.2 percent in 1986 to 23.5 percent in 1987. U.S. merchandise imports from the EC represented 19.9 percent of total U.S. merchandise imports from the world in 1987, down from 20.5 percent in 1986.

Table 4–1 shows that the United States recorded a merchandise trade deficit with the EC of $22.9 billion in 1987, down 9 percent from the $25.2 billion in 1986. The U.S. trade deficit was $16.1 billion with West Germany, $5.5 billion with Italy, $3.8 billion with the United Kingdom, and $3.0 billion with France. The U.S. trade deficit with West Germany, which is the third largest U.S. trading partner after Canada and Japan, accounted for 10 percent of the total U.S. trade deficit. The United States also recorded trade deficits with Denmark ($946 million), Portugal ($91 million), and Greece ($91 million). The United States posted trade surpluses with the remaining member nations of the EC: the Netherlands ($3.9 billion), Belgium/Luxembourg ($1.8 billion), Ireland ($0.7 billion), and Spain ($0.3 billion). The EC's share of the total U.S. trade deficit decreased slightly between 1986 and 1987, from 16.6 percent to 14.5 percent. With the depreciation of the dollar, U.S. exports to the EC climbed 13.9 percent in 1987 to $57.2 billion, after increasing 7.6 percent in 1986 and declining 3.1 percent in 1985. U.S. imports of EC products rose by only 6.2 percent to $80.1 billion in 1987, after rising 11.7 percent in 1986 and 13.1 percent in 1985.

Table 4-1
U.S. merchandise trade with the European Community, by SITC[1] Nos. (Revision 2), 1985-87

(In thousands of dollars)

SITC section No.	Description	1985	1986	1987
			U.S. exports[2]	
0	Food and live animals	3,076,462	3,268,238	3,403,885
1	Beverages and tobacco	1,072,924	1,185,213	1,298,535
2	Crude materials, inedible, except fuel	4,841,220	5,118,412	5,716,127
3	Mineral fuels, lubricants, etc.	2,881,765	2,508,647	1,993,143
4	Oils and fats, animal and vegetable	194,149	155,591	146,922
5	Chemicals	5,892,698	6,296,221	7,138,406
6	Manufactured goods classified by chief material	2,556,290	2,937,504	3,505,249
7	Machinery and transportation equipment	20,489,939	22,330,594	26,318,695
8	Miscellaneous manufactured articles	4,497,260	5,082,848	5,828,208
9	Commodities and transactions not elsewhere classified	1,210,038	1,368,566	1,880,906
	Total	46,712,746	50,251,834	57,230,077
			U.S. imports[3]	
0	Food and live animals	2,111,843	2,321,199	2,260,214
1	Beverages and tobacco	2,318,769	2,411,733	2,441,917
2	Crude materials, inedible, except fuel	789,276	835,545	964,663
3	Mineral fuels, lubricants, etc.	5,546,363	3,713,484	4,020,395
4	Oils and fats, animal and vegetable	80,973	96,245	127,243
5	Chemicals	6,082,099	6,264,746	6,974,746
6	Manufactured goods classified by chief material	10,844,979	11,260,762	11,852,332
7	Machinery and transportation equipment	27,161,825	33,608,469	36,441,078
8	Miscellaneous manufactured articles	10,129,669	11,616,448	11,835,634
9	Commodities and transactions not elsewhere classified	2,486,986	3,345,706	3,226,127
	Total	67,552,783	75,474,337	80,144,348

[1] Standard International Trade Classification.
[2] Domestic exports, f.a.s.
[3] Imports for consumption, customs value.

Note.—Because of rounding, figures may not add to the totals shown.

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

Appendix table B-5 shows that the leading U.S. exports to the EC in 1987 consisted of office machinery and parts ($4.2 billion), computers ($3.0 billion), aircraft ($2.7 billion), aircraft parts ($2.1 billion), soybeans ($2.0 billion), engine parts ($1.8 billion), and coal ($1.5 billion). These products accounted for about 30 percent of total U.S. exports to the EC. With the exception of coal, U.S. exports of these products increased in 1987 compared with those in 1986. U.S. exports of office machinery and parts rose 20 percent; computers, 18 percent; aircraft, 27 percent; and aircraft parts, 13 percent.

Table B-6 shows that the leading U.S. imports from the EC in 1987 were motor vehicles ($11.3 billion), crude petroleum ($2.2 billion), motor-vehicle parts ($1.7 billion), airplanes and airplane parts ($1.5 billion), and motor fuel ($1.0 billion). These products accounted for about 25 percent of total U.S. imports from the EC. Imports of all of these products rose in 1987 compared with those in 1986, with the most notable increases occurring in motor vehicles (13 percent) and motor-vehicle parts (24 percent).

Major Policy Developments Affecting Trade

Agriculture

Efforts to curb the rising cost of the Common Agricultural Policy (CAP) and end surplus production of food led to serious efforts to reform the CAP in 1987. For the second year in a row, EC agricultural ministers adopted a farm price package for the 1987-88 marketing year that freezes or cuts most support prices. In addition, the Commission unveiled a new CAP reform plan in July 1987 to adapt the farm sector to the new economic situation and further limit EC farm spending.

Each spring, the EC Commission proposes common farm support prices for products covered by the CAP to the EC's Council of Ministers for a decision. After fierce debate, agricultural ministers approved the 1987-88 farm price package on July 1, 3 months after the official deadline. The original Commission package presented in February called for freezing or reducing support prices, a tax on fats and oils, and adjust-

ments to the system of Monetary Compensatory Amounts (MCA's) as well as the dismantling of certain existing MCA's.[1] Opposition was particularly strong to the fats and oils tax and to the dismantling of positive MCA's that would hurt farm incomes in those countries having a strong currency. The final agreed-upon package, although not as restrictive as the one proposed by the EC Commission, will result in an estimated average decline in support prices of 0.2 percent (as expressed in European Currency Units (ECU's)) for the Community of Ten. Slight increases in farm prices will be seen by both Spain (1.4 percent) and Portugal (0.3 percent). The agreed-upon proposals froze the prices of major farm products (all grains, dairy products, sunflower seed, olive oil, sugar, cotton, rice, beef, pork, and sheep). Prices declined for rapeseed and soybeans (3.0 percent), table wine (2.0 percent), peas and beans (10.0 percent), and fruits and vegetables (0 to 5.0 percent). The package also tightens requirements for selling farm goods to public agencies. Agricultural ministers deferred action on the controversial oils and fats tax[2] and reached agreement on complete dismantlement, in three stages, of existing positive MCA's and on substantial dismantlement of applied negative compensatory amounts.[3]

As part of the continuing process to reform the CAP, several other measures were adopted or proposed in 1987. Among the measures adopted by agricultural ministers in March was a voluntary scheme of special aids to compensate farmers who agree to lower output of cereals, wine, or beef by 20 percent in 5 years without any parallel increase in production capacity in other sectors. In April, the EC Commission presented the agricultural ministers with proposals relating to the support of agricultural incomes. The plan calls for direct income aid to farmers, to be financed by a combination of EC and national funds, and provides incentives for farmers to leave the land, including early retirement incentives.

In September, the Commission presented a "stabilizers" plan to control agricultural output and the cost of supporting it. The package calls for various mechanisms to limit automatically the EC's expenditures in each commodity sector. These measures include production quotas and taxes, cutbacks in support when production ceilings are exceeded, and stricter rules for selling surpluses to public agencies. Although these mechanisms have been applied before, it is hoped that the current package will strengthen and expand their use, and allow for stricter and more immediate enforcement.

At the EC's semiannual summit in December, EC ministers failed to approve a package of financial reforms, including proposals to reform the CAP by limiting agricultural expenditures. An emergency summit meeting was scheduled for February 1988 to resolve the EC's budget problems.[4]

Steel

The EC's steel industry enjoyed a mild recovery in 1987. Average plant utilization was over 70 percent and some mills operated close to 80 percent of capacity. According to preliminary statistics issued by the International Iron and Steel Institute, the EC's output of crude steel rose 0.5 percent in 1987 compared with that in 1986, contributing slightly to the 2.7-percent increase in production recorded worldwide.

The EC's battle to reduce excess capacity in the steel industry continued throughout 1987. Since 1980, the EC's steelmakers have operated under a production quota system established in the Davignon Plan. The quota arrangements covered about 60 percent of the EC's 130 million ton annual production in 1987 and were scheduled to expire at the end of December. With the automatic expiration of the production controls drawing near, the EC Commission and Eurofer, the steel industry's lobby group, debated the industry's future. The EC Commission strove to liberalize the steel market by dismantling the production quotas, whereas Eurofer fought to maintain the quota regime for another 3 years.

During the spring, Eurofer pledged to reduce production capacity by about 15 million tons if the EC Commission would maintain the quota system until 1990. In May, however, Eurofer abandoned efforts to reduce capacity voluntarily because steelmakers could not agree among themselves on voluntary plant closures. The EC Commission responded by presenting a 3 year restructuring plan that would cut capacity by 30 million tons and reduce the workforce by an estimated 80,000 by 1990. EC industry ministers delayed voting on the proposal in September and instead appointed a panel of three "wise men" to provide advice by mid-November. The panel's report urged an end to the output controls, alleging that the industry had failed to produce enoughpromises of plant closures to justify continuing quotas. On December 22, EC industry

[1] MCA's are border levies or refunds applied to offset the impact of fluctuations in national currencies on prices paid to farmers. For example, a country with a strong currency, such as West Germany, has positive MCA's, which act as subsidies on exports and taxes on imports of farm produce.

[2] For a detailed discussion of the proposal for a tax on fats and oils, see below.

[3] See "European Community Continues to Reduce Farm Support," *European Community News*, July 13, 1987.

[4] The EC Council approved a budget reform package on Feb. 13, 1988, that fixes an overall budget ceiling; limits the increase in agricultural spending to no more than 74 percent of the EC's gross national product growth rate; sets up automatic price cuts when production of grains, oilseeds and other products exceeds specified ceilings; establishes a land set-aside program and early-retirement incentives; and doubles structural funds (economic development assistance) by 1993.

ministers finally reached agreement on a version of the EC Commission's plan. Quotas on merchant bar, wire rod, and fencing wire were terminated on January 1, 1988. Quotas on the remaining categories—hot coils, heavy sheet, and heavy sections—were extended until June 30, 1988. These quotas could be extended until the end of 1990 if the steel industry submits firm commitments on plant closures no later than June 10, 1988. The industry must guarantee cuts of about 75 percent of the surplus capacity in heavy sheet and heavy sections, and make firm commitments to eliminate 7.5 million tons of the 11.1 million tons of excess capacity in hot-rolled coil. In the meantime, all existing production quotas will be raised by 2 percent on April 1, 1988.

Internal Market

The year 1987 marked the 30th anniversary of the EC and its founding charter, the Treaty of Rome. On July 1, the first major reform of the Rome treaty—the Single European Act—entered into force. This act was designed to streamline the EC's decisionmaking process and to create an economic area without internal frontiers. In July, the act replaced the unanimity rule in many instances with majority voting to remove national barriers to trade as well as other areas not previously covered in the Rome Treaty, such as research and development programs. It is hoped that these new voting rules will aid the EC in removing all nontariff measures including physical, technical, and fiscal barriers, in order to complete the internal market by December 31, 1992.

Over 300 specific proposals for eliminating barriers, each with a timetable, were presented in a Commission white paper in 1985. Although a backlog in the decisionmaking process continued to develop in 1987, progress in several important areas emerged. On January 1, 1988, a single customs document was introduced to be used for all import, export, and EC transit declarations. This form, the Single Administrative Document, was designed to simplify and harmonize border controls among the EC member countries. Harmonization of value added-tax (VAT) and excise tax rates also progressed.

Currently, within the EC VAT rates range from 0 to 33 percent, with most countries applying at least three different rates. The EC Commission proposed establishing two ranges for VAT: a reduced rate ranging between 4 and 9 percent for food and other basics, and a standard rate ranging between 14 and 20 percent on other goods. Excise taxes on alcohol, tobacco products, and mineral oils would be uniform throughout the EC. Some member states remain reluctant to endorse the proposal because of strong financial implications and the loss of national sovereignty over tax matters. The EC Commission also proposed to remove the remaining restrictions on capital movements among the 12-member countries. In 1985 and 1986, medium to long-term transactions tied to trade and investment were addressed. The 1987 proposal would remove the restrictions on short-term capital flows, such as the opening of foreign bank accounts. The proposal incorporates a transitional period for some countries and establishes a safeguard clause allowing countries to temporarily reintroduce protective measures if the free movement threatens their own monetary and exchange rate policies. Other progress was made on a variety of issues ranging from the setting of permissible noise levels for tower cranes, to the classification, labeling, and packaging of dangerous preparations.

The six-member countries of the European Free Trade Association (EFTA)—Norway, Sweden, Finland, Iceland, Switzerland, and Austria—have focused considerable attention on the completion of the EC's internal market in order to ensure that their trade interests are not harmed in the process.[1] These nations favor closer cooperation with the EC to prevent any loss of access to the EC market by their members. Austria and Norway have shown some interest in applying for membership in the EC; however, most EFTA nations prefer to remain independent.

Research and Development

EC research is organized by a Community Research and Development Framework program. The EC launched a number of initiatives in 1984 and 1985 under the first multiannual plan to promote cooperative research and development (R&D) aimed at improving Europe's international competitiveness. Such programs include the European Strategic Programme for R&D in Information Technology (ESPRIT), R&D in Advanced Communication Technology for Europe (RACE), and Basic Research in Industrial Technology for Europe (BRITE). ESPRIT, whose mission is to provide European industry with a technological base enabling it to compete effectively with the United States and Japan, is the largest project in the program. All programs under the initiative are open to non-EC nations in Western Europe. EC contributions are matched by funds from industry or research contractors.

With the adoption of the Single European Act in 1987, R&D became an area of formal competence for the EC. The act provides a two-stage approach: the adoption by unanimity of multiyear framework programs and decision by qualified majority on specific programs. The second multiyear plan (1987–91), adopted on September 28, 1987, is the first application of the R&D provisions of the Single Act. EC research ministers agreed on eight priority areas for this multiyear plan: (1) quality of life, including health and the environment; (2) information

[1] EFTA is an industrial free-trade area that enjoys duty-free access to the EC market for industrial goods.

technologies (ESPRIT) and telecommunications (RACE); (3) new technologies in industry (BRITE); (4) energy; (5) biotechnology; (6) development aid (application of science and technology to the problems of the Third World); (7) marine resources; and (8) "A Europe for Research Workers" (training and exchanges among scientists and researchers). However, disagreement over the size of the budget for the R&D program delayed the implementation of new projects and hurt progress in existing programs. A compromise of 6,480 million ECU's was struck in July and formally adopted in September, after the United Kingdom agreed that the budget was not too large.[1]

Another important European R&D program is EUREKA (European Research Cooperation Agency), which supplements the EC's framework research program. 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. Like the framework initiative, it is financed by a combination of public and private sector funds and invites all Western European countries to participate. The new R&D projects approved at the EUREKA Ministerial conference in September were 58, bringing the total number of approved projects under EUREKA to 167. These projects must produce marketable products within a time limit of 4 to 5 years; the projects reflect a move into the robotics sector and biotechnology and away from computer technology and telecommunications.

Amendment of the Antidumping Regulation

On June 22, the EC Council adopted a regulation modifying the EC's antidumping regulation of July 23, 1984, to prevent circumvention of antidumping duties. The new rules were designed to penalize foreign firms that avoid antidumping duties by assembling products in so-called screwdriver plants in the EC, using low-priced imported parts. The new regulation states that antidumping duties may be levied on products sold on the EC market after having been assembled or produced in the EC provided that (1) the company assembling or manufacturing the goods in the EC is related to, or associated with, one of the manufacturers whose exports of similar goods are already subject to a definitive antidumping duty; (2) assembly or production operations in the EC opened or substantially increased after the initiation of antidumping proceedings; and (3) the value of the parts or materials used in the screwdriver factory that originate in the country exporting the product subject to an antidumping duty exceeds by at least 50 percent the value of all other parts or materials used. In order to meet the latter condition, imported components must account for at least 60 percent of the total value of the finished product.

In September, the EC Commission launched its first investigations using the new trade law. Antidumping cases were initiated against six Japanese companies producing electronic typewriters and electronic weighing scales. Should the Commission determine that the criteria establishing circumvention of duties have been met, these duties could be applied to the Japanese component parts as well as to the assembled product. At the time of the adoption of the new trade regulation, the Japanese threatened to take retaliation, either by withdrawing investment from the EC or by introducing antidumping measures for the purpose of applying duties on EC products.

United States-EC Bilateral Trade Issues

Overview

U.S.-EC trade relations began on an ominous note in 1987 with the threat of a major trade war erupting over EC enlargement.[2] A temporary truce in July 1986 led to a permanent solution at the end of January 1987, but only after threats of retaliation and counterretaliation were made. Other agricultural trade disputes followed the enlargement-related farm trade conflict in 1987, reflecting once again the dominance of agricultural issues on the bilateral trade agenda. The dispute over EC subsidization of pasta was resolved in August 1987, as part of the end of a long-term dispute that began in the early 1970's over citrus products. U.S. meat exports to the EC were affected by two Community directives in 1987, one banning the sale of meat treated with growth hormones and a second establishing new health and safety standards for third-country slaughterhouses and packing plants exporting meat to the EC. The oilseeds sector was the source of further U.S.-EC troubles. U.S. soybean producers carefully monitored the progress of an EC proposal to tax oils and fats that could have affected EC imports of U.S. soybeans, and later filed a complaint under section 301 charging unfair subsidization of the EC's production and processing of oilseeds. Late in the year, the United States filed a complaint with the GATT over a new EC program to aid rice production, claiming that the EC was breaching the "standstill" agreement negotiated in the Uruguay Round.

Nonagricultural issues were not immune from U.S.-EC conflicts in 1987. For the second year in a row, U.S. and Community officials conducted a series of meetings to discuss subsidies to

[1] The 1987 annual average exchange rate of the ECU in U.S. dollars was 1 ECU = $1.145876.

[2] Enlargement of the EC to include Spain and Portugal on Jan. 1, 1986, dominated the bilateral trade agenda in 1986. See *Operation of the Trade Agreements Program, 38th Report, 1986,* USITC Publication 1995, July 1987, p. 4-8.

Airbus Industries. Access to European telecommunications markets also remained the subject of ongoing talks. In 1987, the EC issued both its 1987 and 1988 reports on U.S. trade practices that impede EC exports in response to the Report on Foreign Trade Barriers issued each year by the USTR.[1] Over 30 U.S. trade barriers were cited, including import surveillance of machine tools, the U.S.-Japan semiconductor agreement,[2] and section 337 of the Tariff Act of 1930. The GATT set up a dispute settlement panel in October in response to the EC complaint that section 337 discriminates against foreign companies.

Agriculture

Enlargement-related farm trade dispute

The effect on U.S. agricultural trade of enlargement of the Community in 1986 created serious tensions in U.S.-EC bilateral relations throughout 1986 and in early 1987.[3] Although several U.S. concerns related to enlargement were addressed in 1986, the dispute over lost U.S. feedgrain sales remained unresolved. The dispute at yearend 1986 centered on the adoption by Spain upon its accession to the EC of the EC's system of variable import levies that significantly raised Spanish tariffs on corn and sorghum. U.S. officials estimated that the higher Spanish duties would cost the United States 400 million dollars' worth of corn and sorghum exports to Spain in 1986 and succeeding years. The administration demanded compensation and imposed a December 31, 1986, deadline for negotiating a permanent compensation agreement. However, agreement could not be reached on a number of issues, particularly over whether 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. As a result, the administration announced its intention of imposing 200-percent duties on January 30 on a range of EC exports also worth about $400 million annually. The products that would have been subjected to the new duties included certain cheeses, white wine, brandy, gin, canned ham, endive, carrots, and olives. Because France was the chief EC opponent of satisfactory compensation, these measures were principally directed at French exports. EC officials responded that they were prepared to take counterretaliatory measures against imports of U.S. corn gluten feed and rice if the United States carried out the threatened restrictions.

On January 29, U.S. and EC officials approved a multifaceted compensation settlement. The accord was retroactive to January 1 and covers the years 1987–90. Under the agreement, the EC is to 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 4 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. Although all potential external suppliers will benefit from the agreement, the United States is expected to maintain its traditional share of the Spanish feedgrains market.[4]

The agreement also withdrew the requirement in the enlargement treaty that Portugal purchase at least 15 percent of its grains from the EC. In addition, the EC 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.

These negotiations took place under article XXIV:6 of the GATT, which covers the obligations of an enlarged customs union to its trading partners. EC officials also conducted article XXIV:6 negotiations with Japan, Argentina, and Canada in 1987. Whereas Argentina and Canada were anxious to negotiate compensation for lost grain and fishery sales, respectively, EC officials asked Japan for a reverse compensation package in return for large increases in Japan's industrial exports to Spain and Portugal following enlargement.

Hormones

The EC's pending implementation of a ban on the sale of meat from animals treated with growth hormones caused serious concern in the United States throughout 1987. The United States, whose livestock farmers rely heavily on hormone growth promoters, had threatened to retaliate against EC products had the ban been implemented as planned on January 1, 1988.

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[1] USTR, *1987 National Trade Estimate Report on Foreign Trade Barriers.*

[2] For a discussion of EC concerns, see *Operation of the Trade Agreements Program, 38th Report, 1986,* p. 4-6.

[3] For a discussion of bilateral trade issues prior to 1987 resulting from enlargement, see *Operation of the Trade Agreements Program, 38th Report, 1986, p. 4-8, and Operation of the Trade Agreements Program, 37th Report, 1985,* pp. 22- 27.

[4] Although a bumper grain harvest in Spain in 1987 led to Spanish difficulties in fulfilling its obligation under the enlargement treaty to purchase 2.3 million metric tons of corn and sorghum annually from the United States, early in 1988 the EC agreed to buy the remaining volume of U.S. corn and sorghum it promised to purchase by the February 29 deadline. The United States rejected an EC request to fulfill its obligation by purchasing only corn rather than a combination of corn and sorghum. However, the United States agreed to extend the deadline for delivery of the imports until June. EC officials have stated they will continue to fulfill the terms of the 4-year enlargement agreement despite this delay.

The U.S.-EC hormone conflict grew out of a December 1985 EC Directive that would have prohibited the use of artificial and natural hormones in EC meat production (except for limited therapeutic purposes) as well as the marketing of any hormone-treated meats after January 1, 1988. Strong consumer pressure behind the passage of the Directive was motivated by health concerns, including allegations that hormone residues can be carcinogenic. However, four of the five types of hormones banned for fattening animals under the Directive are approved and routinely used in the United States. Apart from small shipments of high-grade beef (about 6–10,000 tons annually) that do not contain hormones or additives, most U.S. exports of meat to the EC come from animals that have been treated with growth hormones. At stake in the controversy is an estimated 100 million dollars' worth of annual U.S. shipments of red meat and offals to the EC. U.S. meat producers are particularly concerned that U.S. exports of such products as kidneys and liver will be severely reduced. These products comprise a large share of U.S. exports to the EC and have virtually no other markets.

The U.S. administration argues that scientific evidence indicates that growth hormones do not pose a health hazard and, therefore, claims that the hormone ban represents an unfair trade practice. Findings of the EC's own Scientific Working Group on Anabolic Agents in Animal Production, as well as industry studies, the U.S. Food and Drug Administration, and the joint United Nations Food and Agriculture Organization/World Health Organization Codex Alimentarius Committee on Residues of Veterinary Drugs in Food, failed to establish a scientific basis for the ban. The EC has countered that the ban was intended as a consumer protection measure rather than a disguised trade barrier and is not discriminatory since the same treatment applies to both domestically produced meat and imported meat.

In January 1987, the U.S. Government requested bilateral talks with the EC under the Agreement on Technical Barriers to Trade (the Standards Code), claiming that the EC's new certification rules for meat create an "unnecessary" obstacle to international trade. After numerous bilateral consultations failed to resolve the issue, the Standards Code Committee commenced its investigation of the case in May.[1] Subsequent meetings of the Committee proved inconclusive. In August, the EC blocked the U.S. request to establish a technical experts group to evaluate the effect of hormone usage on consumers. As the date for implementation of the hormone ban grew imminent, the U.S. administration warned that retaliatory measures would be adopted if the ban was not modified.

[1] See ch. 2 section on the Standards Code for further details.

On November 18, the EC agreed to postpone implementation of the ban on the marketing of hormone-treated meat for one year. The agreement effectively imposed two deadlines. The ban on the use of hormones in EC meat production went ahead as planned on January 1, 1988. However, meat that has been produced using growth hormones either inside the EC before January 1, 1988, or outside the EC in countries like the United States that will continue to treat animals with hormones, can be marketed in the EC under existing bilateral arrangements until January 1, 1989. Although certain EC member states such as Italy already ban imports of hormone-treated meat, the major EC importers of U.S. meat, France and the United Kingdom, have no such controls and can continue to market U.S. meat throughout 1988. (National legislation conforming to the EC Directive has been introduced in all member countries.)

In addition to avoiding a trans-Atlantic trade dispute, the EC Commission indicated that the delay will aid them in resolving some internal problems that would have resulted had the entire ban been implemented on January 1, 1988. For example, the EC now has an additional year to market the large stocks of hormone-implanted meat currently held in public storage. Also, certain EC member countries that have just recently applied the ban or have not yet applied the ban to domestic production, require the extra period to slaughter hormone-impregnated livestock and market the meat.

Although U.S. officials welcomed the compromise, on November 25, the U.S. administration published a list of 30 European food categories it would consider for retaliation should U.S. meat exports to the EC be interrupted. This list, covering $230 million of annual imports from the EC, was pared back to cover EC exports to the United States worth about $100 million, reflecting the estimated amount of lost U.S. meat sales from the ban. However, on December 24, the President ordered but suspended the application of increased duties so long as the EC member countries continue their present importation policies as to U.S. meat products. U.S. officials continue to urge an outright end to the ban, but indicated that they remain "optimistic that the EC will permit dispute settlement to proceed in the interim in order to reach a permanent agreement based on scientific evidence."

Meat plant inspection regulations

On July 22, 1987, a section 301 investigation of the EC's new health and safety regulations for U.S. slaughterhouses and packing plants exporting meat to the EC was initiated by the interagency section 301 Committee in response to a petition filed July 14 under section 301 of the Trade Act of 1974 by members of the U.S. meat industry, who alleged that the inspection requirements violate the GATT and discriminate against

U.S. exporters. The petitioners claim that the EC's new rules could reduce U.S. exports of meat and offal to the EC worth about $130 million annually. Offal, including such meats as brains, hearts, livers, and other parts not in large demand in the United States, account for 70 to 80 percent of U.S. meat exports to the EC, and such exports could be particularly hurt.

At issue is the Community's Third Country Meat Directive, which requires meat producers to meet certain technical standards in order to export to the EC. The Europeans claim that the directive has been enforced against meat imports from other countries and applies equally to EC member states. The U.S. industry argues, however, that the directive is discriminatory. The petitioners contend that the standards "which purport to control meat hygiene and sanitation, actually regulate imported U.S. meat much more strictly than meat produced within EC member countries." In addition to the EC's uneven enforcement of the rules, the petitioners point out that the directive applies to EC member states that ship meat across national borders, but does not cover meat that is produced and consumed within the same member country. Because most meat consumed in the EC is produced domestically, a large proportion of the Community's meat consumption is not subject to the inspection requirements. In a report prepared for the GATT Council, the United States alleged that only 30 percent of EC beef and 20 percent of its pork fall under the directive's provisions.

The Third Country Meat Directive establishes the specific methods by which meat producers can slaughter, cut, mark, pack, store, and transport their product, and sets general standards for facilities, equipment, water supplies, refrigeration, etc. The U.S. industry is particularly troubled over certain structural and architectural requirements that more closely coincide with the building style common in the EC than in the United States. For example, a major concern of U.S. plants is the banning of wooden instruments that could transport germs, as well as wooden beams, platforms, and fences. The petitioners claim that no scientific evidence exists to prove that the EC directive has significant health or safety advantages and compliance with two sets of rules would be costly. According to U.S. meat producers, U.S. health and safety regulations offer equivalent protection for EC consumers. Furthermore, the U.S. Department of Agriculture (USDA) has never enacted similar rules on meat imported into the United States. U.S. procedures require that the USDA accept foreign inspection procedures, facilities, and control requirements if they are as strict as U.S. rules, and leaves the operation and administration of foreign programs to the foreign country.

After its requested consultations failed to produce a satisfactory resolution, the United States requested a GATT dispute settlement panel. However, the EC blocked the U.S. request, indicating that more time was required to conduct bilateral talks under the GATT's consultations procedure. The United States repeated its request at the November GATT meeting and again at the annual meeting of the Contracting Parties in December, when it was agreed that a panel would be established.

By yearend, approximately 90 U.S. meat plants had been certified by EC inspection teams. However, no U.S. exporters of high-quality beef had been approved. Because many U.S. plants remained to be inspected, U.S. and EC officials agreed to delay the implementation of the meat directive until April 1, 1988.

Fats and oils tax

The CAP has been a major and growing financial drain on member states. In order to offset the rising costs of supporting the domestic oils and fats sector, the EC Commission proposed a 1987–88 farm price package in February 1987 that included a tax on the consumption of vegetable and marine fats and oils from both foreign and domestic sources. The tax was designed to collect 2 billion ECU's, or about $2.3 billion, and would have been set at a maximum of 330 ECU's (about $375) per metric ton for the 1987 to 1988 fiscal year. Animal fats, such as butter, lard, and tallow, were to be exempted from the consumption tax.

The U.S. administration and the U.S. soybean industry objected to the proposed tax, charging that the tax would sharply reduce EC imports of U.S. soybeans, which are crushed in European mills into vegetable oil and oilseed meal. In 1986, U.S. soybean exports to the EC totaled about $2 billion and were the fourth leading U.S. export to the EC. Moreover, the EC purchases accounted for nearly one-half of all U.S. exports of soybeans in 1986. U.S. officials warned that the United States would take countermeasures should the tax be implemented.

U.S. officials charged that the tax was inconsistent with the GATT because, being a flat tax, it discriminated against imported oils and oils made from imported soybeans. The American Soybean Association (ASA) estimated that the tax would have increased the price of relatively inexpensive imported oils like soybean oil by 90 percent, whereas the price of European olive oil, which is relatively more expensive, would have risen by only 37.5 percent. In addition, opponents of the tax claimed that the tax violated the GATT because it would have exempted animal fats and, therefore, would have protected the domestic production of butter. The U.S. Government claimed that the relatively large increase in the price of imported oils and oils made from imported soybeans would have encouraged the purchase of olive oil and the expansion of EC oilseed

(which includes soybeans) and butter production at the expense of U.S. soybean sales. Moreover, U.S. officials argued that the tax would have impaired the duty-free bindings the United States received on oilseeds during the Dillon Round of trade negotiations in 1962.

Several other nations joined the United States in opposing the tax. Vegetable oil producers from Asia, Africa, and Latin America complained that the tax would adversely affect their exports to the EC. Opposition within the EC prevented progress on the oils and fats tax proposal throughout the spring. West Germany, the United Kingdom, the Netherlands, and Denmark continually denounced the plan. Some of the objections raised by EC member states were the risk of violating trade commitments and the additional burden placed on EC consumers of supporting the fats and oils sector.

The remaining member states continued to favor the tax as a necessary revenue-raising measure. Financial support for the oils and fats sector is expected to become even more burdensome since the two major olive oil producing countries—Spain and Portugal—will be fully integrated into the CAP by the early 1990's. EC supporters of the tax also claimed that the tax would have a minimal effect on the exports of its trading partners for two reasons: past experience indicated that fluctuations in the price of vegetable oils had little effect on its consumption, and the tax proposal incorporated measures to limit EC production of oilseeds. Further, the EC Commission argued that the tax was permitted under the GATT since it would be imposed on vegetable oils regardless of their source.

The EC has considered proposals for a tax on fats and oils at various times over the past 20 years, but the tax has never been implemented because of the consistent opposition from the United States, as well as from several EC members. Continued internal opposition throughout the spring placed the issue on the agenda of the EC's semiannual summit in June. However, summit leaders failed to reach a consensus and called for a study of the issue and consultations with the EC's trading partners before the next semiannual summit in December. The Commission's report to the Council, completed in November, concluded that the tax would have only a negligible effect on the pattern of consumption of fats and oils. Furthermore, after consultations with third countries, the Commission proposed that after the tax takes effect, talks should be held with non-EC countries as soon as trade damage is detected in order to establish if compensation were required. At the December summit, member nations failed to vote for the tax, but at the same time did not reject the tax outright.

Soybeans

On December 16, the ASA lodged a complaint with the USTR against the EC, alleging unfair subsidization of its domestic production and processing of oilseeds. The USTR initiated a section 301 investigation on January 5, 1988.

The ASA argued that EC subsidies on oilseed processing and production discriminate against the use of U.S.-grown soybeans in the Community because they eliminate the price difference between cheaper soybeans imported from the United States and higher priced EC soybeans. Specifically, the ASA charged that the EC's subsidies to farmers and oilseed processors are inconsistent with the GATT because they impair the duty-free bindings granted to U.S. soybeans and soybean meal by the EC in 1962. According to the ASA, U.S. producers have watched their EC market gradually erode, from U.S. exports worth $3.5 billion in 1982 to $2.0 billion in 1986. The ASA claims that EC support for its oilseed growers far outweighs the U.S. level: facing a world market price of $6 per bushel, the U.S. Government guarantees its farmers about $4.77 per bushel, and the EC support for its soybean farmers is about $15 per bushel.

The ASA closely monitored the progress of the consumption tax throughout 1987. After EC leaders postponed consideration of the proposed fats and oils tax from June until December, the ASA delayed filing the 301 petition for the same period. As mentioned previously, at the December semiannual EC summit meeting, EC officials did not vote on the tax because of internal opposition. However, because the EC summit leaders failed to reject the tax outright, the ASA decided to launch the official trade complaint.

In addition to the failure of the EC to take decisive action against the tax proposal, the ASA claims that the EC has not yet made "meaningful, substantive" cuts in its production subsidies. EC officials have countered, however, that in July the EC reduced soybean price supports by 3 percent and introduced production controls, or "maximum guaranteed quantities." These controls set a production ceiling which, when exceeded, results in a reduction in the subsidy. Moreover, further curbs on oilseed production are being considered during ongoing talks to reform the budget.

EC officials have also rejected other allegations of the ASA. They pointed out that the EC is the world's largest importer of oilseeds and remains the largest market for U.S. farm products. Self-sufficiency levels in 1987 were only 19 percent of EC consumption of oilseeds, and 6 percent of that of soybeans and soymeal. In addition, although the U.S. market share of soybeans in Europe has eroded, total EC soybean imports from all sources have actually risen significantly since 1974. According to the EC, new

sources of cheaper soybeans have replaced the United States: since 1982, Brazil's soybean exports to the EC have almost doubled, and Argentina's exports have tripled. Another reason American exports have fallen is that reductions in beef and milk production in the EC weakened the Community's demand for oilseeds for feeding purposes. EC officials also argued that the ASA's data do not accurately reflect trends in U.S. soybean exports because 1982 was a record year for American soybean production, and, given the fall in soybean prices since 1982, volume rather than value terms would provide a clearer picture of trends.

U.S. officials have requested consultations with the EC under the GATT. If these talks prove inconclusive, the United States may request the creation of a GATT dispute settlement panel.

Pasta

In August 1987, an accord was reached between the United States and the Community over EC export subsidies on pasta. The pasta dispute has a long and complicated history. In May 1983, a GATT Subsidies Code panel found that EC export subsidies on the durum wheat component of pasta violated the Code. The ruling was never formally adopted, and the United States took no immediate action in response to the case. However, in 1985, the pasta issue was resurrected when the United States raised its import duties on pasta in retaliation for EC restrictions on imports of U.S. citrus products. On August 10, 1986, U.S. and EC officials signed an agreement ending the citrus dispute that included a provision requiring that the amount of the subsidies on pasta be negotiated by July 1987.[1]

Intense negotiations ensued in July and August. For the EC, at stake was an estimated 35 million dollars' worth of pasta exports (primarily Italian), accounting for between 5 and 10 percent of the U.S. market. According to U.S. officials, the subsidies—known as export restitutions—accounted at times for as much as 60 to 70 percent of the wholesale cost of pasta. (These export restitutions bridge the gap between the world price and the higher price of pasta-making durum wheat on the European market.) U.S. officials argued that these restitutions constituted a subsidy on processed food that is prohibited under the GATT Subsidies Code, and U.S. pasta producers charged that the subsidies permitted EC pasta makers to significantly undersell their American competitors in the U.S. market. The EC responded that the Community's export restitutions related only to the durum wheat component of pasta and as such were GATT-consistent.

[1] For a complete discussion of the citrus dispute, see *Operation of the Trade Agreements Program, 38th Report, 1986*, July 1987, p. 4-7.

Marathon negotiations to resolve the pasta dispute ended August 5, 3 days after a U.S.-imposed deadline. According to the terms of the agreement, which took effect on October 1, the legality of the restitutions will be decided within the Uruguay Round of multilateral trade negotiations. The United States agreed not to reopen the pasta dispute at GATT level. In the meantime, the settlement set up a system composed of two major elements. First, it requires that 50 percent of EC pasta exports to the United States be subject to an "inward processing scheme." This system requires that the EC import durum wheat without applying import levies. An equivalent amount of pasta, irrespective of the origin of the durum wheat, will then be exported to the United States without benefit of export refunds. In effect, this agreement will place 50 percent of EC pasta exports to the United States outside the EC's subsidy program. The second part of the agreement requires that the EC reduce by 27.5 percent the subsidies it pays pasta producers on the remaining 50 percent of exported pasta goods to the United States. This figure represents a compromise between the most recent U.S. proposal to trim export subsidies by 35 percent and the EC's offer to reduce them by 20 percent.

In addition, the agreement has incorporated periodic reviews to ensure that the 50 percent goal is met. Should pasta exporters favor the inward processing arrangement, then the export refund level will be raised to restore the balance. Likewise, should more than 50 percent of pasta exporters continue to use the export subsidy system, then the restitutions will be reduced. Furthermore, this agreement will be superseded by any Uruguay Round action on agricultural subsidies.

Airbus

U.S. claims that Airbus Industries, a European aircraft manufacturing consortium, is being unfairly subsidized led to a series of consultations throughout 1987. Airbus Industries is a public/private corporation co-owned by Aerospatiale of France, Deutsche Airbus of West Germany, British Aerospace, and Constructors Aeronautics of Spain. (Spain owns less than a 5-percent share in the company.) 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.

The EC denies that Airbus subsidies violate international trading rules because its loan system does not adversely affect trade. EC officials claim that U.S. manufacturers continue to domi-

nate the world market with 75 percent of world civil aircraft sales. In addition, the Airbus partners allege that U.S. manufacturers benefit from massive defense contracts, Government-funded research and development, and tax incentives. The U.S. administration argues, however, that Airbus also benefits from defense contracts and commercial spinoffs from defense technology in addition to the disputed subsidies.

In February 1987, U.S. representatives met with British, German, and French officials to repeat their condemnation of past subsidization and voice their concern over continued use of government pressure or special inducements, such as landing rights, in marketing various Airbus products. The United States also cited a new concern over subsidies to be granted to launch a new series of aircraft. In the U.S. view, launch aid for Airbus would violate that part of article 6 of the Civil Aircraft Code that 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; the Europeans maintain that the subsidies are loans that will be repaid, although no timetable for repayment is specified.

Because the United States failed to convince the governments concerned that the Airbus project is contrary to their obligations under the Civil Aircraft Code, U.S. officials requested a special meeting of the GATT Aircraft Committee to begin talks within the GATT framework. The 22 members of the Aircraft Committee met in March and agreed to clarify the interpretation of articles 4 and 6 of the Civil Aircraft Code, but the EC insisted that the subsidies issue be discussed for civil aviation in general rather than for Airbus in particular.

The dispute grew more intense during the summer after the Airbus partner governments officially launched a new series of aircraft by providing about $3.3 billion in launch aid. A second special meeting of the Aircraft Committee held in July led to a narrowing of differences over the interpretation of article 4 and in particular, the drafting of a list of prohibited government inducements attached to the sale or purchase of civil aircraft. The subsidies issue remained deadlocked, however. U.S. industry threatened to file a section 301 case or an antidumping or countervailing duty case if progress was not imminent.

Direct negotiations at a senior level were arranged for the end of October. Although no issues were concretely resolved, U.S. and EC trade officials set up a framework for negotiations by expert groups over the following months. By yearend, little progress had been made. The dispute was aggravated when EC negotiators raised a new concern over the effect of the weakened dollar—the currency of the civil aviation market—on Airbus profit margins. EC officials indicated that rising production costs for Airbus relative to its U.S. rivals required that any agreement take currency fluctuations into account. U.S. officials expressed concern that this proposal would not only negate the advantage of dollar depreciation, but would also set a dangerous precedent for other industries.[1]

Although U.S. industry remained impatient with the lack of definitive progress, the threat of a damaging trade war led it to abandon efforts to initiate any unfair trade cases during 1987. Industry worries stem not only from the possibility of being cut out of the European market, but from the effect on components trade, since aircraft manufacturers on both sides of the Atlantic use a significant quantity of foreign parts.

Telecommunications

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—PTT's (postal, telephone, and telegraph operators)—control the provision of telecommunication services and often operate strict "buy national" policies. The United States has engaged in major efforts to improve market access for U.S. telecommunications equipment and services to the EC. However, the most noteworthy event in the telecommunications field in 1987 resulted from the member states own concern that the EC's telecommunications sector must be liberalized in order to remain competitive in the future.

In June 1987, the EC Commission released a Green Paper on the development of a common market for telecommunications services and equipment. The paper states that the aim of the project is to strengthen the telecommunications sector by "developing the conditions for the market to provide European users with a greater variety of services, of better quality, and at lower cost." By improving the efficiency of the EC industry, the EC may be able to challenge more effectively the dynamic U.S. and Japanese telecommunications industries.

In order to achieve these goals, the Green Paper proposes to establish an open, competitive EC-wide market by 1992. The plan calls for the gradual unification of the EC's fragmented market by ending the dominance of state monopolies over services and equipment. Although it continues the exclusive provisions for PTT's regarding the operation of the network infrastructure and

[1] U.S. concern over the lack of transparency of Airbus accounts has partly been addressed by the EC through new efforts in 1988 to restructure Airbus from an "economic interest grouping" into a public limited company. As such, Airbus would be required to publish its financial results.

for basic services, including voice telephone service, it calls for the significant liberalization of the supply of all other services and all terminal equipment.[1] Some of the other proposals that the Commission Green Paper presents are the separation of the regulatory and operational functions of the PTT's and other network operators; common norms and standards across the Community through the creation of a European Standards Institute; gradual harmonization of tariff (or fee) structures; access to the PTT's networks on fair terms to competitors who offer rival services; opening the market for private earth stations for satellite telecommunications; application of the EC's competition rules to prevent cross subsidization by network operators, whereby they subsidize areas open to competition from profits made in the noncompetitive sector of basic services where they enjoy a monopoly position; and establishment of common positions to be defended at the international level.

The EC Commission presented the Green Paper at a time when national initiatives towards deregulation have developed in countries like the United Kingdom, Germany, France and the Netherlands. Instead of allowing the current restructuring to lead to national differences, the Commission hopes to channel these changes into areas where an EC-wide consensus would be possible and desirable.

The Green Paper was designed to stimulate discussion among interested parties and begin a consultative process between them and the Commission to determine the future of the telecommunications sector in Europe. Throughout the fall, the Commission conducted consultations for the purpose of drafting a report with concrete proposals for implementing an EC-wide telecommunications program. A draft report setting out a specific timetable was discussed in late December and is expected to be finalized in early 1988. First, the report proposes that discussion will be held on the areas in which the development of a specific policy is now feasible. This includes the rapid and complete opening of terminal equipment markets.[2] Second, discussion will then cover other areas in which overall consensus remains to be obtained and those in which existing policies must be confirmed or reinforced.

Member states showed support in general for the Green Paper's plan to impose the rules of competition on the sector. The United States was also asked to comment on the Green Paper. The American position supports the EC plan to open markets to competition for equipment and services and to separate the regulatory and operating functions of the national telecommunications administrations. However, the United States remains concerned that the liberalization measures do not go far enough. For example, U.S. officials have argued that the EC should liberalize network equipment sales by requiring member countries to open 40 percent of their procurement to competition, rather than the 10 percent that the Commission now recommends. Deregulation of the network equipment market is of key U.S. interest because the equipment could be an important U.S. export and is the foundation of the telecommunications infrastructure that would govern future market access in other equipment and services.

U.S. officials also showed concern that the market-opening measures will be limited to EC members. They suggest that the EC open its standard-setting process to all interested parties rather than limit participation to Europeans with its planned European Standards Institute.

In other developments in the telecommunications field in 1987,[3] cooperation between the United States and the EC was fostered through an agreement in February to exchange information on regulations and the domestic and international telecommunications environment, and to set up expert groups to discuss standardization. The United States also continued to conduct bilateral talks with certain EC member states to improve U.S. access to the EC telecommunications market. These informal discussions, known as market access fact-finding (MAFF) talks, are not intended to be actual negotiations but to serve as preparation for negotiations, either bilaterally or in the context of the new trade round. The United States held MAFF talks with West Germany, Italy, France, and the Netherlands.

CANADA

The Economic Situation in 1987

The Canadian economy enjoyed vigorous expansion in 1987. During the first quarter, GDP surged at an annual rate of 6.3 percent. During January–June of this year, Canada had the strongest GDP growth of the major industrialized countries. Its strength continued through the third quarter, with total growth for the year at 3.9 percent. Consumer spending remained strong in early 1987 as the drawdown in savings, first pronounced in late 1986, continued. The Canadian savings rate in 1987 (8.0 percent) was the lowest in 15 years. Residential construction (up 14.3 percent) continued the unusually strong pace set in 1986. The vigor in the Canadian economy was fueled in part by a rise in commodity prices through October—with major boosts in pulp and

[1] EC member states must form a consensus as to what constitutes a basic service, and therefore which services will be reserved for the national telecommunications administrations and which services will be competitive.

[2] On Feb. 4, 1988, the EC Commission published a timetable for deregulating the telecommunications market.

[3] Trade-related activities in 1987 in the area of telecommunications services are also covered in ch. 3.

paper, lumber and aluminum. The expansion in early 1987 provoked some inflationary pressure. For the year as a whole, however, inflation remained steady, at 4.4 percent, up from the 4.2 percent level of 1986, as the Bank of Canada remained watchful of inflationary pressures and slightly tightened control of the money supply. The Government is attempting to achieve a progressive decline in the size of the Federal budget deficit, a problem area in the recent past. The policy is being aided by the buoyancy in the Canadian economy as tax revenues increase.[1]

During 1987, capacity utilization in manufacturing reached 81.7 percent in the fourth quarter. This was the highest rate in five years. The greatest increases were in the durable manufacturing sectors, particularly building materials, furniture, and electrical equipment. Two export industries, however, transport equipment and paper products, registered declines in capacity utilization during the year. Investment spending increased in Canada during January–June 1987 and averaged 9 percent for the year.

The unemployment rate declined continuously during the year from 9.6 percent in the first quarter to 8.2 percent for the fourth quarter. The 8.9 percent average for the year made 1987 the first time in 6 years that the Canadian annual unemployment rate registered under 9 percent.

Canadian purchases of new cars declined in 1987. Sales of domestically produced cars fell by 3.8 percent, and sales of foreign automobile manufacturers improvement 2.8 percent over those of 1986. Foreign manufacturers accounted for 31 percent of Canadian new car sales in 1987.

The Canadian current account balance for 1987 was a negative $6.8 billion, a slight increase from the negative $6.7 billion of 1986. The merchandise trade balance was in surplus in 1987—$8.8 billion, up from $7.5 billion in 1986. Overall, Canadian exports increased by 4.5 percent during the year; Canadian imports rose 6.0 percent. The vigorous economic expansion fueled strong domestic demand leading to the rise in imports.

Following a modest surplus in 1986, Canada experienced a deficit in trade in automotive products in 1987, both in vehicles and in parts/components. This sector is the leader among Canadian industries for both imports and exports. Canada's surplus in auto trade decreased considerably during the year, and this contributed in a major way to the overall automotive deficit.

The Canadian dollar averaged 75.43 U.S. cents for 1987, up from 71.97 cents in 1986.[2]

[1] For the first six months of FY 1987–88 the deficit dropped to Can$28.9 billion. New tax measures to take effect in 1988 will further help to reduce the Government deficit.

[2] The Canadian dollar broke the 77 cent barrier in January 1988.

The strengthening of the Canadian currency is due to a number of factors—greater inflation in the United States than in Canada, the significant reduction in the Canadian budget deficit,[3] the plunge in the U.S. dollar, and consistently wide U.S.-Canadian interest rate differentials.

Merchandise Trade With the United States

Canada and the United States are each other's most important trading partners. In both volume and value, theirs is the largest trading relationship in the world.[4] In 1987, U.S. exports to Canada, driven by the strong expansion of the Canadian economy, increased 7.2 percent over those in 1986. U.S. imports from Canada increased by only 4 percent during the year. The merchandise trade deficit, which the United States has had with Canada for every year but one since 1970, decreased from $15.0 billion in 1986 to $13.8 billion in 1987. Table 4–2 shows U.S. trade with Canada by broad industrial categories. U.S. exports increased in 8 of the 10 SITC sectors. Only mineral fuels and the basket category of "commodities and transactions, not elsewhere classified" fell between 1986 and 1987. The machinery and transport equipment sector is the major area of bilateral trade between the United States and Canada. Trade in this sector accounted for 51.3 percent of overall shipments to Canada in 1987. Trade in motor vehicles accounted for over 90 percent of bilateral trade in SITC section 7. This trade is governed by a 1965 bilateral agreement that provides for duty-free treatment for imports of specified automotive products.[5]

The leading products exported to Canada from the United States were parts of motor vehicles, automobiles, trucks, parts of office machinery, and computers.[6] These leading products represented nearly one-half the total of U.S. exports to Canada in 1987.

[3] The budget deficit for all levels of government was 4.2 percent of GDP in 1987, down from the 7-percent level in 1985.

[4] Canada's presence in the U.S. economy is considerably greater than just international trade. The network of financial relationships is extensive and is likely to become more so with passage of a bilateral free-trade agreement. See *Canadian Research*, "Canadian Horizons—Canada's Growing Presence in the United States," vol. II, No. 1, February 1988.

[5] U.S.-Canadian trade in motor vehicles is discussed below in the section on the operation of the Automotive Products Trade Agreement.

[6] Two other statistical items appear as leading items in table B–7. One provides for undocumented exports to Canada, a new category that is the result of a recent agreement to reconcile bilateral trade statistics. (For additional information, see the *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4–12, fn.6.) The other is the result of a new statistical classification that categorizes general merchandise according to a relatively low dollar value, without further product identification.

Table 4-2
U.S. merchandise trade with Canada, by SITC Nos. (Revision 2), 1985-87

(In thousands of dollars)

SITC section No.	Description	1985	1986	1987
			U.S. exports[1]	
0	Food and live animals	1,298,431	1,324,288	1,539,376
1	Beverages and tobacco	65,353	49,457	58,205
2	Crude materials, inedible, except fuel	1,477,684	1,360,875	1,665,860
3	Mineral fuels, lubricants, etc.	1,605,361	1,397,347	1,360,327
4	Oils and fats, animal and vegetable	38,541	27,013	36,092
5	Chemicals	2,686,108	2,655,318	3,250,527
6	Manufactured goods classified by chief material	3,982,577	3,631,443	4,770,644
7	Machinery and transportation equipment	27,033,904	25,572,793	29,227,230
8	Miscellaneous manufactured articles	2,600,166	2,548,682	3,148,885
9	Commodities and transactions not elsewhere classified	10,276,821	14,597,897	11,943,901
	Total	51,064,947	53,165,113	57,001,048
			U.S. imports[2]	
0	Food and live animals	2,373,124	2,669,566	3,046,250
1	Beverages and tobacco	470,717	457,075	474,653
2	Crude materials, inedible, except fuel	5,680,270	5,695,148	6,369,175
3	Mineral fuels, lubricants, etc.	9,912,737	6,473,152	6,672,853
4	Oils and fats, animal and vegetable	18,476	24,194	35,721
5	Chemicals	2,894,398	2,720,306	2,970,451
6	Manufactured goods classified by chief material	10,803,060	11,682,112	13,311,152
7	Machinery and transportation equipment	29,380,570	29,880,206	30,584,538
8	Miscellaneous manufactured articles	2,916,225	3,185,446	3,399,744
9	Commodities and transactions not elsewhere classified	4,433,995	5,359,773	3,986,089
	Total	68,883,572	68,146,979	70,850,625

[1] Domestic exports, f.a.s.
[2] Imports for consumption, customs value.

Note.—Because of rounding, figures may not add to the totals shown.

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

U.S. imports from Canada increased in 9 of the 10 SITC sectors. The precipitous drop (25.6 percent) in imports in the general category, SITC 9, is due to a decrease in imports of nonmonetary gold from Canada. Imports of machinery and transport equipment dominated the flow of goods from Canada, accounting for 43.2 percent of 1987 imports. Among the leading items imported from Canada in 1987 were passenger cars, parts of motor vehicles, newsprint paper, trucks, crude petroleum, and natural gas, methane, ethane, propane, and butane. These six categories of goods accounted for 38 percent of total imports from Canada during the year.

Major Policy Developments Affecting Trade

United States-Canada Free-Trade Agreement

The FTA and the negotiations leading up to it marked the most important bilateral issue of 1987.[1] Over 3 years in the making, the agreement was concluded in October 1987, after intense last-minute negotiations and a near collapse in the talks. As the year ended, the complete text of the agreement had been made public, and both sides were preparing to submit legislation to their respective legislatures to put the agreement into effect.[2] Action on the agreement shifted to ratification and implementation, with January 1, 1989, being the date on which the accord is scheduled to go into effect.[3]

The FTA is important not merely as a catalyst for increased bilateral trade but also because it includes numerous provisions on topics of multilateral interest. Its provisions covering certain services and financial services in particular, as well as its inclusion of a unique dispute settlement mechanism, are likely to have an impact on the Uruguay Round of GATT negotiations currently underway. The FTA's commitment for a harmonization of antidumping and countervailing duty trade laws between the world's leading trade partners could also have far-reaching multilateral implications.

[1] The United States-Canada Free-Trade Agreement is discussed as a separate topic in ch. 1.

[2] President Reagan and Prime Minister Mulroney signed the agreement simultaneously but separately on Jan. 2, 1988.

[3] This date, explicit in the agreement, assumes concurring action by the Canadian Parliament and the U.S. Congress.

Operation of the 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.[1]

[1] 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 in so far 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 motor vehicles, or parts thereof, from the United States must pay the Canadian duty.

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.[2] The result is the "import/import" method of reporting automotive trade used in table 4–3.

In 1987, U.S. automotive imports from Canada declined slightly (1 percent) compared with such import in 1986. Canadian import of automobiles and parts form the United States increased by nearly 4 percent. The U.S. deficit on automotive trade with Canada decreased from $3.4 billion in 1986 to $2.5 billion in 1987. This is the lowest bilateral deficit since 1983.

The Auto Pact governs the most significant sectoral flow of trade between the United States and Canada. At a time when both countries are considering ratification of the United States-Can-

[2] 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.

Table 4-3
U.S.-Canadian automotive trade, 1964-87

(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	21,411	-3,406
1987	24,579	22,109	-2,470

[1] Canadian import data converted to U.S. dollars.

Note.—Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

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

ada Free-Trade Agreement and an even closer trading relationship, the Auto Pact is looked upon by some as an anachronism. The Auto Pact, however, is not a true sectoral FTA; if it were, it could be incorporated into a broader, comprehensive liberalization scheme. 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]

A detailed breakdown of U.S.-Canadian automotive trade is provided in table 4–4. The nearly 27–percent decrease in the U.S. bilateral deficit from 1986 to 1987 is accounted for by the increase in U.S. exports of motor vehicles to Canada. In the area of automotive parts and accessories, the United States traditionally ships to Canada nearly twice the value of parts than fully-assembled cars. In 1987, the nearly 6-percent increase in U.S. shipments of cars was not offset by any significant drop in exports of automotive parts to Canada.

United States-Canada Bilateral Trade Issues

Canadian Corn CVD Case

In 1987, Canada imposed its first countervailing duty (CVD) on a U.S. import.[2] The Ontario Corn Producers' Association initiated proceedings in 1986, alleging that U.S. subsidized grain corn caused injury to Canadian industry. The preliminary determination by the Canadian Department of National Revenue, Customs and Excise, set the U.S. subsidy at 85 cents per bushel; a provisional duty was then set in place. The 85 cent per bushel CVD imposed in November 1986 after the preliminary investigation, was upheld after the March 6, 1987, final determination by the Canadian Import Tribunal (CIT) of injury to the Canadian industry. By a 2 to 1 majority, the CIT imposed a CVD on American grain corn, excluding seed corn, sweet corn and popping corn, after determining that Canadian corn, producers were materially injured by numerous U.S. subsidy programs, primarily certain provisions of the Food Security Act of 1985. Approximately 500,000 tons of corn are exported to Canada from the United States, out of the 6 to 7 million tons grown here each year. At the time of the decision, the 85 cent per bushel CVD represented about 55 percent of the U.S. market price of corn. On October 20, 1987, the Canadian Import Tribunal (Tribunal) recommended that the CVD be reduced from 85 to 30 cents per bushel. The Tribunal called for the duty reduction after concluding that the CVD caused higher prices for corn, which led to an increase in prices for Canadian food processing firms and a decrease in Canadian corn exports. According to the Import Tribunal, reducing the CVD from 85 cents per bushel would best serve the Canadian public interest. "By reducing the duty . . . market uncertainty will be greatly reduced and both users and producers (of Canadian grain corn) will be better able to plan their activities," explained Canadian Minister of State for Finance Tom Hockin. In order for any change in the duty to be enacted, the Canadian Federal Cabinet must rule on the Tribunal's recommendation.[3]

Immediately following the March 1987 final determination, U.S. industry filed an appeal of the Import Tribunal's finding of injury. U.S. industry is not appealing Revenue Canada's determination of the amount of the CVD; it views the duty itself as unwarranted, contending that Canadian industry was not materially injured. The case is still pending before the Canadian Court of Appeals.

The United States has taken the bilateral dispute to the GATT, and consultations preliminary to formal dispute settlement proceedings have begun. The entire issue of agricultural subsidies is one of the major items on the agenda in the Uruguay Round negotiations currently taking place within the GATT. One element of the July 1987 proposal by the United States for reforming agricultural trade was a 10-year phaseout of all agricultural subsidies.[4]

Potash

The potash industries in the United States and Canada experienced the entire cycle of an

[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.

[2] Countervailing duty laws provide import protection from subsidized goods by imposing an import duty equal to the amount of injurious subsidies that are found.

[3] On Feb. 4, 1988, the Canadian Government reduced the CVD to 46 cents per bushel. The CVD shall be reexamined sometime during the summer of 1989. At that time, the Canadian Government will determine whether another modification may be necessary as a result of any change in the issues upon which the duty is based.

[4] See ch. 2 for a discussion of the Uruguay Round proposal regarding agricultural subsidies.

Table 4-4

U.S.-Canadian automotive trade, by specified products, 1986 and 1987

(In millions of U.S. dollars)

Item	*1986*	*1987*
U.S. imports from Canada:[1]		
Duty free:[2]		
Passenger cars	11,774	10,173
Trucks, buses, and chassis	4,130	5,119
Parts and accessories	7,519	7,813
Total	23,423	23,105
Dutiable:		
Passenger cars	50	13
Trucks, buses, and chassis	44	42
Parts and accessories	813	920
Tires and tubes	486	498
Total	1,393	1,473
Total:		
Passenger cars	11,824	10,187
Trucks, buses, and chassis	4,175	5,161
Parts and accessories	8,332	8,733
Tires and tubes	486	498
Total	24,817	24,579
Canadian imports from the United States:[3]		
Duty free:[2]		
Passenger cars	6,099	6,524
Trucks, buses, and chassis	1,968	2,406
Parts and accessories	12,451	12,212
Tires and tubes	14	14
Total	20,531	21,156
Dutiable:		
Passenger cars	110	31
Trucks, buses, and chassis	65	70
Parts and accessories	555	632
Tires and tubes	150	220
Total	879	953
Total:		
Passenger cars	6,209	6,555
Trucks, buses, and chassis	2,032	2,476
Parts and accessories	13,006	12,844
Tires and tubes	164	234
Total	21,411	22,109
U.S. trade balance	-3,406	-2,470

[1] U.S. import data.
[2] Duty free under the United States-Canada Automotive Products Trade Agreement.
[3] Canadian import data (preliminary tables) converted to U.S. dollars as follows: 1986, Can$1.00=US$0.71963, and 1987, Can$1.00=US$0.7543.

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.

Source: Compiled from official statistics of the U.S. Department of Commerce and Statistics Canada.

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antidumping suit during a one year period, formally beginning February 10 1987, and ending January 8, 1988.

Potash, which refers to a number of potassium chloride salts, is used primarily in fertilizer. Imports of Canadian potash valued at $340 million in 1986, accounted for 84.3 percent of U.S. consumption in that year. On February 10, 1987, Lundberg Industries Ltd. and the New Mexico Potash Corp. filed petitions alleging that Canadian potash exporters were dumping potash in the U.S. market by selling it at less-than-fair-value. The two U.S. producers called for dumping margins of 43 percent. Similar investigations occurred in 1984 and 1985 when U.S. producers alleged dumping of potash imports from Spain, East Germany, Israel, and the U.S.S.R. Import relief was not granted.

On March 27, 1987, the USITC preliminary investigation determined "that there was a reasonable indication" of injury to the domestic potash industry by Canadian imports. The U.S. Department of Commerce's International Trade Administration (ITA) issued its preliminary finding on August 20, 1987. The ITA determined that Canadian potash exports were being dumped in the U.S. market and set preliminary dumping margins ranging from 9.14 percent to 85.2 percent.[1]

The final determination by the U.S. Department of Commerce was scheduled for no later than January 8, 1988, with the USITC investigative hearings scheduled to begin January 19, 1988. The day before Commerce was to issue its final determination, however, an agreement was reached between Canadian potash producers and the U.S. Department of Commerce. The agreement, signed January 7, 1987, does not specify prices for Canadian potash but commits the Canadian producers to revise their prices, keeping them above that level considered unfair by U.S. authorities. Although the agreement suspended the antidumping investigation, the case may be resumed at any time if Commerce determines that a Canadian firm is found in violation of the agreement. The antidumping investigation would then immediately resume with Commerce issuing its final determination of the dumping margins and the USITC beginning hearings to determine whether the domestic industry is materially injured or threatened with material injury. The Department of Commerce will monitor the Canadian potash industry monthly until January 1993. If Canadian exporters do not violate the agreement during the 5-year period, then the antidumping case and the agreement will be officially terminated.

[1] The preliminary finding by the ITA required importers of potash form Canada to post cash or bond equal to the duty. The wide range of dumping margins is the result of separate ITA determainations for each of the eight Canadian companies exporting potash to the United States.

The agreement resulted from discussions and protests on both sides of the border. According to Paul Schoenhals, chairman of the board of Saskatchewan Potash Corp., the antidumping suit was a result of Canadian companies trying to increase their share of the world market by cutting prices. With the agreement in place, Schoenhals said that the Canadian industry will be able to maintain its traditional market share without the risk of depressing world prices.[2] In the United States, American farmers protested that a price increase of Canadian potash would mean a tremendous increase in fertilizer costs. The Food and Agriculture Policy Research Institute at the University of Missouri determined that a $35 per ton increase in potash costs would translate into a $475 million cost increase for American farmers.[3]

JAPAN

The Economic Situation in 1987

Japanese economic growth exceeded the expectations of both governmental and private economic forecasts in fiscal year 1987.[4] After hitting a postwar low of 2.6 percent in 1986, real GNP was expected to rebound to 3.7 percent in 1987. Original Government estimates called for 3.5 percent real growth based on an exchange rate of Y163=$1.00. The yen actually averaged about Y140=$1.00 for 1987, but the economy adjusted to the exchange rate disruption better than expected. Domestic demand grew at about 5 percent (about 1 percent higher than forecast), offsetting the-1.3 percent drag caused by the external sector. Household spending and expanded housing construction contributed to the growth in domestic demand. Household spending rose an estimated 3.6 percent in FY 1987, accounting for over one-half of the GNP. Capital gains from increases in the value of stock and land investments helped push up spending by those consumers with above average incomes. Lower interest rates and soaring land prices in Tokyo stimulated the surge in residential housing. Residential housing starts were expected to reach 1.6 to 1.7 million units in 1987 compared with 1.4 million units in 1986.

The main impetus behind the strong showing by domestic demand was a 6 trillion yen ($43 billion at Y139=$1.00) supplemental spending package proposed in April and passed in July. The supplemental budget included Y1.4 trillion ($10 billion) for public works and Y1.5 trillion ($11 billion) in personal income tax cuts. This was the first time since 1982 that there had been an increase in public works spending by the Government.

[2] *International Trade Reporter*, Bureau of National Affairs, Inc., Washington DC, Jan. 13, 1988, p. 39.
[3] During the period between the preliminary finding and the signing of the agreement, potash prices increased on average between $35 to $100 per ton.
[4] Japan's fiscal year covers the period Apr. 1, 1987, through Mar. 31, 1988.

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The appreciation of the yen and lower crude oil prices helped keep inflation low in 1987. Wholesale prices fell 1.7 percent, the lowest increase since 1985. Consumer prices rose 0.1 percent during 1986–87, the lowest increase in 29 years, and food prices declined 0.9 percent.

Mining and manufacturing production was weak during January-June 1987, but picked up substantially during the following six months. Growth in industrial production was expected to average 6.6 percent for FY 1987. Unlike the United States, inventories declined in Japan every month in 1987 on a year-to-year basis. Profits for manufacturing firms were expected to rise and the nonmanufacturing sector was expected to experience losses.

Unemployment peaked at 3.3 percent in May and stood at 2.6 percent at the end of the year. The average unemployment rate for 1987 was the same as 1986, or 2.8 percent. Total hours of overtime in manufacturing increased during the second half of 1987 for the first time since mid-1985. The declines in the unemployment rate in 1987 reflected the economy's partial recovery from the impact of the appreciation of the yen. Since the yen's steep rise at the end of 1985, export-oriented industries in particular have been forced to reduce production and employment. Japan's current account and trade surpluses rose slightly in 1987. The current account surplus increased from $85.8 billion in 1986 to $86.7 billion in 1987. Although investment income rose to $16.7 billion, this increase was more than offset by deficits in other services that grew from −4.9 billion in 1986 to −6.1 billion in 1987. Net long-term capital outflows increased 5 percent, from $131 billion in 1986 to $137 billion in 1987. Approximately 31 percent of net long-term outflow was accounted for by overseas investors reducing their position in Japanese stocks after the stock market crash in October. Japanese net purchases of bonds overseas dropped from $93 billion in 1986 to $73 billion in 1987, but were still the main channel for recycling the current account surplus. The Japanese played a major role in financing the U.S. budget deficit by investing about $31 billion in the United States during the first 9 months of 1987 alone.

Japanese direct investment for construction or acquisition of U.S. manufacturing facilities totaled over $3.8 billion during FY 1986 and was expected to increase even more in FY 1987 as Japanese companies continue to shift their production overseas and cut production costs in response to the high yen. Over one-fourth of Japanese investment in the United States has been in the electrical machinery industry in the Southwest.

Japan's trade surplus rose from $92.8 billion in 1986 to $96.5 billion in 1987. Exports, measured in terms of dollars, increased only one-half as much as they did in 1986, or by 9.6 percent, rising to $229.2 billion. However, in terms of volume, exports actually fell 1.7 percent, reflecting the adverse affects of the high yen. The value of total imports to Japan rose 18.2 percent, from $126.4 million (c.i.f.) in 1986 to $149.4 million in 1987 because of higher domestic demand and lower prices of imports. During the first 9 months of 1987, imports from the Asian NIC's rose 51 percent in value over these in the corresponding period of 1986, mostly because of the enhanced price competitiveness of their products in the Japanese market, in the wake of the yen's appreciation. The composition of imports from these countries shifted from textiles and sundries to low-value-added consumer electronic and steel products. Many Japanese companies have made conscious decisions to move out of some of these product areas into higher value-added goods.

Merchandise Trade With the United States

The U.S. merchandise trade deficit with Japan declined to $57.1 billion in 1987 from $59.1 billion in 1986, or by 3 percent. However, many analysts had predicted that the realignment of the dollar-yen exchange rate would reduce the deficit even more. Economists continued to claim that the end of the "J curve" effect was within sight.[1] During 1987, Japanese export industries attempted to hold increases in their dollar-denominated export prices to a minimum in order to preserve their market shares. However, by yearend, there were signs that the Japanese were starting to once again put profits ahead of sales volume. Industries such as consumer electronics are shifting their production facilities to low-cost labor countries in Southeast Asia and focusing on producing higher value-added products at home. Dollar-denominated products from the Asian NIC's seemed to gain the greatest benefit from expanded domestic demand in Japan, and imports of luxury goods from Europe were also popular among Japanese consumers. Reverse importation of products manufactured at Japanese-owned factories abroad, including the United States, is expected to increase as more industries move offshore.

The value of imports from Japan rose from $82.0 billion to $84.0 billion in 1987, or by 2 percent (table 4–5). Imports of manufactured goods (SITC secs. 5, 6, 7, and 8) totaled $82.5 million and accounted for 98 percent of total imports from Japan in 1987. Imports of autos and other miscellaneous vehicles remained relatively steady at 29 percent of total imports from Japan in 1987 compared with 30 percent in 1986 (see table B–10). Imports of computer parts increased from $1.7 billion in 1986 to $2.8 billion in 1987, or by 65 percent, the highest jump in

[1] The J-curve effect occurs following a currency appreciation that causes a trade surplus to grow before declining. See *Operation of the Trade Agreements Program, 38th Report, 1986,* July 1987, p. 4–22.

value for any product category. The primary reason for this increase was strong demand in the United States for personal computers and related equipment. Other import product categories that showed a large increase in value from 1986 to 1987 were chassis, bodies, and other parts of motor vehicles (22 percent), monolithic integrated circuits or semiconductors (42 percent), and electrical switches (42 percent).

Imports of trucks valued at $1,000 or more dropped from $4.8 billion to $4.2 billion during 1986–87. Imports of metal-working machine tools declined from $792 million to $735 million during 1987, partly because of the import restraints implemented by the United States as of January 1987 on four types of metalworking machine tools. Imports of tape recorders, magnetic recording media (tape cassettes), and microphones showed a drop in value during 1987 compared with those in the previous year, partly because of competition from lower priced consumer electronic products imported from the NIC's. Imports of accounting and computing machines declined from $584 million to $581 million, largely because of the tariff increase imposed on lap top computers in conjunction with the dispute over semiconductors in April.[1]

As shown in table 4–5, U.S. exports to Japan rose by 18 percent, from $22.9 billion in 1986 to $26.9 billion in 1987. The value of total U.S. exports to Japan increased because of higher shipments of manufactured goods, which grew by 18 percent over those in 1986, at $12.4 billion. Exports of office machinery, aircraft parts, digital CPU's, electronic tubes, parts of compression ignition engines, and electrical measuring equipment showed the largest gains. The value of exports of logs increased by 43 percent, from $789 million in 1986 to $1.1 billion in 1987, partly as a result of tariff cuts on forest products implemented in 1987 and also because of the yen's appreciation that resulted in lower prices for these products.[2] Other agriculture products exhibiting an increase in value were seed corn and fresh or chilled beef and veal. Exports of unwrought unalloyed aluminum rose from $156 million in 1986 to $305 million in 1987, partly as a result of tariffs that dropped from 9 percent to 5 percent ad valorem effective April 1, 1987.[3] The most notable decline in terms of value was exports of aircraft, which fell from $1.2 billion in 1986 to $1.1 billion in 1987, reflecting a decline in shipments of one or two aircraft.

[1] For more details on the semiconductor dispute, see United States-Japan Bilateral Trade Issues below.

[2] See *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 167–68.

[3] See *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4–30.

Major Policy Developments Affecting Trade

Restructuring the Japanese Economy

In 1987, Japan continued its policies aimed at restructuring the economy away from its dependency on exports towards domestic-demand-led growth. In recent years, the United States and other industrialized countries have urged Japan to stimulate domestic demand and reduce its trade surplus. Many large exporters (steel, electronics, shipbuilding, and auto industries) are diversifying into advanced, premium-line products and are developing new manufacturing techniques in order to maintain their market shares overseas. However, other industries such as textiles, ceramics, and cutlery are redesigning old products and developing new ones suited for the domestic market. Rising incomes, shorter working hours, an aging population, and an increase in women entering the workforce are helping fuel demand for banking services and leisure facilities. The Government has responded with policies designed to improve the quality of life and to reduce skyrocketing land prices in the Tokyo region. Tax reform proposals, deregulation of certain sectors such as financial services and fiscal stimulus policies were all part of the Government's efforts to restructure the economy in 1987.

Many of these measures were rooted in the 1986 Maekawa report and its successor.[4] A final version of the followup to the 1986 Maekawa Report was released in April 1987, two weeks before Prime Minister Nakasone was expected to meet with President Reagan in Washington. The 1987 report closely followed the recommendations of the original report that called for a restructuring of the export-led economy to one driven by domestic demand, with the aim of reducing the country's trade surplus. The report's recommendations included relaxing Government regulations in certain sectors of the economy, implementing fiscal measures to spur domestic demand, expanding public funding for housing, increasing imports of manufactured goods and promoting the abolition of tariffs on manufactured goods in the Uruguay Round. With the U.S. Congress looking more for actions than proposals, the release of the report did not receive as warm a welcome as its predecessor. However, it did lay the groundwork for the Government's fiscal stimulus program enacted a few months later.

Fiscal Stimulus Measures

On May 29, the Government of Japan announced a set of "Emergency Economic Measures" amounting to 6 trillion yen ($43 billion) in fiscal spending. The package was intended to stimulate domestic growth and increase imports.

[4] Ibid., p. 4–24.

Table 4-5
U.S. merchandise trade with Japan, by SITC Nos. (Revision 2), 1985-87

(In thousands of dollars)

SITC section No.	Description	1985	1986	1987
			U.S. exports[1]	
0	Food and live animals	3,987,900	4,105,483	4,652,843
1	Beverages and tobacco	417,340	390,401	864,489
2	Crude materials, inedible, except fuel	3,948,895	4,064,395	4,952,908
3	Mineral fuels, lubricants, etc.	1,783,388	1,312,109	1,298,379
4	Oils and fats, animal and vegetable	55,924	54,151	45,502
5	Chemicals	2,923,955	3,111,444	3,445,766
6	Manufactured goods classified by chief material	1,268,658	1,325,451	1,808,720
7	Machinery and transportation equipment	5,501,065	6,213,261	7,066,791
8	Miscellaneous manufactured articles	1,457,415	1,779,706	2,358,371
9	Commodities and transactions not elsewhere classified	258,389	534,445	409,861
	Total	21,602,930	22,890,847	26,903,632
			U.S. imports[2]	
0	Food and live animals	452,787	446,600	392,916
1	Beverages and tobacco	31,817	37,735	42,162
2	Crude materials, inedible, except fuel	128,814	136,315	158,288
3	Mineral fuels, lubricants, etc.	65,963	79,567	88,128
4	Oils and fats, animal and vegetable	8,650	10,899	17,173
5	Chemicals	1,381,562	1,757,976	2,108,219
6	Manufactured goods classified by chief material	7,615,562	6,833,650	6,569,742
7	Machinery and transportation equipment	51,968,786	65,118,259	66,716,722
8	Miscellaneous manufactured articles	5,841,081	6,736,153	7,077,426
9	Commodities and transactions not elsewhere classified.	746,835	828,720	837,723
	Total	68,241,856	81,985,873	84,008,499

[1] Domestic exports, f.a.s.
[2] Imports for consumption, customs value.

Note.—Because of rounding, figures may not add to the totals shown.

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

The plan included $36 billion in public works expenditures and a $7 billion tax cut.[1] In addition to the $43 billion package, $1 billion was earmarked for purchases of foreign manufactured goods. Most of the funds for the package were to be raised through proceeds from the sale of Government stockholdings in Nippon Telegraph and Telephone Corp. and by issuing Government bonds. The announcement of the package was expected to relieve pressures on Prime Minister Nakasone in June at the Venice economic summit. The stimulus measures were welcomed by U.S. officials, but were met with some skepticism since previously announced Japanese economic stimulus measures had fallen short of their spending targets. The first part of the spending package was implemented in July when the Diet passed a 2.08 trillion yen ($14.9 billion @ Y139=$1.00) supplemental budget. The supplemental budget included $9.7 billion in public works outlays, and $1.3 billion for public housing construction. This was the largest supplemental budget in 13 years. The supplemental budget raised the overall Japanese budget for FY 1987 to 56.2 trillion yen ($404.3 billion at Y139=$1.00), representing an increase of 4.4 percent over that in FY 1986.

Tax Reform

Although the supplemental budget sailed smoothly through the Diet, the second part of the May economic stimulus plan, tax reform, met with stiff resistance. The ruling Liberal Democratic Party (LDP) favored a tax cut of 1.3 trillion yen for middle-income workers and wanted to abolish the tax exemptions on small savings accounts or "maruyu" to pay for the cut. The opposition in the Diet supported a larger tax cut of about 2 trillion yen, and it wanted to retain the tax exemptions for maruyu accounts. The most controversial aspect of the tax reform debate was a proposal by Prime Minister Nakasone for a 5 percent value-added tax introduced during the regular session of the Diet in January 1987. Following a boycott of Diet proceedings by a coali-

[1] In addition to the $43 billion package, the Government planned to advance by 2-years its 7-year plan to double official development assistance and to increase disbursements to more than $7.7 billion in 1990. In addition, $20 billion would be recycled over the next 3 years to assist developing countries.

tion of opposition parties and sharp criticism from labor unions, consumer groups, and business leaders, the proposal was withdrawn. A special session of the Diet was called in July to consider a new tax proposal that included elimination of the maruyu system, but the opposition again called for a boycott. Finally in September, the Diet passed a compromise measure containing a tax cut of 1.54 trillion yen ($11 billion), which eliminated some tax exempt categories of accounts under the maruyu system. It also reduced the number of tax brackets and lowered the top rates in response to the opposition demands.

Financial Market Liberalization

During 1987, Japan's Ministry of Finance continued its efforts to reform the Japanese financial system and integrate it with the European and U.S. markets. Among the changes[1] made in 1987 were—

(1) The distinctions between commercial and investment banking activities were further weakened as the two types of firms were permitted to compete with each other in new markets such as certificates of deposit and bond futures;

(2) Foreign bank holding companies were allowed to open securities brokerages or advisory offices. In June, U.S. banks were allowed to open joint venture securities firms with nonfinancial companies, but were limited to a 50 percent interest in the venture;

(3) Regulations limiting the amount of foreign holdings in trust and insurance company portfolios were liberalized in an effort to support the dollar;

(4) In November, around-the-clock trading of Japanese bond futures was initiated;

(5) Further steps were taken in the area of interest rate decontrol when the ceiling for money market certificates and large time deposits were abolished. In October, the minimum ceiling on large time deposits was lowered from Y300 million to Y100 million ($719,424).

(6) The commercial paper market started operating on November 20 and by the end of the year at least 30 companies had outstanding issues. The trend towards internationalization of the yen continued as foreign companies were permitted to issue yen-denominated commercial paper in Europe.

Two major issues that the Ministry of Finance (MOF) must resolve in the future are (1) the potential deregulation of interest rates paid on small deposits, and (2) the possible amendment of Article 65 of the Securities and Exchange Law that separates commercial banking and securities operations (similar to the U.S. Glass-Steagall Act). The MOF and the Ministry of Posts and Telecommunications (MPT) are at odds over the best strategy to deregulate interest rates on small deposits. MPT wants to offer money market certificates in small units that would be affordable to all savers. MOF claims that the cost of deposits would skyrocket and that small financial institutions would have a difficult time competing with the postal savings system, which still includes some tax-exempt accounts. Negotiations between the two ministries on this issue are expected to continue in 1988.

The Government of Japan favors reducing the barriers between commercial banking and securities firms. However, both banks and brokerage firms oppose any changes that would adversely affect their own interests. Thus far, MOF has followed an even-handed strategy in giving both groups equal or equivalent access to new markets. If the U.S. Congress is successful in weakening the Glass-Steagall Act, it could lead to reform of Article 65 of the Securities and Exchange Law in Japan.[2]

From the viewpoint of the United States and Europe, Japan has not deregulated its markets fast enough, making only piecemeal changes to the financial system. U.S. banks and brokerage firms continue to complain that commissions on stock transactions are fixed, that there is no treasury bill or repurchase agreement market, that options are prohibited, and that the equity futures market is incomplete. As of September 1987, the 19 U.S. banks out of a total of 80 foreign banks in Japan accounted for less than 3 percent of total banking assets. Foreign securities firms accounted for less than 3 percent of turnover on the Tokyo stock exchange.

United States-Japan Bilateral Trade Issues

Overview

The catch phrase describing U.S.-Japanese trade relations in 1987 seemed to be "actions speak louder than words." Pent-up frustrations over several issues reached a boiling point in 1987 and, unlike previous years, the U.S. Government

[1] Reform of Japan's financial system began in the late 1960's and gained momentum following the first oil crisis in 1973. A foreign exchange law was enacted in 1980 that liberalized external transactions, but retained controls on domestic markets. During 1985-87, a series of measures were taken to implement the 1984 yen/dollar agreement between the United States and Japan. These measures focused on three broad areas: (1) increasing the yen's role in international markets; (2) deregulating interest rates; and (3) institutional restructuring. A series of specific deregulation measures were enacted in conjunction with these goals including: introduction of new instruments such as money market certificates, large time deposits, and short-term government notes; opening the Tokyo offshore money market; establishment of a government bond futures market; opening of the Tokyo Stock Exchange to foreign membership; and introduction of new regulations covering the investment advisory business.

[2] "Financial Liberalization in Japan: Update and Impact", *Japan Economic Institute Report*, Japan Economic Institute, Feb. 12, 1988.

decided to react with specific measures rather than prolonging bilateral discussions. The first major action came in April when President Reagan announced he was imposing sanctions on Japan in the form of higher tariffs on certain electronic products for failing to enforce some provisions of the 1986 semiconductor agreement. The retaliatory steps were greeted with applause on Capitol Hill, but met with harsh criticism in Japan. As the year progressed, it became apparent that the higher tariffs may have actually benefited Japanese companies by increasing their profits, and causing shortages and raising prices for U.S. consumers of the products affected.

The delicate trade-off between profit motives and the need for guarding against diversions of military technology was highlighted in June following the disclosure of sales of sensitive technology by Toshiba Machine Corp. to the U.S.S.R. Television images of U.S. Congressmen smashing Toshiba products in front of the Capitol building graphically illustrated to the world the depth of outrage of legislators over the sales. Japan may have miscalculated the reaction among U.S. officials in waiting so long to disclose the sales. Subsequent legislation banning Toshiba products seemed unfair to the Japanese since the punishment was imposed retroactively and Toshiba was just one of many violators of export control regulations. The incident cast a shadow over U.S.-Japan security cooperation, which had appeared to be on the upswing.

The final conflict in bilateral relations occurred in the fall following the release of a GATT dispute settlement panel's decision in the GATT-12 case, which found the majority of Japanese agricultural quota categories under consideration to be GATT inconsistent. Developing a response to the panel's report was the first major task for newly elected Prime Minister Takeshita. Under pressure both at home and abroad, the Japanese Government finally gave in to powerful dairy interests in Japan and blocked acceptance of the panel's report by the full GATT. Nevertheless, the decision in the GATT case supporting the United States' position provided some hope that, at the minimum, import quotas on the affected products would most likely be removed and, at best, restrictions on other important agricultural products like beef, citrus, and rice might be liberalized.

Despite what appeared to be one direct confrontation after another on trade issues in 1987, with relations reaching all time lows in such vital areas as high technology, defense, and agriculture, the two sides still managed to exercise some restraint in their actions and continued to cooperate and consult in these and other areas.

Progress was made on other fronts: the Market Oriented Sector Selective (MOSS) talks on auto parts were concluded and bilateral negotiations resulted in market-opening measures on other agricultural products, fisheries, supercomputers, alcoholic beverages, and legal and financial services. Other issues, notably Kansai airport construction, telecommunications, video piracy, and semiconductors, proved much more difficult to resolve.

The two countries met in the fall to discuss renewal of the 1980 United States-Japan Science and Technology Agreement that provides for access to Government-sponsored research and development efforts in both countries. The agreement was set to expire on January 31, 1988. There were concerns from the United States that the agreement was more advantageous to Japan because it gave many Japanese scientists access to basic research in leading edge technologies at U.S. labs, but only a few U.S. scientists have visited industrial research centers in Japan. Most U.S. research and development funding comes from the Government, whereas in Japan the private sector supplies close to 70 percent of total funding. At yearend, the talks were deadlocked with the United States pushing Japan for reciprocal participation in both private and Government-sponsored research projects.

The watchwords in Congress during 1987 were "retaliation" and "reciprocity." Amendments to the proposed trade bill relating to U.S.-Japanese trade ranged from the all- encompassing "Gephardt" amendment to the provisions concerning specific areas such as construction services, banking, and telecommunications. The administration threatened to veto a bill containing many of these provisions, but the warnings did not quell the frustrations of legislators in the face of continued Japanese intransigence on these issues.

Other issues that emerged or appeared to be moving to the forefront of the bilateral agenda in 1987 were marketing of digital audio technology in the United States and development of space and high-technology products such as superconductors. There were also rising concerns about Japanese direct ownership of U.S. companies, buildings, land, and other assets. Fujitsu Ltd. withdrew its offer to buy Fairchild Semiconductor Corp. in March 1987 after the proposed sale was criticized by the United States for having potential national security implications. The controversy surrounding the proposed sale led to the introduction of legislation later in the summer that would restrict foreign mergers with, or acquisitions of, U.S. firms.

Semiconductors

The United States finally added some muscle to its threats on March 17, 1987, when President Reagan announced that he was taking retaliatory actions against Japan for failing to fulfill its commitments under the September 1986 semiconduc-

tor agreement.[1] The President announced that tariffs on 300 million dollars worth of Japanese exports of certain electronic products would be raised to a level of 100 percent ad valorem. The President's action followed a series of bilateral discussions during October through December 1986 and emergency consultations in January 1987, during which the United States gave Japan a deadline for enforcing the agreement's provisions. In announcing the sanctions, the President cited U.S. Department of Commerce statistics showing that Japan had failed to enforce those provisions of the 1986 agreement aimed at increasing access of U.S. producers to the Japanese market and at eliminating dumping in third-country markets. Bipartisan support for the sanctions gained momentum on March 19 after the Senate Finance Committee passed a nonbinding resolution calling for the President to take retaliatory actions under section 301 of the Trade Act of 1974.

A public hearing was held on April 13 to determine which products containing Japanese semiconductors would be subject to increased tariffs. Certain portable and desktop microcomputers with 16 bit microprocessors, 18-through 20-inch color televisions and three types of power handtools were selected for 100 percent tariffs effective April 17. Tariffs were not imposed directly on semiconductors in order to minimize the adverse effects on American consumers and producers. However, personal computers were singled out because Japanese manufacturers of computers, including Mitsubishi Electric Corp., Toshiba Corp., and NEC Corp., are also major suppliers of semiconductors and had allegedly violated the pact. President Reagan indicated that he would lift the trade sanctions only when there was "firm and continuing evidence" that dumping in third-country markets had ceased and that U.S. companies had gained greater access to the Japanese market.

Despite opposition from some legislators and the semiconductor industry, on June 8 at the opening of the economic summit in Venice, President Reagan lifted $51 million, or 17 percent, of the $300 million in sanctions. The tariffs on television sets were reduced from 100 percent to their previous level of 5 percent ad valorem. The President claimed that the Japanese had raised their prices of DRAMS and that third-country dumping had abated somewhat. On November 2, the President lifted an additional $84 billion of the sanctions based on U.S. Department of Commerce data showing that Japanese dumping of semiconductors had stopped.

By the end of 1987, U.S. semiconductor producers, the U.S. consumer electronics industry, and the Japanese all held different opinions on the effects of the April sanctions. As some semiconductor consumers had predicted, shortages of DRAM's appeared and prices rose at least 10 percent, causing computer companies to delay filling orders. In addition to production cutbacks ordered by Ministry of International Trade and Industry (MITI) after the sanctions were imposed, the shortages could also be attributed to problems associated with manufacturing a new generation of semiconductor, the one-megabyte chip. U.S. consumers have reportedly been forced to reconsider their dependence on Japanese suppliers and have pressured U.S. manufacturers into reentering the DRAM manufacturing business. The Japanese, in the meantime, have allegedly increased their profits, decreased their capital investments, and diversified into new areas of semiconductor production. At yearend, $165 million in sanctions remained in effect, reflecting U.S. dissatisfaction with enforcement of the market access provisions of the 1986 agreement. Meanwhile, the Japanese claimed that U.S. producers have not shown any commitment to their market or are not capable of supplying the types of chips that Japanese electronics companies need.

Export Control Violations

One of the most serious crises in U.S.-Japanese relations occurred in mid-June when it was disclosed that Toshiba Machine Co., a subsidiary of Toshiba Corp., had illegally shipped several computer-controlled milling machines to the U.S.S.R. between 1982 and 1984.[2] The exports occurred in violation of the Coordinating Committee for Multilateral Export Controls (COCOM) rules.[3] The shipments were considered to be militarily sensitive because they could be used by the U.S.S.R. to retool the propellers on their submarines to make them quieter. Toshiba Corp. maintained that it was unaware of its independently managed subsidiary's actions; but, nonetheless, its two top officials resigned shortly after the disclosure.[4] Reports of the disclosure were met with outrage by many officials in the United States. It was estimated that the costs of restoring U.S. submarine tracking abilities could range from $2 billion to $30 billion.

The Toshiba incident occurred at an awkward time for U.S.-Japanese defense relations. The two countries were expected to sign a cooperation agreement on Strategic Defense Initiative research in July, a meeting of COCOM was scheduled for that month, and a disagreement

[1] See *Operation of the Trade Agreements Program, 38th Report, 1986*, July 1987, p. 4-26.

[2] Kongsberg Vaapenfabrik of Norway also sold similar equipment to the U.S.S.R.

[3] Established in 1949, COCOM is a nontreating- based organization composed of all the members of NATO, plus Japan, but minus Iceland. One of its functions is to make lists of items that members must not export to the Soviet Union, its East European allies, and in some circumstances, China, Cuba, North Korea, Vietnam, Kampuchea, and others.

[4] Two other Toshiba officials were arrested later.

over whether Japan would build its own FSX fighter had been brewing for a couple of months. The uproar over the Toshiba sales added a degree of uncertainty and confusion to these issues.

Following the disclosure of the sales, Japan immediately responded. On June 29, Prime Minister Nakasone assured U.S. Secretary of Defense Caspar Weinberger that Japan would tighten its export control regime. He also announced that Toshiba would help the United States improve its anti-submarine warfare capabilities as partial compensation for the damage caused by the shipments. In addition, Japan banned all exports by Toshiba Machine Co. to the Soviet bloc for one year. These offers and promises by Toshiba to allow U.S. officials to audit their internal procedures for diversions failed to mollify U.S. legislators.

On June 30, the Senate approved an amendment to the omnibus trade bill that would impose a 2-to 5-year ban on imports of goods produced by Toshiba and Kongsberg Vaapenfabrik of Norway. The amendment covered goods from parent companies, affiliates, subsidiaries, and successor companies. The measure was unusual because it singled out specific companies and applied sanctions retroactively to actions that occurred before the legislation was passed, raising questions about its constitutionality. The amendment would also apply to companies that violate export control regulations in the future. Certain goods were exempted from the ban such as goods shipped under contracts signed before May 1 and products deemed essential for defense. It was estimated that the ban could cost Toshiba $2.5 billion annually in lost sales. In addition, there were concerns that some of the 4,000 Toshiba employees in the United States would be laid off.

Measures similar to the Senate amendment were introduced in the House where some representatives favored a permanent ban on imports of Toshiba products and called for Japan and Norway to pay compensation for damage to U.S. security as a result of the sales.[1] However, the administration made it clear that it opposed any ban on Toshiba products.

Much of the furor in Congress was a result of long-standing frustration by lawmakers over previous violations of COCOM regulations by other companies, Japan's laxness in enforcing both its own export control laws and those of COCOM, and the fact that Japan had stalled for months after being warned by the United States about the violations before disclosing the sales. In response to the strong reaction in the United States, on July 31, the Japanese cabinet approved measures to tighten the country's 1980 Foreign Exchange and Foreign Trade Control Law. The new law (enacted in September) raised the prison sentences for violators of COCOM regulations from three to five years. The law also gives the Ministry of Foreign Affairs an official role in evaluating export shipment permits. Previously, MITI was solely responsible for reviewing export permits.

[1] In early 1988, House conferees on the trade bill offered a counter proposal that contained mandatory sanctions against Toshiba Machine Co. and gave the President discretionary authority on whether to punish its parent, Toshiba Corp.

Agriculture

Japan is the largest market for U.S. agriculture exports. In 1987, U.S. agriculture exports to Japan totaled approximately $5.6 billion. Despite the high level of U.S. exports in this sector and some measures taken to open its markets, tariffs, quotas, and technical barriers continue to restrict agricultural trade with Japan in several important product categories.[2] In 1987, pressures for reform of Japan's agriculture policies increased from the United States and by interest groups within Japan such as Keidanren. As a result, Japan promised in April 1987 to put its agriculture policies, including policies on rice, on the table in the Uruguay Round to the extent that other countries do the same.

GATT 12

The GATT dispute panel investigating the so-called GATT-12 case met twice in 1987.[3] The United States claimed that Japan's import restrictions on 12 agricultural product categories were inconsistent with Japan's obligations under the GATT.[4] Japan claimed that its import curbs were legal under GATT because the products in question are state-traded items. The United States rebutted this argument, saying that the restrictions constitute quotas whether or not they are state-traded and that the state-traded argument could set a dangerous precedent for other industrial sectors if allowed to stand.

On October 30, the GATT dispute panel ruled that Japan's import quotas on 10 of the 12 product categories were in violation of article XI, which prohibits quantitative restrictions on imports, and recommended that Japan's import restrictions on these products be lifted. Quotas on the other two categories of products (peanuts and dried beans) were found to be consistent with the GATT, but not large enough. Following the public release of the GATT panel's decision, there was heated debate among Japanese Government

[2] See *Operation of the Trade Agreements Program, 35th Report, 1983*, pp. 259-264.

[3] The United States initiated a proceeding against Japan under art. XXIII of the GATT on June 30, 1983, claiming that import quotas on categories of agriculture products were in violation of the GATT. Consultations were held in July and September 1983. However, on June 29, 1984, the United States announced it was dropping the GATT case for two years in exchange for the elimination of quotas and the lowering of tariffs on certain other agriculture products. Bilateral discussions were resumed in 1986, but failed to produce meaningful results. In July 1986, the U.S. Government announced it was reinvoking GATT dispute settlement procedures.

[4] See ch. 2 for information on the 12 product categories.

agencies and agricultural interest groups on how to respond to the report's recommendations. On December 3, at a full meeting of the GATT, Japan announced that it refused to accept the panel's recommendations in full, saying it would lift import restrictions on only 8 out of the 10 agriculture product categories. Restrictions on starch and powdered and condensed milk would not be removed. Japan's refusal to accept the panel's recommendation forced the GATT to postpone consideration of the report until its next meeting in February 1988. In the meantime, it was expected that the decision would strengthen the U.S. negotiating hand in favor of reforming Japan's policies towards other agricultural products such as beef, citrus, and rice.

Beef and citrus

Over the past 10 years, the United States has urged Japan to lift its import quotas on beef and citrus. Following prolonged negotiations in 1984, Japan agreed to expand its quotas for beef, fresh oranges, and orange juice over the 4-year period ending in March 1988. In addition, Japan agreed to modify its beef import system to allow Japanese end users to negotiate product specifications and prices with foreign suppliers. Despite these modifications, Japan's Livestock Industry Promotion Council (LIPC) and the Ministry of Agriculture, Forestry and Fisheries (MAFF) retained broad controls over pricing and distribution of imported beef.

On August 13, 1987, the MAFF announced that it would raise Japan's beef import quota by 37,000 metric tons to 214,000 metric tons for FY 1987–88.[1] Although this was a larger annual increase than the 1984 negotiated increase in the quota, beef prices for Japanese consumers were still expected to remain high, at five to six times the price paid by U.S. consumers.

With the March 1988 expiration date for the 4-year agreement approaching, the two countries appeared to be far apart in their positions. Japanese officials claimed that they could only expand their quotas, but not eliminate them. The United States, armed with the GATT-12 decision, was insisting that Japan eliminate the quotas. Some U.S. officials predicted that the United States would ask for an investigation by the GATT if an agreement were not reached before the March 31, 1988, deadline.

Fishery products

On March 20, 1987, the United States and Japan settled a dispute over Japanese restrictions on imports of processed pollack and herring. The United States had requested bilateral consultations under GATT article XXIII:1 in August 1986, maintaining that Japanese quotas on these two categories of fish products and other categories violated GATT provisions. Following numerous discussions between the two countries, Japan agreed to ensure that its quota on processed pollack would not restrict U.S. exports, and to enlarge its quota for herring. The accord is expected to increase U.S. fish exports to Japan by $300 to $400 million over the next 5 years. Based on this understanding, the United States decided to suspend temporarily its GATT case.

Kansai International Airport

During 1987, the U.S. Government continued to urge Japan to allow foreign firms fair opportunities to supply equipment and services for the Kansai International Airport project and other construction projects expected to total $60 billion over the next 10 years.[2] The year started out on a somewhat hopeful note when Bechtel Civil Corp., Delnorte Technology, Inc., and Rexnord Inc. were each awarded contracts to supply services to the project. However, the combined total of these contracts and others to date represents less than 1 percent of the total value of the project. U.S. officials remained concerned about the Japanese "designated bidding" system, which gives only selected suppliers access to design specifications and allows them to submit bids. A major problem with the designated bidding system from the U.S. viewpoint is that Japanese firms that are privy to project specifications in advance of the bidder selection can line up subcontractors and equipment suppliers in order to present more responsive bids.

During bilateral negotiations in 1987, the United States sought to obtain better information on expected procurements for the project, and to ensure that the procedures used to award bids were fair and open to foreign firms. At yearend, despite several apparent concessions, U.S. officials were still concerned about the amount of discretion Japanese procurement officials could exercise in awarding contracts.

Throughout the year, bilateral discussions on Kansai were undertaken against a backdrop of mounting pressures from Congress to take retaliatory action and the possibility of a recommendation for a self-initiated trade complaint under section 301 by the Economic Policy Council. On December 3, the House of Representatives approved an amendment to the omnibus appropriation bill that would prohibit Japanese firms from providing goods and services for federally funded construction projects during FY 1988. In the Senate, Senator Frank Murkowski (R-Alaska) succeeded in attaching amendments to six authorization bills that would require reciprocity

[1] Under the 1984 bilateral understanding on beef and citrus, Japan agreed to expand its imports of fresh oranges by 11,000 tons per year during 1984–87. The quota on orange juice was raised by 500 tons per year through 1987.

[2] See *Operation of the Trade Agreements Program, 38th Report, 1986*, pp. 4–27 and 4–28.

in participation on public works projects. The Murkowski amendment prohibits foreign construction firms from participating in federally funded public works projects if their governments do not grant reciprocal access. A compromise amendment was eventually added to the continuing resolution by both Houses on December 21, 1987, which bars Japan from participating in federally funded construction projects of over $500,000 during FY 1988.[1]

Supercomputers

For the past several years, the United States has expressed serious concerns about the lack of penetration by U.S. supercomputer firms in Japan's public sector market, the second largest in the world. Although U.S. producers account for over 85 percent of the world market, they have succeeded in selling only six machines in Japan out of a total of forty-five. U.S. producers such as Cray Research, Inc., ETA Systems (a unit of Control Data) and IBM have been competitive in the private sector, but the public sector has been dominated by such Japanese firms as NEC, Fujitsu, and Hitachi. The major reason cited in a U.S. Government report for the lack of public sector sales by U.S. firms was a nontransparent and arbitrary procurement process, including an informally sanctioned "Buy Japan" preference by public sector procurement officials. In 1987, some progress was made in ensuring that U.S. firms have fair opportunities to compete in the Japanese public market for supercomputers.

In June, the United States and Japan reached a tentative agreement providing for more open procurement procedures by Japanese public agencies. On August 7, the two countries exchanged letters formalizing the agreement under which Japan will simplify its bidding and procurement procedures. Japan agreed to an early implementation of open bid and tender procedures of the amended GATT Government Procurement Code and to use those procedures for all entities both public and quasi-public that procure supercomputers.[2] Japan submitted a list of 92 "covered entities" and an additional list of quasi-governmental agencies which will implement the Code's procedures for rentals, leases, and purchases of supercomputers. Japan also agreed to adopt more transparent procedures during the initial prebid period. Under these procedures, prospective domestic and foreign bidders are given 60 days after public announcement of a plan to submit their proposal, during which time the participating agency holds explanatory sessions for the bidders. Following a "market research" period, the public sector entity has a minimum of 80 days to develop exact hardware specifications. Bidders then have 40 days to prepare a final bid. Public agencies can procure supercomputers through either competitive bid or sole-source tendering; however, there are certain restrictions that must be met in carrying out sole-source bids. The agreement also provides for a formal mechanism to handle complaints and for an annual review of these new procedures.

Another concern of U.S. officials and producers—discounted pricing practices by Japanese supercomputer companies—was not resolved in the August agreement, but both sides agreed to hold further discussions on the issue. Japanese suppliers have reportedly been offering their supercomputers at 70 to 80 percent below list price to several U.S. and Japanese universities. Such price discounting is allegedly disguised through "buy back" deals or arranging software development by the recipient universities.

Telecommunications

International telecommunication services

The controversy over foreign access to Japan's market for international phone service heated up during 1987.[3] The main issues at stake were whether the Government of Japan would permit up to one-third foreign ownership in a consortium formed to provide international telecommunications services and whether the consortium would be permitted to lay its own cable rather than to lease from Kokusai Denshin Denwa (KDD). In March 1987, formal talks were held between the two consortia vying for a license to compete with KDD. At that meeting the mediator, apparently representing the Japanese Government's viewpoint, proposed to merge the two consortia and to limit the share of any one foreign company to 3 percent.

The proposal set off a firestorm of protests in the United States and Great Britain whose administrations argued that the proposal was contrary to the spirit of the 1985 MOSS talks agreement and subsequent Japanese deregulation laws that allowed for up to one-third foreign participation in international telecommunications ventures. A flurry of letters from high-level U.S. and British officials including President Reagan and Prime Minister Margaret Thatcher followed. Both leaders urged Prime Minister Nakasone to uphold his 1985 promise to liberalize Japan's telecommunications market and allow foreign participation.

At about the same time, on March 19, the Senate passed a resolution calling for the President to take actions to ensure that Japan's commitments under the MOSS talks were fulfilled.

[1] Both the House and Senate versions of the trade bill contained language requesting a sec. 302 investigation of Japanese bidding practices.

[2] All Government Procurement Code signatories are scheduled to implement the amended Code in January 1988, however, Japan agreed to adopt the new procurement procedures for supercomputers effective Aug. 1, 1987. See ch. 2 discussion on Government Procurement Code.

[3] See *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-28.

An amendment by Senator Danforth to the omnibus trade bill calling for retaliation against countries denying U.S. telecommunications firms reciprocal access to their markets passed the Senate Finance Committee on May 7, 1987. By the end of 1987, MPT had approved applications from both consortia to provide services, but had not decided whether it would permit construction of a cable.

Mobile telephones

Trade frictions over U.S. access to the Japanese mobile telephone market (car phones) flared up briefly and then died down during the first few months of 1987.[1] In early 1987, MPT awarded the highly lucrative Tokyo to Nagoya market for mobile phones to Teleway Japan Corp., which plans to utilize the Nippon Telegraph and Telephone (NTT) system. Daini-Denden Inc., which uses the Motorola system was allocated the services distribution region west of Kyoto. The United States immediately protested the decision, noting that the area awarded to Teleway Japan composed about 50 percent of the country's mobile phone market. High-level U.S. officials raised the issue with the Japanese in a letter, during MOSS talks in March, and during discussions with Prime Minister Nakasone on March 6. In addition, meetings between Daini-Denden and Motorola were held. In late April, MPT announced that it would assign additional districts to Daini-Denden (Hokkaido and Tokoku). Although the new area was still smaller than Teleway Japan's district, Motorola generally accepted MPT's decision and began working with Daini-Denden to service the assigned area.

Automobiles and Parts

Voluntary restraint agreement

In late 1987, divided views emerged as to whether the voluntary export restraints on Japanese auto exports to the United States should be extended beyond their scheduled expiration date of March 31, 1988. Proponents of eliminating the restraints claimed that economic conditions had changed since 1981 when the restraints were first enacted and that the restrictions were no longer warranted. Japanese auto exports dropped 10.2 percent from 1986, to 3.09 million units in 1987. The decline in export volume was due to the appreciation of the yen, which forced Japanese auto manufacturers to raise the prices on their vehicles, making them less competitive in the United States. (The value of Japanese auto exports actually rose from $23.6 billion in 1986 to $24.0 billion in 1987.) As a result, some MITI officials and Japanese auto industry officials argued that 1988 would be a good year to discontinue the quotas since it was unlikely that the 2.3 million unit ceiling would be reached. Sluggish car sales, increasing supplies of autos from Japanese "transplant" operations, stiffer competition from low-priced competitors such as Korea, and increasing use of sales incentives by U.S. automakers helped buttress this argument. On the other hand, the United Auto Workers argued that Japan should reduce its export level to offset the high Japanese content of autos assembled in the United States and to protect U.S. workers' jobs. However, rising protectionist sentiment in Congress and the threat of trade legislation probably had the greatest impact on the decision. On January 29, 1988, MITI announced it would extend the restraints for the eighth year through March 31, 1989, at the level of 2.3 million units. The extension was expected to have little effect on consumers because the Japanese have already shifted into the higher priced, mid-sized and full-sized lines. In the low-priced segment of the market, consumers have turned to less expensive imports from Korea and Yugoslavia.

Auto parts

The first phase of the MOSS talks on transportation machinery concluded on August 18, 1987, after a year of meetings between Japan and the United States. The primary negotiating objectives for the United States were to gain full access for U.S. auto parts firms to the original equipment (OEM) and aftermarket (replacement parts) for Japanese vehicles worldwide and to establish long-term purchasing relationships with Japanese vehicle companies.[2]

The talks that began on August 26, 1986, included three plenary sessions and seven working level meetings. During 1987, the working level discussions centered on devising a data collection system for monitoring purchases of U.S.-made parts by Japanese firms. This was a key objective for the U.S. industry in order to be able to evaluate the success of any agreement. In addition, it was felt that publication of such data might encourage Japanese makers to increase their purchases of U.S. parts. At the sixth working group meeting held in late June, the Japanese Automobile Manufacturers Association (JAMA) proposed a voluntary data collection system to be carried out by the private sector with the encouragement of the Government of Japan. Although the United States was generally prepared to accept the proposal, details concerning Japanese plans for long-term purchasing arrangements had yet to be worked out at a final meeting scheduled for mid-August.

On August 18, the MOSS talks concluded in Tokyo with the two countries agreeing that JAMA would collect and make available the following data: (1) the total value of U.S. manufactured parts purchased by Japanese vehicle manufacturers and their U.S. entities, to be compiled annu-

[1] See *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 429

[2] Ibid., p. 4-23.

ally for Japanese fiscal years (JFY) 1985 and 1986 (Apr. 1 through Mar. 31) and semiannually for JFY 1987–91; (2) the total number of business contracts between U.S. suppliers and Japanese vehicle manufacturers in the United States and Japan, and the names of those suppliers that can be made public, to be made available at the beginning of each JFY through 1991; and (3) the total number of U.S. prototype samples ordered by Japanese vehicle manufacturers from U.S. parts suppliers for import into Japan for the 12-month period from August 1986 through July 1987. Although the U.S. industry was generally satisfied with the establishment of the monitoring system, there was some concern that the semiannual data reporting (rather than quarterly reporting) would allow JAMA to combine purchases from "transplants" in the United States with other purchases, thereby inflating the volume of parts actually exported by U.S. manufacturers.

The two countries agreed that a technical expert's group established during the MOSS talks will continue to meet on an ad hoc basis. In addition, high-level meetings will be held to evaluate the progress of U.S. auto parts suppliers in achieving an increase in sales and long-term relationships with Japanese vehicle manufacturers, as well as to resolve any future problems that might arise.

Somewhat ironically, as the MOSS talks were concluding, U.S. exports of auto parts reached a historical high level of $262 million in 1987 compared with $225 million in 1986. The primary reasons for the increase in U.S. exports were the weakened dollar, which made U.S. auto parts cheaper overseas, and improvements in the quality and service of U.S. products. Approximately 23 U.S. auto parts companies had offices in Japan at the end of 1987 and 13 others had formed joint ventures with Japanese companies in hopes of making inroads in the Japanese market. Meanwhile, Japanese parts makers continued to relocate near the seven U.S.-based Japanese automakers.[1] According to USITC estimates, in 1987, approximately 26,000 (out of 721,000 total employees) were employed by wholly owned Japanese automotive parts makers in the United States.[2]

Legal Services

The Japanese legal system has been closed to foreign lawyers since 1955. After years of fruitless talks between the American Bar Association and the Japanese Federation of Bar Associations, the United States formally opened negotiations with the Japanese in 1982. In 1986, the Japanese Diet approved legislation permitting U.S. lawyers to carry out some activities. However, U.S. officials feared that implementation of the law would be overly restrictive. In February 1987, the two countries signed a bilateral agreement that outlined qualification and registration procedures, prior experience requirements and scope of practice rules. On April 1, Japan's Ministry of Justice began accepting applications from foreign lawyers wishing to practice. Although the February accord went a long way towards giving U.S. lawyers an opportunity to provide services, the United States continued to consult with Japan on removing certain remaining restrictions which limit the scope of their activities.

MEXICO

The Economic Situation in 1987

As recently as September 1987, Mexico showed signs of emerging from its economic crisis.[3] Heartening developments at the time included a $10-billion jump in foreign-exchange reserves during the previous 12 months; the strengthening of the world petroleum market on which Mexico heavily depends; a strong performance of Mexican non-oil exports; and the return of domestic capital that previously fled the country. New credit that Mexico received as part of a debt renegotiation accord signed in April also boosted the economy.[4] The peso, which was significantly undervalued at the beginning of the year, has slowly appreciated against the dollar. The Mexican stock market enjoyed a boom that made it the fastest rising major exchange in the world.

However, developments in the last quarter of the year revived concerns about the economy. The world oil market showed new signs of weakness. The Mexican stock boom ended on October 6 when stock prices began to fall. As a result of continued declines in prices that coincided with the plunge of markets around the world, and a day of panic selling on November 16, Mexican shares lost on the average about three quarters of their value.

Plummeting stock prices triggered renewed capital flight from Mexico, moving the Government to halt the outflow by withholding dollars from exchange markets. This contributed in mid-November to lowering the free exchange rate of the peso to 2,500 to the U.S. dollar.[5]

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[1] Honda, Nissan, New United Motor Manufacturing, and Mazda are already producing vehicles in the United States and Toyota, Mitsubishi/Chrysler and Fuji/Isuzu are scheduled to open new facilities by 1989.

[2] *U.S. Global Competitiveness: The U.S. Automotive Parts Industry,* USITC Publication 2037, December 1987.

[3] For details on Mexican economic problems in recent years, see the previous reports in this series, particularly those covering the years 1982 through 1986.

[4] The credit agreement signed in April 1987 was reached in September 1986, subject to ratification by commercial banks. The debt rollover (a package endorsed by the IMF) included $12 billion in fresh loans. See *Operation of the Trade Agreements Program 38th Report, 1986,* p. 4–31.

[5] Mexico's dual exchange rate system features a free and a controlled rate. The controlled rate, determined by the Government, is responsible for some 80 percent of all hard-currency transactions in Mexico.

The currency recovered slightly during the remainder of the year, and the free rate settled in a range of 2,200 to 2,400 pesos to the U.S. dollar. Subsequently, officials began to adjust the peso's controlled rate downward, setting it at 2,200 to the dollar in mid-December. This amounted to a 22-percent devaluation. The December devaluation virtually eliminated the longstanding gap between the peso's free and controlled rates.

From the beginning of 1987 until the devaluation, the Government allowed the peso to appreciate slowly in an effort to slow inflation by lowering the prices of imported goods. However, the plunge in the peso's value in the last quarter of the year made imports more expensive, and a sharp increase in interest rates between the stock market crash and the end of November precipitated retail price increases at a time when inflation was already running at a record annual rate. The annual rate of inflation in 1987 was 159.2 percent, by far the highest in Mexico's history. (In 1986, Mexico had registered a rate of inflation at 105.7 percent, which was the record at that time.) The standard of living continued to fall. By mid-December the minimum daily wage in Mexico city-5,626 pesos, or just under $2.50—was worth only 50 percent of its 1981 equivalent.[1] At the end of 1987, Mexico owed close to $106 billion to foreign banks and institutions; its debt-servicing burden was expected to total $13.8 billion, up from $12 billion in 1986. The Government cushioned the cheaper peso's inflationary effect by proceeding steadfastly with its import liberalization program promised to the GATT in 1986.[2]

The Government took a variety of measures to fight inflation. A sweeping austerity program was instituted in mid-December which included major spending cuts and tax hikes. The program was also triggered by projections that the 1987 public sector deficit would rise to a record 18 percent or more of the Mexican GDP. With tax increases, budget cuts, and further privatization of state enterprises (such as steel mills and sugar refineries), officials hoped to reduce the deficit to 10 percent of the GDP in 1988.

However, even though its declared objective was to fight inflation, the austerity package also contained sharp price increases. For most goods and services provided by state-owned companies and institutions, such as cane sugar, fertilizers, gasoline, rail and airfares, telephone, and electricity, prices were raised by 75 to 80 percent. Responding to concerns of labor representatives that these price hikes will trigger a new round of steep inflation, Mexican officials also agreed to raise wages for organized workers, and to institute additional measures favoring workers beginning March 1, 1988.[3]

Mexico's December economic measures are formally known as "The Pact of Economic Solidarity," indicating that they represent a compromise between the four main sectors of the economy: government, business, labor, and farmers. The program was made possible by each of these sectors lowering their demands and sharing the burden of new austerity imposed on them. Acknowledging that initial price increases have made the plan unpopular, Mexican officials promised faster growth and lower inflation for the second half of 1988.

On the positive side, Mexican economic growth of 1.4 percent in 1987 compares favorably with the 3.5-percent contraction the economy experienced in 1986. In addition, Mexico ended the year with strong foreign-exchange reserves, amounting to some $14 billion. The best aspect of Mexico's economic picture was its trade performance. In 1987, Mexico registered a $8.5 billion trade surplus, an increase of 83 percent over that in 1986. Exports generated $20.7 billion in revenues, up 28 percent from those in 1986. Imports edged up 7 percent to $12.2 billion.[4] Manufactured goods accounted for almost two-thirds of the export growth, reflecting the policy of the de la Madrid administration to promote nonpetroleum exports.

Merchandise Trade With the United States

In 1987, U.S. trade with Mexico rebounded from its comparatively low level of 1986. Unlike 1986, when both U.S. exports and U.S. imports were down compared those in with the previous year, trade in 1987 expanded in both directions. Mexico maintained its place as the third largest single-country market for U.S. exports and as the fifth single-country source of U.S. imports. For Mexico, the United States remains both its biggest foreign supplier and its principal foreign market.

The United States had a negative merchandise trade balance with Mexico in 1987 for the sixth consecutive year. The balance shifted from a consistent pattern of annual U.S. surpluses to a U.S. deficit for the first time in 1982. This was the year when Mexico's debt crisis became apparent. The crisis triggered a recessionary environment in Mexico and the imposition of rigorous trade controls, designed to generate sizable trade surpluses.

[1] "Running out of options," *South*, February 1988.

[2] See section below on "Major Policy Developments Affecting Trade."

[3] In March 1988, the Government followed up with the second stage of the program it started in December. The March measures, heralded as an anti-inflation drive, included a temporary freeze of the controlled peso, and of prices of public sector goods and services, such as gasoline, airfares, electricity, and refined sugar.

[4] According to trade data released by Mexico's central bank and its Treasury and Finance departments.

In 1987, the U.S. merchandise trade deficit with Mexico amounted to $5.7 billion. This was slightly larger than that in 1986, but well below deficits in the early 1980's. The United States had a trade deficit in most major SITC product categories. Mineral oils and fuels accounted for 58 percent of the U.S. deficit; trade in food and live animals was the second major contributor to the U.S. deficit. Trade in machinery and transportation equipment—the leading category of bilateral trade in both directions—also resulted in a deficit for the U.S. side.

In 1987, U.S. exports to Mexico amounted to $14 billion, up 17.8 percent (table 4-6). Exports in virtually all major SITC commodity sections expanded in response to easier access to the Mexican market.

As in prior years, machinery and transportation equipment dominated this trade flow, accounting in 1987 for one-half of the total. Automotive products, electrical equipment, office machines, and telecommunications products continued to be the leading goods in this category, with larger 1987 exports than in most of 1986. (See table B-11.) Chassis and auto parts continued to top the list of leading U.S. exports to Mexico.

Sales of machinery were sustained in part by Mexico's booming maquiladora industry, which imports equipment and components for reexport after assembly.[1] The maquiladora, ranking as Mexico's second largest industry after oil and related production, continued to thrive in 1987.

The persistent low, world prices for major agricultural commodities and austerity measures that included curtailing consumer subsidies depressed the value of U.S. agricultural exports to Mexico. Nonetheless, the value of exports of corn and soybeans were up compared with those in 1986, owing to smaller crops in Mexico.

As shown in table 4-6, 1987 U.S. imports from Mexico amounted to a record $19.8 billion, up 14.9 percent from their low of $17.2 billion in 1986. The composition of this trade flow, which had been dominated for years by petroleum, continued to shift strongly in favor of manufactured imports. Imports increased in all major manufactured product categories. Mineral fuels accounted

[1] 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.

Table 4-6
U.S. merchandise trade with Mexico, by SITC No. (Revision 2), 1985-87

(In thousands of dollars)

SITC section No.	*Description*	*1985*	*1986*	*1987*
			U.S. exports[1]	
0	Food and live animals	912,874	593,432	665,730
1	Beverages and tobacco	1,774	1,938	4,528
2	Crude materials, inedible, not fuel	1,139,990	802,836	1,034,763
3	Mineral fuels, lubricants, etc.	573,018	405,634	512,660
4	Oils and fats, animal and vegetable	112,257	136,947	96,985
5	Chemicals	1,411,545	1,270,965	1,433,683
6	Manufactured goods classified by chief material	1,362,956	1,272,206	1,591,544
7	Machinery and transportation equipment	6,284,254	6,140,994	6,969,596
8	Miscellaneous manufactured articles	852,204	919,168	1,173,252
9	Commodities and transactions not elsewhere classified	433,380	380,731	562,436
	Total	13,084,252	11,924,851	14,045,175
			U.S. imports[2]	
0	Food and live animals	1,587,982	2,190,689	2,055,421
1	Beverages and tobacco	151,121	182,696	276,549
2	Crude materials, inedible, not fuel	470,744	676,787	358,912
3	Mineral fuels, lubricants, etc.	7,820,772	3,696,280	3,789,667
4	Oils and fats, animal and vegetable	1,906	1,624	3,727
5	Chemicals	472,690	365,934	402,612
6	Manufactured goods classified by chief material	1,251,976	1,615,764	2,017,196
7	Machinery and transportation equipment	5,444,513	6,537,831	8,343,192
8	Miscellaneous manufactured articles	1,179,289	1,323,742	1,748,284
9	Commodities and transactions not elsewhere classified	557,252	605,015	770,229
	Total	18,938,246	17,196,360	19,765,789

[1] Domestic exports, f.a.s.
[2] Imports for consumption, customs value.
Note.—Trade does not include special category exports.
Source: Compiled from official statistics of the U.S. Department of Commerce.

for 19.2 percent of overall U.S. imports from Mexico in 1987, compared with more than half of the total import volume in 1982. Despite its diminishing importance, crude oil continued to be the leading item on the list of specific products Mexico ships to the United States (see table B-12). Mexico remained in 1987 the third major U.S. supplier of crude oil after Canada and Venezuela. U.S. mineral fuel imports from Mexico, amounting to $3.8 million in 1987, remained at the significantly lower level to which they dropped in 1986. (A steep decline in the world market price of crude oil in 1986 was the cause of falling mineral fuels' imports.) Despite the drop in the volume of shipments, the stabilization of oil prices for most of the year raised slightly the value of Mexican crude oil reaching the United States.

U.S. imports of Mexican machinery and transportation equipment continued to surge in 1987. Imports amounted to $8.3 billion, up 28 percent from those 1986. As on the U.S. export side, automotive products and telecommunications equipment were the leading goods in this group. These items also topped the import list from Mexico for all products, except petroleum.

Automobile companies, forced by a 1983 decree to maintain a positive trade balance, have accounted for the biggest share of Mexico's manufactured goods export surge. The Mexican automobile industry consists to a large degree of U.S. or other foreign subsidiaries, including the big three U.S. automakers plus Volkswagen and Nissan.

A large part of machinery and transportation equipment imports, especially of telecommunications equipment and office machinery, enter the United States under TSUS item 807.00 after assembly or further processing in Mexico. The United States levies duties only on the value added in Mexico. Mexico is a leading supplier under TSUS items 806.30 and 807.00, accounting for 54 percent of nondutiable imports under these tariff items, followed by Canada as a distant second (14 percent) and by the Caribbean nations as third (10 percent.)[1]

Table 4-7 shows imports from Mexico under TSUS items 806.30 and 807.00 in 1985-87. Articles entering under TSUS item 807.00 continued to rise as a share of overall U.S. imports from Mexico, accounting for 29.2 percent in 1985, 38.3 percent in 1986, and 43.5 percent in 1987. Goods entering under TSUS item 806.30, while still relatively insignificant, also increased in the year under review.

The effective duty reduction available under TSUS items 806.30 and 807.00 induced the establishment of the maquiladora program in 1965 to foster job creation in Mexican territory that borders the United States. The program was later extended to cover Mexico's interior. Maquilas[2] (most of them subsidiaries of U.S. corporations) are the principal source of U.S. imports under TSUS items 806.30 and 807.00 from Mexico. Mexican authorities allow maquilas to be fully foreign owned, although they generally permit only minority foreign ownership in other areas of production.[3]

[1] 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. In general, duties are not assessed on the value of the U.S. components or materials.

[2] The term "maquila" is generally associated with the labor-intensive subsidiary of a foreign company that receives from its parent, duty-free and in bond, its machinery, equipment, and raw materials needed for processing or assembling components manufactured outside Mexico.

[3] See also *The Use and Economic Impact of TSUS Items 806.30 and 807, report to the Subcommittee on Ways and Means under Section 332(b) of the Tariff Act of 1930,* USITC Publication 2053, January 1988.

Table 4-7
U.S. imports from Mexico entered under TSUS items 806.30 and 807.00, 1985-87

	1985		*1986*		*1987*	
Item	*Value*	*Percent of total*	*Value*	*Percent of total*	*Value*	*Percent of total*
	Million dollars		*Million dollars*		*Million dollars*	
Total U.S. imports . . .	18,938	100.0	17,196	100.0	19,766	100.0
TSUS item 806.30 . . .	39	.2	74	.4	123	.6
TSUS item 807.00 . . .	5,524	29.2	6,592	38.3	8,602	43.5
Imports under items 806.30 and 807.00 .	5,563	29.4	6,666	38.8	8,725	44.1

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

In addition to machinery, maquilas supply a major part of textiles and apparel and other miscellaneous manufactures imported from Mexico, the imports of which increased rapidly during the year. Bilateral trade in textiles and apparel was the subject of a recent long-term agreement between Mexico and the United States.[1]

U.S. imports of food from Mexico were down in 1987 compared with their comparatively high value in 1986, but remained above the levels of previous years. The decline was caused principally by a sharp drop in coffee imports, attributable to falling coffee prices. Shipments of Mexican feeder cattle dropped in 1987 after they more than doubled in 1986. Concern that Mexican cattle might bring in diseases prompted the U.S. Department of Agriculture in the spring of 1987 to require stricter screening. The Mexican Government restricted cattle exports by stopping shipments for a few weeks in early 1987 under pressure from consumer groups that feared domestic price increases. U.S. imports of Mexican tomatoes were down but some other major food products were up sharply in 1987, such as shellfish, ale, and certain vegetables. Imports into the United States of certain Mexican construction materials market, such as gypsum and hydraulic cement, also surged in 1987.

As a developing country, Mexico is also a beneficiary of the Generalized System Preferences (GSP) program of the United States. In 1987, merchandise valued at $1.7 billion, or 8.7 percent of overall U.S. imports from Mexico, entered free of duty under this program.[2]

Major Policy Developments Affecting Trade

In 1987, Mexico continued to implement its trade liberalization program at a brisk pace. The Government launched this program in 1985, and subsequently made a formal commitment to open its economy in a protocol of accession to the GATT, effective in August 1986.[3] Under this protocol Mexico was committed to eliminate its import restrictions "to the fullest extent possible" within 6 months of accession.

For Mexico, dismantling import controls involves, most importantly, the phasing out of its system of prior import licensing. Licensing requirements have been an effective policy tool for excluding foreign products from the Mexican market; as recently as 1983, controls covered virtually all of Mexico's imports. In separate actions taken in February, May, July, and December 1987, the Government lifted prior import licensing requirements, leaving only 475 items subject to licensing. The major product categories still on the list are organic chemicals, machinery and mechanical appliances, electronic machinery and equipment, nonrailway vehicles, arms and ammunition, and computers, peripherals, and programmable equipment. The Government stated that it will further reduce the list by October 1989.

Also in accordance with its GATT commitments, Mexico eliminated "official prices" for customs valuation purposes, effective January 1, 1988. These prices had been assigned arbitrarily to imported articles (at higher then their market value) to protect domestic producers from foreign price competition.[4]

Moreover, in 1987, the Government pursued its phased reduction of tariffs ahead of the schedule specified in Mexico's GATT accession agreement. Officials said they accelerated the process in order to lower the costs of imported raw materials and components for Mexican manufacturers, and to stimulate the production of these inputs through increased price competition. The importance of tariffs as a trade policy tool increases as Mexico reduces the number of goods subject to import licensing requirements.

The latest round of 1987 tariff reductions took place on December 14, when officials halved Mexico's highest tariff rates from 40 percent to 20 percent as one of several important economic measures instituted in December. These also included export-stimulating provisions, such as the devaluation of the peso's controlled rate.[5] Although taking place in the context of an overall import liberalization scheme, the particular goal of the December tariff reduction was to offset the latest devaluation's price-boosting effect on certain much-needed imports. As a result of several rounds of tariff reductions, by yearend, Mexico's median import duty stood at an estimated 19 percent, less than half the median rate that existed when the de la Madrid administration took office in 1982.

On July 24, 1987, Mexico signed four of the main Tokyo Round nontariff agreements: (1) customs valuation (with the developing country reservation); (2) technical barriers to trade (standards); (3) antidumping; and (4) import licensing. Mexican authorities consider that existing legislation in these areas is already largely in conformity with the requirements of these codes.

During the year under review, Mexican officials often came under fire from private suppliers of the local market for their zeal in liberalizing trade. Domestic producers claimed that the rapid

[1] See "U.S.-Mexican Bilateral Trade Issues" later in this section.

[2] Mexico's GSP share of all its imports is the smallest among all beneficiaries of the U.S. GSP program because petroleum, which dominates its exports, is not GSP-eligible.

[3] See *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 183.

[4] See *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-35.

[5] See "The Economic Situation in 1987" earlier in this section.

opening of the Mexican market to foreign goods will deny them the opportunity of modernization.

United States-Mexico Bilateral Trade Issues

Overview

For many years, Mexico resisted closer economic ties with the United States on the grounds that, as a developing country, it could not afford to open its economy to U.S. goods and investment. However, bilateral relations improved significantly with Mexico's accession to the GATT in 1986—an act in which the United States played a major role. In November 1987, the two countries made another major step to improve commercial cooperation by concluding a broad "framework" agreement on principles and procedures of bilateral trade. Before the framework agreement created a consultative mechanism, the United States and Mexico discussed their differences in informal bilateral exchanges.

In 1987, the U.S. Government reiterated its earlier objections to the inadequacy of intellectual property rights protection (especially in the area of pharmacological and chemical products and processes), Government controls of foreign technology, and restrictive investment policies in Mexico.

In January 1987, a 2-year general review of the GSP program of the United States determined that beginning July 1, 1988, Mexico (among other advanced developing countries) will lose benefits for particular products under this program. Determinations based on this review took into consideration the beneficiaries' trade policies, among other factors.[1]

Mexico's massive foreign debt burden continued to be a major issue in bilateral discussions during the year. The United States is both Mexico's chief creditor and largest foreign investor; U.S. banks and agencies hold some 30 percent of Mexico's outstanding foreign debt of $106 billion, and account for over 60 percent of Mexico's foreign investment.[2]

Foreign Debt and Foreign Investment

Debt for equity

In November 1987, Mexico suspended its "debt-for-equity" arrangement that had been in operation for 2 years. Mexico has one of the world's largest programs under which foreign companies can apply debt instruments to develop plants in a debtor country. The plan allowed foreign companies to buy a certain amount of Mexico's foreign debt at a discount rate from a creditor bank. The company then could arrange with Mexico for debt payment in local currency that was then used for investment in Mexico. Mexican officials suspended this program in November, reportedly because its 1987 quota of $3.8 billion had already been met.[3] Another apparent cause of suspension was the Bank of Mexico's concern that "debt-for-equity" transactions intensified inflationary pressures.

Potential U.S. investors and actual U.S. debt-holders are interested in the continuation of this program, which is expected to resume in 1988. Participating U.S. companies include the Ford Motor Co., Chrysler Corp., and American Express.

Mexican officials have implemented the "debt-for-equity" scheme in accordance with Mexico's foreign investment laws that reserve certain economic activities to the public sector, leave others to private Mexican nationals, and generally limit foreign ownership to 49 percent. Exceptions to this rule must be approved by Mexico's CNIE.

Mexico's barriers to foreign investment have long been a contentious issue between the United States and Mexico. For years, U.S. officials urged Mexico to modify its foreign investment laws and regulations. Treatment of foreign investment in Mexico is based on three laws with their respective resolutions: the 1983 Law to Regulate Foreign Investment, the 1973 Technology Transfer Law, and the 1976 Law on Inventions and Trademarks.

The Mexican administration insists that there is no need to change these statutes since they are applied in a flexible manner. Indeed, in recent years Mexican officials have increasingly welcomed foreign capital as a way to alleviate some of the country's serious economic problems. 8[1] (According to an early 1988 CNIE report, foreign investment in Mexico was up nearly 57 percent in 1987.) However, in most cases, foreign investment in Mexico remained subject to specific conditions such as export performance, location, local content, and R&D requirements. These restrictions have been identified as an issue that must be taken up without delay through the consultative mechanism of the U.S.-Mexican framework accord.

U.S. collateral for Mexican bonds

On December 29, the Governments of the United States and Mexico announced a new financing scheme to reduce Mexico's commercial

[1] See "The Generalized System of Preferences" in ch. 5 of this report.

[2] According to an early 1988 report issued by Mexico's National Foreign Investment Commission (CNIE), the United States accounts for $13.4 billion, or 64.3 percent, of all foreign capital directly invested in Mexico.

[3] The quota for 1986 was $2.4 billion.

[4] For more detail on foreign investment in Mexico, see *Operation of the Trade Agreements Program, 36th Report, 1984*, pp.159-60, *37th Report, 1985*, p.185, and *38th Report*, p.4-36.

debt burden. The scheme is the product of cooperative effort between the U.S. Government, leading U.S. banks, and the Mexican Government. It provides for the U.S. Treasury to sell nonmarketable 20-year zero coupon (non-interest-paying) bonds worth $10 billion with the purpose of backing newly issued Mexican securities. The plan envisages that foreign banks would exchange some of their medium-term Mexican debt at a discount for the new Mexican securities. Mexico would benefit by being able to buy back some of its commercial debt at a discount, and the banks would benefit by trading in their Mexican debt of questionable value for higher quality securities that are backed by the United States.

The new plan, hailed as a novel concept towards alleviating the debt problem, was made possible by Mexico's comparatively strong hard-currency reserve position, and its demonstrated responsible attitude as a debtor[1] Unlike Brazil, and several other Latin American debtor countries, Mexico has met all its interest commitments during the past five years.

The U.S.-Mexican Framework Agreement

On November 6, 1987, the United States and Mexico concluded a bilateral "understanding" that is considered a landmark in improving economic relations between the two countries. Negotiations on this accord began in September 1985.[2] Much less ambitious than the U.S. pact with Canada signed a month earlier, the agreement with Mexico establishes what it terms "...a Framework of Principles and Procedures for Consultations Regarding Trade and Investment Relations." Prior to this agreement there was no formal bilateral mechanism to govern commercial relations between the two countries.

The accord provides for consultations upon formal request by either Government on any matter concerning bilateral trade and investment relations. The accord commits the two nations to start substantive negotiations in 90 days on seven traditionally contentious subjects: textile products, agricultural products, steel products, investment matters, matters involving technology transfer and intellectual property, electronic products, and service industries.

The Mexican Cabinet and the U.S. Cabinet-level Economic Policy Council approved the agreement. As an executive agreement, the "framework," did not need to be sanctioned by Congress. Before the end of 1987, the newly created bilateral consultative mechanism produced substantive agreements on bilateral trade in steel, textiles, and beverages.

[1] See "The Economic Situation in 1987" earlier in this section.

[2] See the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 183 and the *38th Report*, p.4-35.

Steel

The parties reached an understanding on trade in steel on December 30, 1987. The implementation of the 5-year VRA in effect on Mexican steel exports through 1989 had been a major subject of bilateral consultations earlier in the year.[3] As part of the new understanding, the United States agreed to a one-time 12.4-percent increase of Mexico's steel quotas for 1988, accounting for 0.03 percent of U.S. steel mill supplies in 1987. Mexico agreed to limit its shipments of certain steel wire products. Steel wire products, such as steel fence panels, steel wire fabric, and welded wire mesh for concrete reinforcement, were previously not subject to U.S. restraints, but are now limited by the VRA. U.S. imports of Mexican steel wire products, amounting to 11,000 short tons in 1987, are restricted to 6,300 short tons for 1988.

In addition, Mexico lowered its highest steel tariffs from 38 to 20 percent ad valorem.[4] In another concession, Mexico agreed to eliminate "official prices" (prices imposed on imports above their market value) on steel. Starting January 1988, Mexico will use actual transaction prices in the valuation of steel imports.[5]

Textiles and apparel

The United States and Mexico signed a new 4-year bilateral textile and apparel agreement, effective January 1, 1988.[6] The agreement, negotiated under the auspices of the Multifiber Arrangement (MFA), provides for controls on Mexico's exports of cotton, wool, and manmade-fiber textiles and apparel to the United States through 1991. Mexico was the United States' sixth largest supplier of these products in 1987, accounting for almost 4 percent of total import volume, and the largest supplier of apparel under U.S. tariff item 807.00.[7] Slightly more than 80 percent of the total value of its apparel shipments, which accounted for about three-fourths of the roughly $500 million in textile and apparel imports from Mexico in 1987, entered under TSUS item 807.00 that year.

Recognizing the significance of trade under TSUS 807.00, the new agreement with Mexico, unlike the one that expired in 1987, contains a "special regime" for apparel and made-up textiles assembled there from fabrics that have been both made and cut in the United States. Under

[3] See the *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 163.

[4] See also "Major Policy Developments Affecting Trade" earlier in this section.

[5] Ibid.

[6] The agreement was signed on Feb. 13, 1988, when the Presidents of the two countries met in Mexico.

[7] Under item 807.00, imported articles assembled wholly or partly with U.S.-fabricated components are assessed duty on the total value of the articles less the value of the U.S. components (i.e., the duty is essentially assessed on the value added abroad).

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this 807 regime, a portion of each quota, ranging from as low as 50 percent to as high as 90 percent, is reserved for items assembled with U.S.-made and U.S.-cut fabric. The 17 quotas established under the special regime, covering products that accounted for at least 60 percent of the total value of textile and apparel imports from Mexico in 1987, generally are substantially greater than the corresponding quotas established under the previous agreement.

Most textiles and apparel imported from Mexico are subject to some form of limit under the new agreement. However, the pact does not contain an overall cap on total imports, as do the agreements with the major suppliers and several secondary suppliers. Consequently, products not covered by any limit, such as manmade-fiber filament yarns, (which accounted for 31 percent of the volume but only 6 percent of the value of total imports from Mexico in 1987), remain unrestrained under the new agreement. In addition, although only a few of the broadwoven fabric categories are covered by specific limits, a "group limit" exists for these fabrics, imports of which rose by 130 percent and accounted for 6 percent of total textile and apparel imports from Mexico in 1987. The agreement also permits annual quota growth of 6 percent in most product categories, compared with average annual quota growth of roughly 1 percent for Hong Kong, Taiwan, Korea, and Japan and 3.3 percent for China.

The quotas established under the new agreement with Mexico for 1988 provide for considerable growth over import levels in 1987. The quotas set on yarns and fabrics for 1988 are 60 percent greater than imports of such products in 1987. Similarly, quotas on apparel are 47 percent higher and those on miscellaneous products are 64 percent greater. However, much of the increase for apparel and miscellaneous products could benefit U.S. fabric producers since a large part of the growth is accounted for by the special regime.

In December 1987, as part of its market-opening measure, the Mexican Government announced that it would reserve 40 percent, or 240 million dollars' worth of imports for U.S. textile products.

Wine, beer, and other

The bilateral consultative mechanism created by the framework agreement can also be credited with adding beer, wine, distilled spirits, and some other beverages to the list of products for which Mexico has eliminated or significantly reduced import barriers in December 1987. Mexico has lifted its $1 million annual quota on imports of beer and its $43 million quota on wine and certain distilled spirits. These products were among those for which Mexico discontinued its prior import licensing requirements—the principal barriers to their importation into Mexico.

According to the USTR, the lifting of the Mexican wine quota, together with the substantial reduction of Mexican wine tariffs, fulfills the requirements of Title XIX of the Trade and Tariff Act of 1984 with respect to Mexico.[1] This law directed the USTR to consult with major wine trading countries—including Mexico—to seek a reduction or elimination of tariff and nontariff barriers to U.S. wine exports.

TAIWAN

The Economic Situation in 1987

Taiwan has made extraordinary economic progress in the past few years, and 1987 was no exception. However, for Taiwan's export-led economy, export performance is crucial to overall growth. The impact of rising labor costs and continued appreciation of the New Taiwan (NT) dollar against the U.S. dollar on Taiwan's export and growth performance is evident in the fourth quarter statistics for 1987. The rate of growth of Taiwan's export surplus, especially in trade with the United States, grew at a decreasing rate throughout the year and actually declined in absolute terms in the fourth quarter. Although Taiwan's real GNP growth reached 11.2 percent for the year, it slowed from the 11.8, 11.9, and 12.8 percent rates set in the first three quarters of 1987, respectively, to 8.5 percent in the fourth quarter.[2]

The fourth quarter decline was due, in part, to Taiwan's own efforts to correct its massive trade imbalances by opening its markets. Tariff cuts on over 4,800 products during the year helped make imports more competitive with local producers and increased foreign traders' share of the domestic market. Thus, as Taiwan's total trade increased 38 percent from 1986 to 1987, imports grew by 43 percent and exports grew by 34.5 percent.[3]

Despite these factors, Taiwan had a record global trade surplus of $19.03 billion, up 22 percent from that in 1986. Taiwan's $97 billion economy had the fourth highest per capita GNP (nearly $5,000) in Asia. Industrial output grew about 14 percent with the biggest gains in heavy industry. Unemployment was a low 2 percent for the year.

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[1] *USTR Press Release*, 87/54, Dec. 30, 1987.
[2] Taipei, American Institute in Taiwan, Feb. 5, 1988, 00742.
[3] Jonathan Moore, "Appreciation hits home," *Far Eastern Economic Review*, Mar. 31, 1988, p. 69. Taiwan authorities project its economy will continue to cool in 1988, with GNP growing only 7.5 percent for the year. The continued drop in exports and NT dollar appreciation are cited as the major factors contributing to the decline.

Market conditions changed rapidly in Taiwan during 1987. The 40 percent appreciation of the NT dollar since September 1985 helped push manufacturers toward higher value-added, greater capital-and technology-intensive industries. Traditional products were upgraded as well. Heavy industry now accounts for 56 percent of manufacturing production, up from 46 percent in 1976. Changes in the composition of exports over the last 2 years for Taiwan's top 10 export categories, by major industries, 1987 are shown in the following tabulation (in millions of U.S. dollars): [1]

Category	*1986/1987 USD Total*	*1987 Share (Percent)*	*1986 Share (Percent)*
Electronic Products	10,579	19.8	17.3
Garments	4,433	8.3	9.5
Footwear	3,765	7.0	7.9
Fibers, Yarns, and Fabrics	3,395	6.3	6.4
Metal Products	3,227	6.0	5.9
Toys and Sporting Goods	3,265	6.1	6.0
Plastic Goods, not Footwear	2,541	4.7	4.4
Transport Equipment	2,292	4.3	4.2
Machinery	2,374	4.4	4.0
Plywood and Furniture	2,135	4.0	4.2
All Other	15,528	29.1	30.2
Total	53,534	100.0	100.0

Electronics and electrical products made impressive gains in 1987, increasing their share of total exports 2.5 percentage points to account for almost one- fifth of manufactured exports. Metal and plastic products (excluding footwear), transport equipment (mainly parts), and machinery shares also rose. Apparel and footwear showed the largest relative losses, down 1.2 and 0.9 percent, respectively.

Currency appreciation also accelerated the tendency for manufacturers to shift low-end, labor- intensive production elsewhere, usually to other southeast Asian countries. In 1987, the NT dollar rose 24.3 percent against the U.S. dollar from NT$35.50: US$1 to NT$28.55: US$1.[2]

Despite two years of currency appreciation, Taiwan's strong export performance continued to provide the main impetus for expansion of the economy. Stable oil prices and generally lower import prices helped minimize the decline in profits for manufacturers. Some industries proved better able to adapt then others. As noted above, electronic products, machinery, transport equipment, and plastic products (excluding footwear) were least affected by changing relative currency values. Apparel and footwear were the most affected.

Consumption spending failed to keep pace with income growth as the national savings ratio—about 42 percent of income—continued high in 1987. Public spending as a share of GNP fell to 14.1 percent from 14.5 percent in 1986. Taiwan's foreign exchange reserves were over $75 billion at yearend and the growth in money supply (currency in circulation, current accounts, passbook deposits, and passbook-savings deposits) expanded by over 40 percent.[3]

Taiwan's glut of foreign exchange created an immense liquidity in the local banking system resulting in under- utilized capital. However, despite the high liquidity and high rate of money growth, prices remained essentially flat with the consumer price index rising only 0.22 percent.

According to the American Institute in Taiwan (AIT), Taiwan's natural environment has suffered tremendous damage because of policies that have pursued industrial development but ignored the social cost of pollution. The result is one of the worst environments in the world. With rising affluence has come increased public sensitivity to the problem and demands for corrective actions. The new activism resulted in local protests that have delayed or forced the cancellation of several major infrastructural projects.[4] A cabinet-level Environmental Protection Administration was established in August and is placing a high priority on enforcement and strengthening of laws protecting the environment.

Merchandise Trade with the United States

Over 80 percent of Taiwan's $19 billion global surplus in 1987 was with a single country: the United States. Taiwan's bilateral surplus

[1] Source: Taipei, American Institute in Taiwan, Feb. 5, 1988, 00742.

[2] Jonathan Moore, "Appreciation hits home," *Far Eastern Economic Review*, Mar. 31, 1988, p. 69.

[3] U.S. Department of State, "Economic Trends Report," Dec. 18, 1987, p. 4. U.S. dollars make up about 73 percent of Taiwan's total foreign exchange holdings; 16 percent are in West German marks and 9 percent are in Japanese yen. The holdings are deposited in 85 foreign banks and 15 securities brokerage houses, including some 36 U.S. institutions. Forty-two percent of the deposits are in the United States with others in West Germany, France, Japan, Switzerland, and Singapore. The U.S. Federal Reserve Bank is the largest single holder of Taiwan's reserves with over $10 billion. "ROC funds safe, sound," *The Free China Journal*, Mar. 21, 1988, p. 1.

[4] For example, anti-pollution campaigns may eliminate a proposed nuclear power plant and a naphtha cracker. In addition, residents along the planned route of Taipei's mass rapid transit system object to the project, creating difficulties in land acquisition. Half of 14 major projects (see *Operation of the Trade Agreements Program, 37th Report, 1985*, pp. 194-5, for details on the projects) sponsored by provincial authorities are behind schedule. U.S. Department of State, unclassified cable.

with the United States grew from about $15 billion in 1986 to over $17 billion in 1987 (see table 4-8). The leading imports from Taiwan to the United States were footwear, office machines, wood furniture, textiles, and electronics goods.

Only 8 percent of Taiwan's imports from worldwide sources are consumer goods, with the remaining 92 percent of imports comprising raw materials and capital goods primarily for use by the export sector.[1] Taiwan's major imports are electronics products, machinery, chemicals, iron and steel, crude petroleum, beverage and tobacco products, nonferrous metals, transportation equipment, grains (corn, soybeans, wheat, barley), electrical apparatus and appliances. The leading exports from the United States to Taiwan in 1987 were gold or silver bullion ($564 million), electronics components ($489 million), soybeans ($380 million), corn ($251 million), coal and other fuels ($192 million), parts of machinery ($191 million), whole cattle hides ($172 million), and cotton ($135 million). The leading items imported from Taiwan into the United States in 1987 were footwear ($1.3 billion), office machines ($709 million), machinery parts ($557 million), furniture ($501 million), and women's apparel ($477 million). (See tables B-13 and B-14 for details of U.S.-Taiwan bilateral trade.) According to AIT, the typical manufacturer in Taiwan focuses on product design, manufacturing and marketing to the U.S. market—relegating all other markets, including Taiwan, to a secondary effort. Although authorities are vigorously trying to convince exporters to diversify their markets, they made little progress during the year.[2] In 1987, 45 percent of Taiwan's exports were consumed by the United States. Taiwan's major import sources, in order of dominance, are Japan, the United States, West Germany, Australia, Saudi Arabia, Kuwait, and Canada.

In addition to Taiwan's undervalued currency, Taiwan's surplus remains large because many U.S. multinational corporations use it as a base to produce for the U.S. market. Local studies indicate that between $700 million and $1 billion of Taiwan's annual sales to the United States are goods produced by U.S. companies that have set up plants in Taiwan.[3] A substantially larger proportion of trade is derived from contract manufacturing for U.S. companies, but no studies have been conducted to determine how much.

AIT reported that NT dollar appreciation had a positive effect on U.S. sales in Taiwan, improving U.S. price competitiveness relative to Japan and Europe. Taiwan has scheduled more major infrastructure projects than any other country in the world. Projects include pollution control efforts, hospital projects, power plants, and bridge construction.[4] During the year, U.S suppliers won contracts for general consulting on the Taipei mass rapid transit project, the boiler contracts for the Taichung power plants, digital switching and fiber optic cable contracts for telecommunications projects, and numerous equipment and services contracts for several large hospital projects.

As noted above, in the drive for economic development, Taiwan has subordinated enviromental issues, resulting in what may be one of the worst environments in the world. Vehicular and industrial air pollution are extreme. Sewer systems are largely underdeveloped and hazardous wastes frequently go untreated. The potential for environmental disaster is a dark cloud in Taiwan's otherwise bright future. However, public and political concern about the environment is strong, and the authorities on Taiwan have committed significant resources to environmental projects in coming years. To that end, pollution-control equipment and services are good prospects for future bilateral trade.[5]

Major Policy Developments Affecting Trade

Deregulation of Foreign Exchange Controls

Taiwan's massive reserve of foreign exchange (second only to Japan at over $75 billion) has increasingly been viewed as a greater political liability than an economic asset.[6] The glut of foreign exchange provided the impetus for the partial dismantling of currency controls that had been in place for over 35 years. The new rules, which took effect on July 15, 1987, reverse Taiwan's traditional emphasis on encouraging capital inflow, restricting outflow. Individuals and businesses are now allowed to send up to $5 million abroad each year—without prior approval—in the form of remittances or investments; the previous limit was $5,000. Greater amounts may be moved offshore if approval is obtained. For the first time, the citizens of Taiwan are allowed to hold and use foreign currencies instead of being required to sell them to the central bank for NT dollars. Traders are no longer required to report individual foreign exchange transactions but may now submit monthly reports up to 1 year after the transactions. The central bank (CB) also indicated that trade-service related pay-

[1] AIT, AITGRAM, Economic Trends Report," Dec. 18, 1987.
[2] American Institute in Taiwan, AITgram, "Taiwan Marketing Plan", Nov. 30, 1987, p. 88.
[3] Ibid.
[4] Ibid.
[5] Taiwan expects to import about $67 billion in pollution control equipment over the next 10 years. To encourage private investment in pollution control, long-term, low-interest loans will be made available to manufacturing and leasing firms. *Taiwan Industrial Panorama*, Jan. 1, 1988, p. 2.
[6] AIT, AITgram, "Taiwan Marketing Plan," p. 87.

Table 4-8
U.S. merchandise trade with Taiwan, by SITC Nos. (Revision 2), 1985-87

(In thousands of dollars)

SITC section No.	Description	1985	1986	1987
			U.S. exports[1]	
0	Food and live animals	595,643	543,605	552,996
1	Beverages and tobacco	66,348	47,341	146,594
2	Crude materials, inedible, except fuel	885,419	1,050,742	1,223,696
3	Mineral fuels, lubricants, etc.	172,219	269,649	319,166
4	Oils and fats, animal and vegetable	12,997	7,693	7,271
5	Chemicals	573,385	858,855	1,132,511
6	Manufactured goods classified by chief material	187,782	255,257	306,614
7	Machinery and transportation equipment	1,594,071	1,722,526	2,345,421
8	Miscellaneous manufactured articles	184,452	223,656	297,107
9	Commodities and transactions not elsewhere classified	65,183	77,799	687,863
	Total	4,337,499	5,057,124	7,019,239
			U.S. imports[2]	
0	Food and live animals	340,591	422,037	518,917
1	Beverages and tobacco	1,598	2,020	2,358
2	Crude materials, inedible, except fuel	46,283	40,557	55,675
3	Mineral fuels, lubricants, etc.	32,616	30,352	12,113
4	Oils and fats, animal and vegetable	351	2,054	869
5	Chemicals	192,472	232,066	249,409
6	Manufactured goods classified by chief material	2,530,081	3,069,524	3,784,047
7	Machinery and transportation equipment	5,332,777	6,406,249	8,532,732
8	Miscellaneous manufactured articles	7,709,692	9,359,674	11,180,476
9	Commodities and transactions not elsewhere classified	167,891	206,078	239,087
	Total	16,354,353	19,770,612	24,575,682

[1] Domestic exports, f.a.s.
[2] Imports for consumption, customs value.
Note.—Because of rounding, figures may not add to the totals shown.
Source: Compiled from official statistics of the U.S. Department of Commerce.

ments no longer need CB approval, although the bank reserved the right to monitor such flows.

At yearend, these changes in foreign-exchange rules had little impact on the monetary conditions in Taiwan, partially because they cover relatively small capital flow areas and because anticipation of further appreciation of the NT dollar kept capital in the country. Authorities on Taiwan have indicated they plan more far-reaching liberalization of controls in the future.[1]

Foreign Investment

In 1987, Taiwan authorities approved $1.42 billion in foreign investment, an 84 percent increase from 1986. The United States was the biggest investor ($446 million) followed closely by Japan ($432 million).[2] Approved investment is concentrated heavily in the electronics, chemical, and machinery industries. In mid-year, the Ministry of Economic Affairs (MOEA) announced a proposal to liberalize Taiwan's policy on foreign investment by allowing foreign investment in more projects and making the application process simpler. The new policy is designed to broaden and clarify opportunities for foreign investors by clearly stating which industries are not open to foreign participation and permitting relatively unrestricted entry to the rest. Prior to the new plan, there was only a set of principles that vaguely described the industries open to foreign investment. Under the new policy, a list of industries specifically closed to foreign investors will replace these guidelines and other industries will be open to foreign participation by definition.[3] Foreigners will be allowed to invest in schools, hospitals, construction firms and other areas banned under existing regulations.[4] Foreign investment in the financial sector, news media, and industries that create a large amount of pollution will be permitted only after a thorough review. The application procedure for about 310 categories of businesses will be eased, and the review of applications will be reduced from 4 to 2 weeks.[5]

[1] Taipei, American Institute in Taiwan, Apr. 10, 1987, 02415.
[2] "Taiwan to ease path for foreign investors," *Journal of Commerce*, Feb. 2, 1988, p. 1. Most of these investments were in electronics, electric appliance manufacturing, and services. *Taiwan Industrial Panorama*, p. 1.
[3] Taipei, American Institute in Taiwan, Aug. 18, 1097, 05388.
[4] "Taiwan to Ease Path for Foreign Investors," *Journal of Commerce*, Feb. 2, 1988, p. 1.
[5] Ibid.

Industries in which foreigners may not invest include those:

(1) that endanger public security and good social conduct;

(2) that are legally established domestic monopolies, including public utilities;

(3) that could have serious adverse affects on the livelihood of fishermen;

(4) that are harmful to public health and the environment; or

(5) that are banned or prohibited by law.[1]

Accordingly, MOEA tentatively selected 40 industries that will be closed to foreign investment. Potential candidates for exclusion include: coal mining, slaughtering, chinese herbal medicine manufacturing, legal services, accounting services, maid services, employment placement services, beauty and bath services, real estate development, and electric power supply.[2] After other relevant ministries have compiled their exclusion lists, an estimated 90 categories of businesses will remain closed to foreign participation.

United States-Taiwan Bilateral Trade Issues

Taiwan is the fifth largest trading partner of the United States. In 1987, Taiwan had, after Japan, the second largest bilateral trade surplus with the United States. Taiwan's persistent trade surpluses and huge foreign exchange reserves have been strongly criticized by the United States. In response, the authorities on Taiwan have recognized the need to stimulate domestic demand, increase imports, and reduce dependence on the U.S. market. Accordingly, Taiwan authorities are pursuing a cautious fiscal policy, slowly liberalizing the financial market, lowering tariffs, encouraging export market diversification, and offering low-interest export financing to U.S. exporters of industrial goods.

Although Taiwan has taken major steps in the past year to lower tariffs and remove import barriers, it is still far from being an open economy. In response to U.S. requests, Taiwan has reduced tariffs on a number of items in which U.S. producers are highly competitive and has removed import bans on other items. Taiwan has opened its market to U.S. wine, beer, and tobacco products; and it has made efforts to increase procurement of U.S. products, especially for a number of major infrastructure projects. Protection of intellectual property rights has improved, and U.S. insurance firms are expanding their operations in Taiwan. The environment for U.S. banks has also improved. Overall, these measures have increased the access of local consumers to foreign products and improved the foreign investment climate.

Graduation From U.S. GSP Program

Late in 1987, rumors began circulating in Washington that graduation from the U.S. GSP program was imminent for the top four beneficiaries—Taiwan, Korea, Singapore, and Hong Kong—and on January 29, 1988, the Administration announced that effective January 1989, these countries would be graduated from the program.

This action was taken after a review of a broad range of economic and competitiveness indicators, including per capita GNP, economic growth rates, and the countries' ability to export manufactured items into the United States. Although each of the graduated countries have been conspicuous in achieving exceptionally rapid growth despite few natural resources, the administration emphasized that the graduation was not a penalizing gesture, but instead, a reflection of the economic successes these countries have achieved. (The U.S. trade deficit with the four countries reached $35 billion in 1987, or 22 percent of the total U.S. trade deficit—up from $6.1 billion in 1981.) Last year a disproportionate amount of GSP benefits—nearly 60 percent of the total—went to these four countries, leaving only 40 percent of the benefits for the remaining 136 GSP-eligible countries. The administration says graduation of these countries will open up additional opportunities for the remaining less developed beneficiaries. The removal of GSP privileges will affect less than one-fifth of the total imports from the four countries, adding about $500 million annually to the price of these goods in the United States. Authorities on Taiwan say that the loss of GSP will have an impact on exports, particularly for small-and medium-size firms, but it will not damage these industries irreparably. Taiwan was the top beneficiary of the U.S. GSP program in 1987 as it was in 1986.

Tariffs

The principal import barrier impeding market access to Taiwan is high tariffs.[3] During the year, high tariffs accounted for the overwhelming proportion of U.S. firms' market access complaints about Taiwan. Taiwan's tariffs now average about 20 percent and range up to 57.5 percent ad valorem. Recently, Taiwan has taken steps to reform its tariff regime, although cuts made in 1986 concentrated on products in which Taiwan is a major producer; few of the cuts made that year made any appreciable difference for the U.S. exporter.

[1] Taipei, American Institute in Taiwan, Aug. 18, 1987, 05388.

[2] Ibid.

[3] USTR, *1987 National Trade Estimate, Report on Foreign Trade Barriers*, Wash., DC, p. 297.

Generally Taiwan maintains low tariffs on bulk agricultural commodities, industrial raw materials and capital equipment. Duties on consumer goods and food products are generally high. For example, high tariffs exist for fruit juices (45–55 percent), canned fruit (30–40 percent), fresh avocadoes (57.5 percent), apples (40 percent), pears (40 percent), fresh citrus (50 percent), optical fibers, calendars, and checkbooks (30 percent).[1] Taiwan has also applied a special import levy on grain and soybeans since 1972. The levy was increased to $9 per ton on July 1, 1985.[2]

In January 1987, Taiwan lowered duties on more than 1,800 articles and reduced its maximum tariff rate from 67.5 percent to 57.5 percent. On April 18, 1987, Taiwan reduced tariffs by 50 percent on goods specified during the April 14–16 AIT consultations with the Coordination Council for North American Affairs (CCNAA). These goods included wood and paper products, industrial adhesives, certain household goods, turkey meat, raisins, walnuts, pistachios, chocolate candy, soybeans, soybean meal and oil, sausages, and sunflower seeds and oil. Six products were made free of duty. In addition to these tariff cuts, Taiwan also reduced tariffs on 800 other items. However, the grain levy was not removed.

Overall, the duty cuts in 1987 greatly reduced duties on consumer goods and brought the average tariff below 20 percent. On a voluntary basis, or in negotiated settlements with the United States, Taiwan has cut tariffs on hundreds of items in the past 2 years, and another round of tariff reductions is scheduled. Effective January 1988, tariff cuts averaging 50 percent will be applied to about 3,500 items. [3]

Beer, Wine, and Tobacco

The Taiwan Tobacco and Wine Monopoly Board (TTWMB) controls the production, import, distribution and promotion of cigarettes and wine through high tariffs and other import limitations. Beer imports were banned. A 1986 section 301 investigation resulted in a determination by the President that Taiwan's policies regarding the distribution and sales of these products constituted an unfair restriction on U.S. commerce.[4]

In December 1986, the authorities on Taiwan agreed to lift their ban on beer imports and provide increased access to their wine and tobacco markets. However, several of the subsequently issued implementing regulations violated the December agreement. As a result, Taiwan customs prevented shipments of U.S. beer, wine and cigarettes from entering the market during the lucrative Chinese New Year holiday period. During consultations in May 1987, Taiwan agreed to rewrite its regulations to conform to the agreement.

Nontariff Barriers

Taiwan maintains a number of nontariff import barriers (NTBs) that impede access to its markets. There are a number of obvious barriers such as embargoes on some products and import licensing requirements for other items. The more subtle NTB's employed by Taiwan are discussed below.

Excessive documentation for imports

AIT reported that procedural complications make importing into Taiwan very problematic. The difficulties vary for each article, and some products have no difficulties at all. However, a common complaint is of goods held up in customs until a large, but usually indeterminate, number of approvals are placed on the shipping documents. Other problems involve customs valuation, delays in processing, or excessive zeal in prosecuting minor discrepancies in documentation. [5]

Product registration

U.S. exporters of pharmaceuticals and cosmetics to Taiwan complain about the difficulties in getting their products approved by the Taiwan Board of Health. Complaints are that the approval process is too time-consuming, does not sufficiently protect proprietary information, favors production in Taiwan, and frequently results in rejections for arbitrary reasons.[6]

Restricted access to the official commissary system

Consumer goods in Taiwan flow through two distinct distribution channels. One is the traditional venue of retail stores, chain stores, drugstores, etc. The other is the official commissary system (called The General Welfare Services Organization) of 650 stores. Although purchasing through commissary outlets is limited to civil service and military employees, Taiwan's large extended families mean that the commissaries are a major factor in retailing consumer goods. The commissary system handles about 35 percent of Taiwan's retail business and up to 40 percent of sales for certain consumer products. Foreign goods were not allowed in the outlets until recently unless they were represented by certain wholesalers who had sold the products in Taiwan for at least 3 years. However, registration of a foreign product for inclusion in the system continues to be hindered by regulations and procedures. Discussions by AIT and the Taipei American

[1] Ibid.
[2] Ibid.
[3] "Lower Tariffs on Taiwan," *Journal of Commerce*, Feb. 10, 1988, p. 1.
[4] For background information, see *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-40.
[5] AIT, AITgram, "Taiwan Marketing Plan FY 1988," Nov. 30, 1987, p. 11.
[6] Ibid.

Chamber of Commerce with Taiwan authorities during the year led to improved foreign access to the commissary system, but problems remain, particularly with regard to new products or products newly introduced to the local market.[1]

Intermodal Shipping

Foreign flag carriers are not permitted to engage in intermodal container-related and freight transportation operations. Regulations also prohibit foreign companies from engaging in trucking operations or being major shareholders in companies acting as shipping agents, container-terminal operators, or sea-cargo forwarders. These restrictions place U.S. carriers at a significant disadvantage compared with local flag carriers. Local carriers can freely provide such intermodal services either directly or through their own subsidiaries. The restrictions also place U.S. flag carriers at a severe price disadvantage since they are subject to a business tax that does not apply to local shipping companies.[2]

The United States and Taiwan discussed the restrictions on intermodal shipping for the first time in 1985 but no progress was made. During April 1987 talks, CCNAA agreed to let U.S. carriers operate as their own container-terminal operators, shipping agencies, container-freight operators, and sea-cargo forwarders in accordance with local laws and regulations. Container-freight-station operation was made contingent upon obtaining an inland container-terminal license. However, the issue of availability of licenses for U.S. carriers remained unsettled at yearend.

Restrictions on foreign ownership of trucking operations are stipulated by highway law amendments. CCNAA said it would study further the implications of amending the laws to permit foreign participation. If the law were amended, CCNAA said foreign truck operators would be subject to expropriation and other measures in case of national emergency security inspection, taxation, tariff regulation, and other actions applicable to domestic business.[3]

Motion Pictures

In 1986, Taiwan eliminated its foreign-film quota system and also abolished the special film import levy and limits on importing reissued films. The film-import entertainment tax was also reduced, although not to a level commensurate with the tax applied to domestic films. Effective April 17, 1987, Taiwan increased from four to six the total number of copies of a motion picture that may be imported. The number of theaters in which an imported film can be released in any one city is limited to four.

Textiles[4]

On April 22, 1987, the United States agreed to extend the existing 3-year U.S.-Taiwan textile agreement through December 31, 1989. The extension is the result of Taiwan's agreeing to reduce its import tariffs on 497 textile and apparel items. For some of these products, tariffs were lowered as much as 75 percent. U.S. industry groups expressed disappointment with the extended accord since Taiwan's tariff reductions do not guarantee the island will open its markets to U.S. imports.

REPUBLIC OF KOREA

The Economic Situation in 1987

The Korean economy posted a spectacular growth of 15.6 percent during the first quarter. Growth in the second quarter slowed considerably reflecting internal and external developments (see discussion below). Overall, Korea's export-driven economy grew by 12.2 percent in real terms in 1987. This was the country's second consecutive year of double-digit economic growth, and the world's highest growth for the year. Strong exports contributed to the growth. Led by automobiles, electronics, and textiles, Korea's merchandise exports (on an f.o.b. basis) rose over 36 percent from 1986 to a record $46.2 billion.[5] The increase was due, in part, to the strong performance of such high-technology industries as electronics (up 54 percent over 1986) and automobiles (up 106 percent).[6] Growth in traditional industries such as textiles and footwear (each up 33.6 percent) also contributed to the outstanding export performance.

Korean exports in December alone were $5.22 billion, exceeding $5 billion for the first time and up 49 percent from the same period in 1986. The U.S. market played a particularly important role in Korean export growth. In 1987, the United States consumed 40 percent of total Korean exports: 42 percent in the electronics sector, 80 percent in the automobile sector, 66 percent in footwear, and 47 percent in machinery.[7]

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[1] Ibid.

[2] USTR, *Annual Report on National Trade Estimates*, 1985, p. 204.

[3] USTR, *Foreign Trade Barriers*, 1987, p. 305. In March 1988, the U.S. Federal Maritime Commission dropped its proposed retaliation against Taiwan carriers in response to the restrictions on U.S. carriers when agreements were reached in mid-January to resolve some of the container-terminal problems. The Maritime Commission will continue to monitor the situation, however, and will take appropriate action as conditions warrant. Robert Morison, "Commission drops Taiwan investigation," *Journal of Commerce*, Mar. 3, 1988, p. 10B.

[4] Source for this information is *International Trade Reporter*, Apr. 29, 1987, p. 579.

[5] "Current account surplus doubles in South Korea," *Journal of Commerce*, Feb. 12, 1988, p. 1.

[6] "On the Upbeat," *Business Korea*, Mar. 1988, p. 8.

[7] U.S. Department of State, Seoul, Jan. 8, 1988, 00270.

Imports (on an f.o.b. basis) were up 29.7 percent to $38.53 billion. Per capita GNP was about $2,813, up $517 from last year. Korea's trade balance registered a surplus of $7.65 billion, up from $4.2 billion in 1986. Bank of Korea officials said Korean exports were so strong because the fast-paced appreciation of the Japanese yen helped Korean exporters boost their price-competitiveness in overseas markets, as did the won's relatively low value against the U.S. dollar. According to the Bank of Korea, the current-account surplus more than doubled in 1987 to $9.8 billion from $4.6 billion 1 year ago.[1] On the down side, Korea is the world's fourth largest debtor nation. However, even that situation improved during the year. By June 1987, external debt was $40.4 billion, down $4.1 billion from the beginning of the year. By the end of September, the foreign debt had been reduced to $37.7 billion, far exceeding the Government's original yearend target of $41.8 billion gross debt.[2]

For Korea, the year's strong economic growth was coupled with unprecedented change in the political arena. Popular agitation forced the militarily backed government to recognize that political change—long out of step with economic advancement—was imminent. On June 29th, the Government's chosen candidate for President, Roh Tae-Woo, announced a move toward "democratization" that set in motion a process for democratic elections and political reform in Korea. Presidential elections were held in mid-December and in February 1988, President-elect Roh assumed office, marking the first peaceful transfer of executive power in Korean history.

The year's political conflicts led to explosive internal economic conflicts as well. The June announcement of democratization included a promise that the rights of labor would be respected. Many workers organized; by July spontaneous demonstrations were erupting in factories across the country, often leading to bloody conflicts. Although the widespread labor unrest caused relatively small losses in production and exports, as noted below, significant long-run adjustments may be in store for Korean industry. Government economists estimated that the work stoppages resulted in production losses of over $1.6 billion and export losses of over $700 million, with declines in automobile shipments accounting for about one-half of the losses in export revenue. Production losses at the country's three auto exporters cut the usual monthly shipments of 60,000 cars by about two-thirds. Whereas exports increased 35 percent during June and July 1987 compared with June and July 1986, they rose only 18.5 percent in August 1987 compared with August 1986, as some foreign buyers reportedly shifted orders to other suppliers such as Taiwan and Hong Kong.

[1] Ibid.

[2] U.S. Department of State, AIRGRAM, "Foreign Economic Trends for Korea", Jan. 22, 1988, pp. 4-5.

The strikes focused on three issues: a demand for democratic unions to replace government-controlled associations, increased wages, and improved working conditions. Following resolution of the disputes, Government officials and industry executives became concerned that the resultant 10 to 20-percent wage increases would have a negative effect on the future competitiveness of Korean products abroad; in the past, wages comprised less than 10 percent of the manufacturing costs for Korean industry. It is also likely that an increase in labor costs will quicken the pace of the shift from labor-intensive industries such as textiles, toward technology-oriented industries such as electronics and automobiles.

The Government is also concerned about the potential impact of wage increases on certain macroeconomic variables. The pay raises, coupled with increases in the money supply, could accelerate future inflation beyond 5 percent, according to some estimates, in contrast with the 3.1 percent recorded in 1987. Unemployment could also increase from the current 3.4 percent as higher wages encourage increased automation.

Despite the potentially negative economic consequences resulting from the labor unrest and associated pay increases, policymakers in Korea sympathized with many of the workers' economic demands. Labor Minister Lee Hun-Kee admitted that "under the government's growth-first policy, there is no denying that not enough attention has been paid to the question of equitable distribution of income and improvement of working conditions."

The working conditions faced by Koreans support these admissions. According to the International Labor Organization, the average workweek for manufacturing employees is 54.3 hours, the longest in the world.[3] Although productivity in manufacturing has nearly doubled since 1980, real wages have risen by less than 40 percent. The average wage for production workers in all Korean industries is $1.75 an hour.

Korea is also considered to be one of the most hazardous countries in the world for a worker. According to union officials, last year 1,660 employees were killed on the job out of a total workforce of 16.1 million. More than 20,000 others were crippled in industrial accidents.[4]

Some of the nation's business leaders, in contrast to Government officials, have not yet changed their attitudes toward workers' economic demands. For example, Kim Woo-Joong, chairman of the Daewoo chaebol, claimed that Korea

[3] "South Korea faces increased activism by factory workers," *The Asian Wall Street Journal Weekly*, Aug. 10, 1987, p. 2.

[4] Mark Clifford, "Labor strikes out," *Far Eastern Economic Review*, Aug. 27, 1987, p. 17.

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can compete in the international market only "with our low labor costs. Workers must render some sacrifice. Later, they can enjoy their lives."[1] Attitudes such as this, besides encountering effective domestic opposition, drew adverse reaction overseas. Some U.S. businessmen argued that Korea is able to sell so many goods in the United States because of low wages and the restrictions placed on labor unions. Trade legislation being considered by the U.S. Congress includes a provision that would give the President the authority to classify the denial of labor rights, including the right to form democratic labor unions, as an unfair trade practice subject to retaliation.

Merchandise Trade With the United States

The United States and Japan remained Korea's largest trading partners in 1987, together accounting for almost 60 percent of Korea's exports and imports. Korea's exports to the United States, its principal market, were again strong. The United States took over 40 percent of Korean exports and supplied about 20 percent of its imports. Korea registered a bilateral surplus of $9.4 billion, up from $6.9 billion in 1986 (see table 4-9).[2] Korean demand was strong for U.S. industrial raw materials, heavy machinery, electronics, and scientific products with a high technological content. The Korean Government continued in 1987 to foster rapid expansion of infrastructure facilities, with bidding on some of the projects open to participation by U.S. firms. Other leading items of trade were grain, coal and oil products, aircraft, and raw cotton. Leading U.S. imports from Korea included electrical machinery, textiles, automobiles, footwear, nonelectrical machinery, leather goods, and toys.

The value of U.S. agricultural exports to Korea declined during the year because of lower prices for major U.S. exports such as cotton, wheat, corn, and soybeans and particularly because of Korea's restrictive import policies.[3] For example, Korean feed-grain imports are managed under a tight quota system that encourages the use of expensive, locally produced inputs and nongrain feed ingredients as a substitute for imported feed grain. Consequently, Korea's imports of traditional feed ingredients, particularly corn, declined during the year. The imported feed-grain share of total feed-grain-ingredient utilization has declined by 7 to 8 percent since 1984.[4] The Office of the USTR estimated that U.S. feed-grain imports to Korea could increase as much as $62 million annually if Government quotas were lifted.[5]

[1] Ibid. For additional information on Korea's labor strikes, see, pp. 14-19.

[2] In 1987, Korea's deficit with Japan fell slightly to $5.2 billion from $5.4 billion in 1986. "On the Upbeat," *Business Korea*, p. 9.

[3] U.S. Department of State, Seoul, Airgram, Jan. 22, 1988.

[4] USTR, 1987 National Trade Estimates, p. 201.

[5] Ibid.

Korea's agricultural trade policy is based on a high level of protection for the farm sector.[6] Farm-product liberalization progressed slowly during the year, with most newly liberalized products selected because they could not substitute for domestic products or because high tariff levels rendered them uncompetitive with locally produced goods.[7] U.S. sales of processed foods and beverages to Korea declined in response to these and other policy measures designed to keep high-value-added agricultural-product imports to a minimum and promote the export of locally produced products. Key Korean processed-food exports include instant noodles, canned mushrooms, and canned mandarin oranges. The leading items exported from the United States to Korea in 1987 were whole cattle hides ($577 million), electronic components ($567), corn ($356 million), cotton ($289 million), soybeans ($232 million), aircraft parts ($215 million), and wheat ($213 million). The leading items imported from Korea to the United States in 1987 were passenger automobiles ($2.1 billion), men's footwear ($757 million), electronic components ($656 million), toys ($443 million), women's footwear ($443 million), leather apparel ($390 million), and microwave ovens ($366 million). (See tables B-15 and B-16 for details of U.S.-Korea bilateral trade.)

The annual trade plan prepared by the Ministry of Trade and Industry (MTI) for the period July 1, 1987, to June 30, 1988, furthered import liberalization by adding an additional 170 items to automatic-approval (AA) status for import licenses.[8] Twenty-four of these items, including analog computers, hybrid computers, peripheral units, large automobiles, grapefruit juice, medium-sized computers, and some textile raw materials, were freed for import ahead of their original preannounced import liberalization schedule.[9] Other freed items of particular interest for U.S. exporters included certain construction equipment, certain organic chemicals, polyamide fibers, razors, bearings, metal- working machine tools, certain construction equipment, certain auto parts, telecommunications equipment, micro-buses, motorcycles, slide fasteners, certain components of electronics, and video tapes.[10]

[6] U.S. Department of State, Seoul, Airgram, Jan. 22, 1988.

[7] Ibid.

[8] Import liberalization is defined by the Korean Government as the percentage of items on the tariff schedule that are automatically approved for import. As a result of changes under the latest trade plan, the import liberalization ratio increased to 93.6 percent from the 91.5 percent reached in the previous plan.

[9] U.S. Department of State, Seoul, Airgram, Sept. 29, 1987.

[10] Ibid.

Table 4-9
U.S. merchandise trade with Korea, by SITC Nos. (Revision 2), 1985-87

(In thousands of dollars)

SITC Section No.	Descripiton	1985	1986	1987
			U.S. exports[1]	
0	Food and live animals	549,527	439,669	658,461
1	Beverages and tobacco	5,904	11,688	7,725
2	Crude materials, inedible, except fuel	1,383,691	1,577,248	2,057,501
3	Mineral fuels, lubricants, etc.	386,242	230,126	322,027
4	Oils and fats, animal and vegetable	40,803	23,910	36,367
5	Chemicals	591,045	761,902	996,020
6	Manufactured goods classified by chief material	316,642	385,710	455,030
7	Machinery and transportation equipment	2,080,016	2,020,474	2,510,591
8	Miscellaneous manufactured articles	245,912	287,641	350,211
9	Commodities and transactions not elsewhere classified	66,720	57,336	92,131
	Total	5,666,503	5,795,704	7,486,064
			U.S. imports[2]	
0	Food and live animals	124,164	179,567	293,105
1	Beverages and tobacco	22,238	25,772	20,009
2	Crude materials, inedible, except fuel	10,432	12,840	16,583
3	Mineral fuels, lubricants, etc.	79,129	41,187	16,469
4	Oils and fats, animal and vegetable	82	4	365
5	Chemicals	86,105	125,278	137,685
6	Manufactured goods classified by chief material	1,936,785	1,793,870	1,983,604
7	Machinery and transportation equipment	2,828,873	4,524,157	7,045,561
8	Miscellaneous manufactured articles	4,821,875	5,901,497	7,275,860
9	Commodities and transactions not elsewhere classified	76,680	78,647	98,911
	Total	9,986,363	12,682,819	16,888,153

[1] Domestic exports, f.a.s.
[2] Imports for consumption, customs value.

Note.—Because of rounding, figures may not add to the totals shown.

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

Major Policy Developments Affecting Trade

Annual Trade Plan

Import liberalization was postponed on 12 items scheduled to be freed under the preannounced schedule. They included solid-type caustic soda, ethyl acetate, fresh persimmons, and small and medium automobiles. In addition, three coal products (anthracite coal, briquettes, and ovoids), were added to the import restricted list.[1]

The MTI fully freed over 50 items for import by eliminating them from the surveillance system (SS).[2] They include silkworm cocoons, bamboo shoots, roasted coffee, beef soups and broths, water colors, high density polyethylene kitchen utensils, fur skins, glass lighting fixtures, wall tiles, porcelain-on-steel kitchenware and bath tubs, certain hand-tools, cordless telephone sets, eyeglass frames, electric organs, and pencils and pencil leads.[3] No newly freed items were added to the SS list in 1987. The SS system is scheduled for abolishment in 1988. In anticipation of this move, the Korea Trade Commission was established in July 1987 to receive appeals from industries allegedly injured by import surges.

Korea also classifies certain import items under a market diversification plan (MD). Items in this category are subject to special import approval procedures if imported from a country with whom Korea has an extremely unfavorable trade balance of long standing (as with Japan). Importers need prior confirmation from AFTAK for licenses to import these items. The MD measure indirectly provides favorable opportunities to competitors from the United States and other countries that do not run an extreme bilateral

[1] Ibid.
[2] The surveillance system monitors import flows of newly freed AA items. Surveillance items are closely monitored to determine their impact on the domestic market. Use of the system virtually precludes any import growth or increased competition for domestic producers of the products on the list. Items in this category require prior confirmation for their import from the Association of Foreign Trading Agents of Korea (AFTAK) for import license. In principle, after a period of surveillance these items will either be moved to full AA status or returned to the import restricted list.

[3] U.S. Department of State, Seoul, Airgram, Sept. 29, 1987.

trade surplus with Korea. Under the latest annual plan, nearly 90 items were added to the MD list. They include carbon black, cyanates, certain synthetic organic dyes, stamping foils, photo paper, photo developers, toners, thermal paper, glass for color picture tubes, gold wire for manufacturing semiconductors, pig iron, certain engine parts, honing machines, machine tools for carpenters, certain construction equipment, and small and large automobiles.[1] MTI also deleted about 100 items from the list, including stearic acid, potassium hydroxide, textured yarn of polyester fiber, bolts, milking machines, guitars, and gas lighters.[2]

Tariffs

Korea has administered a flexible tariff system since 1974 to control surges in imports and prevent market disruptions that may result from trade liberalization measures.[3] Under the flexible system, tariffs are temporarily changed to achieve specific economic goals. The changes are usually effective for 6 months but may be extended for a longer period. The tariff system includes the Emergency Tariff Plan, the Adjustment Tariff Plan, and the Tariff Quota Plan. In past years, Korea has been criticized for liberalizing trade in some goods by removing nontariff barriers only to proceed to increase the tariffs through the flexible tariff system. However, the 1987 schedule reduced the number of items subject to higher tariffs and used emergency tariffs in a more moderate fashion than in the past. It is also noteworthy that no new items were listed under the adjustment tariff plan for 1987.

During 1987, tariff rates were lowered between 5 and 30 percent on 289 products. The average reduction was about 7 percent. Tariff-reduced items of particular interest to the United States include: cigars and cigarettes (reduced by 30 percent); beer (20 percent); lemons and limes, automobiles, loud speakers (10 percent); canned beans, canned corn, chocolate, certain cosmetics, certain construction equipment, computers, and tennis rackets (5 percent).[4]

Emergency tariff plan

This plan is designed to protect strategic domestic industries, to discourage the importation of nonessential and luxury items, and to modify tariffs as required by structural changes in industry. The emergency tariff plan for 1987 contained seven items: talcum powder, crude oils, gas oils and heavy oils, acetaminophen, salts of casein, ferro-manganese, and silicon-manganese.[5] The new tariffs on these items range from 15 to 30 percent and are in effect through June 1988.

[1] Ibid.
[2] Ibid.
[3] For background information on Korea's tariff regime, see *Operation of Trade Agreements Programs, 36th Report, 1984,* pp. 174-175.
[4] U.S. Department of State, Seoul, Feb. 8, 1988, 01532.
[5] U.S. Department of State, Seoul, Aug. 10, 1987, 09254.

Adjustment tariff plan

An adjustment tariff can override an emergency tariff and impose rates of up to 100 percent to curb or prevent actual or expected domestic market surges in the import of items scheduled to be liberalized or already liberalized from nontariff-barrier restrictions. An adjustment tariff may be applied within 3 years of the import liberalization date. In 1987, of the five items remaining on the adjustment tariff schedule from the previous plan, two items were moved to the emergency tariff plan at a reduced rate, and the remaining three items were eliminated and returned to their lower general rates. Those items are tinned plates and sheets of iron and steel, copper sheets and strips, and static converters.[6]

Tariff quota plan

In principle, tariffs remain at a reduced level on quota items until specified quota ceilings are reached. Then the higher general rates take effect. The tariff quota system is intended to stabilize domestic market prices and to assure the smooth supply of raw materials and equipment for domestic demand. Fifty-five additions and no deletions were made to the 1987 tariff quota plan. The newly added items included beef tallow, palm oils, certain chemical products, dye stuff, acrylic fibers, valves, switches, and parts of textile machines.[7] From June 9 to December 31, 1987, a total of 93 items enjoyed reduced tariffs until specified quota ceilings were reached.

Regulations on Beer Imports

Beer imports have been permitted since 1984, but foreign-market penetration remained minimal in 1987. High import duties and the high value of the dollar helped make U.S. beer uncompetitive. Another barrier to increased market share for foreign manufacturers was created in August 1987 when the Office of National Tax Administration issued new regulations making it impossible for importers of foreign beer, wine, or liquor to sell directly to end users. Moreover, the regulations specify that all imports can now only be sold through licensed distributors. Licensed distributors in Korea are generally controlled by the local brewing concerns that are direct competitors to foreign products. Previously, the one Korean licensee that imported U.S.-made beer sold directly to bars, hotels, supermarkets and restaurants.

Restructuring of the Fertilizer Sector

In the 1960's, the Korean Government encouraged joint ventures with foreign manufacturers to help develop the local fertilizer industry.

[6] Ibid.
[7] Ibid.

The Government guaranteed reasonable profits to these ventures by committing itself to purchasing 50–90 percent of their production for a period of 10 to 15 years from the start of operations. Government purchases were sold to farmers at prices considerably below procurement cost. Consequently, the Government realized huge deficits in its fertilizer account; the cumulative deficit at the end of 1986 was estimated at $1.1 billion.

In August, the Government announced a plan to improve and liberalize the fertilizer supply and marketing system. Prior to the new policy, imports of most types of fertilizer were banned to protect the local industry, whose capacity exceeded domestic requirements. The policy change now permits the National Agricultural Cooperatives Federation (NACF) and existing fertilizer manufacturers to import fertilizer in 1988 and 1989. Import duties will be reduced from 10 to 2 percent on ammonia fertilizers in 1988 and from 20 to 10 percent on urea and compound fertilizers in 1990. Fertilizers are scheduled for complete liberalization in 1990.[1]

The Government will no longer subsidize fertilizer procurement, but the NACF will purchase fertilizer for resale from manufacturers with its own funds at negotiated prices that are expected to be considerably below the prices previously paid by the Government. The Government estimated that when sales are entirely liberalized in 1988, competition among manufacturers will lead to relative consumer price cuts of 6 to 23 percent, depending on fertilizer type. This is expected to reduce the total financial burden on farmers by approximately $43 to $52 million annually.

The plan also calls for the Government to sell its equity share in some fertilizer companies and arrange for rationalization of the industry over the next 2 years to improve efficiency. This move should help reduce excess capacity when economically nonviable firms are forced to exit the market.

United States-Korea Bilateral Trade Issues

The United States intentionally did not press Korea on trade issues during that country's highly sensitive Presidential campaign.[2] Following the December 16th vote, however, trade frictions escalated rapidly as the United States sought to resolve several longstanding disputes. During the year, Korea continued to move very slowly to open its large, highly protected market. The country's usual defense against U.S. pressure for market opening lost force for a number of reasons: Korea's foreign debt is declining rapidly, and the external debt of the United States is soaring; future Korean bilateral trade surpluses now appear secure, and Korea's leverage as one of the largest importers of U.S. farm goods has weakened.[3] With the Korean won appreciating only 12 percent against the U.S. dollar since 1985, Korea's bilateral surplus with the United States reached almost $10 billion in 1987 and is not likely to narrow significantly in 1988.

Moreover, Korea can no longer rely on the infant industry argument to justify continued protection of its domestic markets. Its record of industrial achievement is significant: Korean industry has set record first-year car sales in the highly competitive U.S. market; it exports one of the fastest selling personal computers in the United States; it ranks second among the world's shipbuilders; it is one of the most efficient steel producers in the world; and it is one of the few countries to develop 256k dram chips. Although there are many levels of production not undertaken in Korea, the U.S. position is that the foundation exists to allow its industries to enter into new areas without the necessity of protected home markets. Korea's growing emergence in the international economic arena and it's highly successful ventures into high technology products has strengthened perception in the United States of Korea as a second Japan—as a competitive economy ready for greater foreign participation in its domestic markets. Korea, however, portrays itself as an economy in transition, not yet prepared to take on foreign competition. These differences in perception fueled the trade frictions between the two countries during the year.

Trade Diversification

Trade diversification is an important component of Korea's current economic policy goals. Avoidance of overdependence on traditional partners such as the United States and Japan is a primary objective. Korea's export dependence on the United States has produced a sizable bilateral trade surplus and, as a result, increased trade tensions. Conversely, Korea's reliance on Japan as its major source of imports has generated large bilateral deficits with that country.

On April 17, the Korean Government announced plans to freeze its growing trade surplus with the United States by discouraging exports to the United States and encouraging its exporters to seek markets elsewhere.[4] The package reportedly calls for encouraging imports through increased private domestic investment in plants and equipment and expanded public-works spending.

[1] "Phase-in of fertilizer imports to parallel lower tariff rates," *Korea Herald*, Aug. 20, 1987, p. 6.
[2] Stuart Auerbach, "Yeutter says U.S. will renew S. Korea pressure," *The Washington Post*, Dec. 17, 1987, p. D1.
[3] "A Not-So-Merry Christmas; Korea-U.S. Trade Friction," *Business Korea*, Jan. 1988, p. 33.
[4] Clyde Haberman, "Seoul announces a plan to freeze its surplus in U.S. trade," *The New York Times*, Apr. 17, 1987.

The proposal also calls for a reduction in the number of products on the import-restricted list and for substantial relaxation of foreign-exchange regulations. The foreign-exchange revisions were implemented in late July. Foreign businesses are now permitted to remit profits to their home countries more easily, and foreigners employed in Korea are allowed to send their salaries, except for "basic living expenses," to their home countries; remittances of salaries were previously limited to $500 per month. Laws restricting foreign-exchange expenditures by Korean businesses on advertising abroad, on the salaries of foreign experts, and for the payment of royalties were also relaxed under the new rules as were the laws limiting the remittances of Koreans to relatives overseas.

To help Korean companies buy more imports, the Government will earmark $3 billion in foreign exchange from its current account surplus for special loans. Conversely, the Government hopes to slow export growth by reducing officially supported export financing. At yearend, detailed plans for implementation of the loan program were unavailable.

Currency Revaluation

Korea's export drive has been aided by tight currency controls that keep the won seriously undervalued. Since registering a $7.4 billion trade surplus with the United States in 1986, Korea has been under increasing pressure from the U.S. Government to revalue the won at a more rapid rate than has occurred thus far. In response, the Korean Government announced in late April 1987 that it would allow the International Monetary Fund (IMF) to arbitrate the currency dispute during Korea's annual consultations with the IMF. After visiting Seoul in June, the six-member IMF panel advised the Government to speed up the appreciation of the won, but gave no "magic number" for its value, according to Hubert Neiss, the IMF's deputy director for Asian affairs and leader of the delegation. The Korean Government and the IMF team agreed, however, that exchange-rate appreciation was necessary to prevent Korea's current-account surplus for 1987 from exceeding the $5 billion target set by the Government. The IMF projected that if no action were taken, the surplus could reach $8 billion. (By yearend, the current account surplus was $9.78 billion.) The delegation also urged that Korea attempt to narrow its surplus by reducing tariff barriers and relaxing foreign-exchange controls that "the economy has long outgrown."

Acceptance of the IMF recommendations was a politically sensitive issue in Korea. Although the Government's decision to consult with the IMF was reportedly prompted in part by the desire to avoid appearing to capitulate to U.S. pressure, the Korean press described the IMF as "a typical organization in which U.S. influence is absolutely dominant." Strong criticism was also voiced by Korean exporters, who claimed that any further appreciation of the won (which has risen by only 12 percent against the dollar since 1985) would eliminate profit margins and thereby harm the price competitiveness of their products compared with goods from Japan and Taiwan. In fact, however, Korean exports the first 5 months of 1987 were up 40 percent compared with those of 1986, partly because of large increases in the values of the yen and the New Taiwan dollar.

Appreciation of the won was also opposed by some Korean economists, who pointed out that the country's overall trade surplus in 1986 was the first in its history. For the year, the won had appreciated approximately 8 percent against the U.S. dollar. U.S. dissatisfaction with the pace of change continued, making currency revaluation one of the most contentious issues between the two countries in 1987.

Beef

Improved access for agricultural products is a high priority for the United States. Several important U.S. products are now either banned entirely from Korea or are subject to quantitative restrictions. For example, all poultry and poultry-product imports except for fresh and frozen turkeys and turkey meat, are banned.

Korean restrictions on beef imports were a highly sensitive bilateral issue in 1987. Beef imports have been banned since 1985. High quality beef imports are opposed by the powerful Agricultural, Forestry, and Fisheries Ministry, in part, because of a slump in the domestic livestock industry. Korean-grown beef is of lesser quality than U.S. beef but wholesales at about twice the price. The United States argued that the ban contravenes Korea's obligations under the GATT and impairs U.S. GATT rights.[1] During bilateral consultations, the United States suggested that Korea open its beef market gradually by permitting luxury hotels to import for their largely foreign clientele.[2] Following that, imports could resume at a pace to compensate for the 3-year ban and eventually expand beyond tourist hotels.[3]

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[1] USTR, *Foreign Trade Barriers*, p. 201.

[2] Peter Maas, "U.S. targets South Korean trade gap," *The Washington Post*, Dec. 30, 1987, p. F1-2.

[3] Korea announced in January 1988, that it will permit beef imports for luxury hotels only. To minimize the effects on the local livestock industry, the Government announced that cattle feed will be exempted from customs duties. *Korea Herald*, "Beef imports to be allowed only for tourist hotels," Jan. 27, 1988, p. 1. In February 1988, the American Meat Institute filed a section 301 complaint with the USTR charging that Korea's ban on beef is unjustifiable and unreasonable. In March 1988, the United States requested a GATT arbitration panel to settle its dispute over Korea's ban on beef imports.

Cigarettes

The Korean cigarette market is worth about $2.1 billion annually and is controlled by a state monopoly that does not advertise its products. After an accord was reached in 1986, imports of U.S. cigarettes began in September 1986, but import tariffs of 100 percent increased the cost of foreign brands to approximately $1.78 per pack, almost three times as much as local brands. In 1987, foreign cigarettes also remained under severe quantity and procedural restrictions and accounted for only .3 percent of the market.[1]

During 1987, the United States continued to press for more equitable treatment. Although Korea agreed to reduce its cigarette tariff from 100 to 70 percent effective July 1, 1987, the U.S. industry was still unable to fill its designated 1 percent market share owing to pricing, market, and distribution constraints. Reportedly, Korean officials are considering further reducing the price of foreign cigarettes and eventually allowing private companies to import cigarettes, thereby breaking the monopoly held by the Korea Monopoly Corporation.[2]

A section 301 petition filed by the U.S. Cigarette Exporters Association with the USTR in January 1988 charged that access to the lucrative Korean cigarette market is unfairly restricted.[3] U.S. industry believes substantial sales could be made if the market were fully opened.

Insurance

A section 301 investigation of Korea's insurance restrictions was successfully resolved in 1986 when Korea agreed to: 1) license two U.S. firms to underwrite compulsory fire insurance effective July 31, 1986; 2) admit two U.S. firms to the compulsory fire insurance pool effective July 31, 1986; 3) license at least one U.S. firm to underwrite life insurance by the end of 1986; 4) license additional qualified U.S. firms to underwrite both life and non-life insurance; and 5) reach specific understandings on certain technical and administrative matters including re-insurance by the end of 1986.[4]

Korea did comply with some aspects of the agreement: both resident U.S. nonlife firms were admitted to the fire pool on July 21, 1986, and as of June 1987 the first U.S. company licensed to underwrite life insurance began operations and a second firm was granted an interim license. However, when the joint venture applications of another U.S. firm were disapproved, questions were again raised about the procedures for licensing other qualified firms. After inconclusive bilateral discussions in September 1987, it became apparent that the insurance issue was far from resolved. A number of application issues remain, particularly whether or not U.S. firms wishing to participate through joint ventures will be permitted by the Korean Government to choose from an adequate group of appropriate potential Korean partners. At yearend, bilateral talks were continuing.

Advertising

Korea has the second largest advertising market in Asia, estimated at about $800 million in 1986 with a 10 to 20 percent annual growth rate. The country's foreign-capital inducement law prohibits direct foreign investment in advertising. U.S. firms estimated they could capture an estimated 20-percent market share if foreign participation were not prohibited.

During bilateral negotiations on the issue in 1986, Korea was urged to permit foreign investment in advertising and as an interim measure, to approve U.S. applications to open branch offices in Korea. In August 1987, Korea agreed to allow U.S. firms into joint ventures with up to 40 percent foreign equity investment. By yearend, however, the issues of access to broadcast media and financial restrictions remained unresolved.

BRAZIL

The Economic Situation in 1987

On June 12, 1987, Brazilian President Jose Sarney announced tough, new austerity measures for Brazil's economy. The package, also referred to as "the new Cruzado Plan," was prompted by sharp criticism of the Sarney administration's original Cruzado Plan, launched in February 1986.[5] The original plan, a broad currency and economic reform package named after Brazil's new currency, was initially heralded as a major success. However, the plan's weaknesses began to surface a few months into implementation. By June 1987, inflation in Brazil was running at an annual rate of more than 1,000 percent. High and unpredictable interest rates resulted in mass bankruptcies and capital flight from the country.

The June 1987 corrective measures included the devaluation of the cruzado by 10 percent relative to the U.S. dollar (following a 7-percent devaluation in April), and a new wage and price freeze. Before the freeze, the Government in

[1] Hannah Moore, "Seoul prepares to give ground on U.S. trade," *Journal of Commerce*, Jan. 26, 1988, p. 18A. For background on the cigarette issue, See *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-44.

[2] "Korea- U.S. trade friction: a not-so-merry Christmas", *Business Korea*, p. 33.

[3] In February 1988, after more than 2 years of negotiations on the issue, and in response to the petition, USTR launched an investigation into Korean practices that are alleged to create barriers to cigarette imports.

[4] For background information on the insurance issue, see *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-44.

[5] See the *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-45.

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creased sharply the prices of certain items such as gasoline, electricity, steel, bread, and milk. An objective of the price hikes was to restrict consumption, since excess demand was the single factor most responsible for undermining the old Cruzado Plan. As the year progressed, officials relaxed price controls on most consumer items except a handful of food products, but they left price controls on key industrial inputs in place. The June 1987 package also contained other major provisions, including the halting of major public construction projects to reduce Government spending.

Earlier, on February 20, 1987, the Government of Brazil took the controversial step of suspending interest payments on its foreign commercial debt of $69 billion. In June, Brazilian officials broadened this moratorium to include an additional $44 billion owed to foreign governments. In November, Brazil entered negotiations to resume payments, contingent upon the banks' willingness to discuss the multiyear rescheduling of its debt on more favorable credit terms. In addition to new loans, Brazil sought lower interest rates and a commitment from the banks that some of its existing debt would be converted into equity investment. With its foreign debt totaling $113 billion, Brazil is the Third World's leading debtor.

Urgent need for new, short-term credit coupled with concern that U.S. bank regulators would reclassify its commercial debt as "value-impaired," moved Brazil in December to consider resuming interest payments on commercial debt unconditionally. This was part of an effort by Brazil to improve its financial position and restore ties with banks and international lending agencies.[1] Also in December, Brazil's long internal debate over fiscal and debt repayment policy ended with the resignation of several top finance officials and the announcement of higher taxes.

Despite major problems troubling much of Brazil's economy, trade performance was strong in 1987. Brazil had a near-record trade surplus of $11.2 billion, 16.8 percent higher than in 1986. Exports in 1987 amounted to $26.2 billion, up from $22.4 billion in 1986, and the second highest ever. Manufactures and semifinished products accounted for more than two-thirds of export revenues, led by automotive vehicles and auto parts. Firmer prices of certain agricultural exports, such as soybeans and orange juice, also contributed to increasing Brazil's hard-currency receipts. Brazil's imports in 1987 amounted to $15.1 billion compared with $12.9 billion in 1986.

[1] In March 1988, Brazil agreed to resume paying interest, thereby ending its long debt moratorium. The move came as part of an accord in which Brazil's bank creditors pledged to make fresh loans toward a medium-term debt financing package at the same relatively favorable interest-rate terms that Mexico and some other debtor nations have received. The creditors also agreed to reschedule $62 billion of Brazil's debt for repayment over 20 years.

Brazil's economic growth in 1987 is estimated at 2 percent, compared with 8 percent in 1986. For the 12 months ending in October, Brazil experienced an inflation rate of 366 percent.

Merchandise Trade With the United States

In 1987, the United States remained Brazil's principal trading partner, absorbing about one-third of Brazil's overall exports, but some 60 percent of its manufactured exports. Meanwhile, Brazil's role in the U.S. trade picture continued to be relatively minor. As in 1986, Brazil ranked 14th as a market for U.S. exports and 11th as a source of U.S. imports. In 1987, the United States had a merchandise trade deficit with Brazil for the seventh consecutive year. The U.S. deficit, which contracted in 1986 to $2.9 billion, widened to $3.7 billion. The larger 1987 deficit was the result of an increase in U.S. imports from Brazil coupled with U.S. exports to that country that remained virtually unchanged from 1986 (table 4–10).

The United States maintained a surplus in three areas of bilateral trade: machinery and transportation equipment, chemical products, and in SITC category 9 (commodities and transactions, n.e.c.). The United States recorded a trade deficit in all other major SITC product categories, especially food.

Trade between the two countries rose steadily through the 1970's, generating a moderate U.S. surplus through 1981. Then a concerted Brazilian export drive, designed to help service the country's massive foreign debt, rapidly accelerated exports to the United States. U.S. exports to Brazil, on the other hand, have been severely restricted both by Brazil's pervasive nontariff barriers to imports and by Brazilian efforts to diversify commodity suppliers and lessen dependence on the United States. U.S. exports to Brazil amounted in 1987 to $3.9 billion, up only 3.8 percent from 1986 (table 4–10.) Only exports of machinery and transportation equipment expanded significantly. Exports of chemicals, which surged in 1986, dropped in 1987. Exports of food fell precipitously, and declines continued in the mineral fuels category. Growth of machinery and transportation equipment exports was made possible by greater freedom of Brazilian producers to import capital goods. Machinery has been traditionally the leading U.S. product sold to Brazil, gaining in relative importance through the years. Products classified in this group accounted in 1987 for 54.4 percent of all U.S. exports to Brazil. Machinery and transportation equipment is also the principal product category on the U.S. import side.[2]

[2] See discussion on U.S. imports from Brazil below.

Leading U.S. exports in the machinery and transportation equipment group included aircraft and parts, telecommunications equipment, and automotive products. (See tables B-17 and B-18 for details of U.S.-Brazilian trade.) Aircraft sales almost tripled in value in 1987, owing to a large sale of Boeing jets to Varig Airlines. Aircraft moved to top rank among U.S. exports for the first year. By contrast, U.S. exports of office machinery (mostly computer parts) dropped. Brazil's reserved market for computers and parts has been the source of prolonged tension in bilateral economic relations.[1]

U.S. grain exports to Brazil continued to fall sharply during the year. Corn shipments dropped to one-third of their 1986 value. In 1987, wheat disappeared from the list of leading U.S. exports to Brazil, falling consistently from $396 million in 1984, $308 million in 1985, $66 million in 1986, to $9.6 million in 1987. This decline was due, in part, to Brazil's bumper harvest in 1987 for most crops, including wheat and corn. Brazil's efforts to diversify its sources were also important factors. In 1986, Brazil and Argentina concluded a bilateral grain agreement, providing for major Brazilian purchases of wheat from Argentina through 1991.

Brazil's efforts to diversify its sources of coal supplies depressed U.S. exports of this item also. In 1987, U.S. coal shipments to Brazil remained stable by volume but fell by value because U.S. suppliers agreed to the lower prices demanded by Brazil's steel industry. SIDERBRAS, Brazil's national steel company, is a leading overseas market for U.S. coking coal. Coal was the top U.S. export product to Brazil in 1986, and the third one (after aircraft and telecommunications equipment) in 1987. Approximately half of some 10 million short tons of coking coal imported by Brazil in 1987 came from the United States. In the early 1970's, before U.S. companies raised coal prices following a surge of international oil prices, Brazil depended almost entirely on U.S. coal.

As shown in Table 4- 10, U.S. imports from Brazil totaled a record $7.6 billion in 1987, rebounding 13.9 percent from their comparatively low 1986 value.[2] Machinery and transportation equipment imports were largely responsible for the increase. Although some Brazilian automotive products lost their eligibility under the U.S. GSP program in July, automotive imports such as automobile chassis, motor vehicles, trucks, buses, and airplanes and parts were up sharply.[3]

As noted previously, machinery and transportation equipment became the leading major SITC product category on the import side in 1987

[1] See "Informatics" later in this section.

[2] See *The Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-45.

[3] See also the "Generalized System of Preferences" in ch. 5 of this report.

Table 4-10
U.S. merchandise trade with Brazil, by SITC Nos. (Revision 2), 1985-87
(In thousands of dollars)

SITC section No.	*Description*	*1985*	*1986*	*1987*
			U.S. exports[1]	
0	Food and live animals	408,080	441,442	171,448
1	Beverages and tobacco	650	1,348	1,025
2	Crude materials, inedible, except fuel	181,103	242,480	238,795
3	Mineral fuels, lubricants, etc.	329,667	300,571	281,342
4	Oils and fats, animal and vegetable	2,121	19,192	2,206
5	Chemicals	468,320	754,089	667,909
6	Manufactured goods classified by chief material	111,048	123,110	132,775
7	Machinery and transportation equipment	1,360,394	1,616,673	2,116,105
8	Miscellanous manufactured articles	157,857	181,736	185,595
9	Commodities and transactions not elsewhere classified	39,542	66,341	92,072
	Total	3,058,782	3,746,982	3,889,272
			U.S. imports[2]	
0	Food and live animals	2,267,129	1,722,713	1,750,937
1	Beverages and tobacco	130,029	117,320	149,684
2	Crude materials, nedible, except fuel	225,571	238,766	310,540
3	Mineral fuels, lubricants, etc.	698,237	378,904	613,587
4	Oils and fats, animal and vegetable	35,333	29,887	41,057
5	Chemicals	423,011	271,527	236,642
6	Manufactured goods classified by chief material	1,319,271	1,247,024	1,282,258
7	Machinery and transportation equipment	1,171,163	1,414,848	1,913,646
8	Miscellaneous manufactured articles	1,149,264	1,105,115	1,222,756
9	Commodities and transactions not elsewhere classified	126,251	156,493	91,099
	Total	7,545,259	6,682,597	7,612,206

[1] Domestic exports, f.a.s.
[2] Imports for consumption, customs value.

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Note.—Because of rounding, figures may not add to the totals shown.
Source: Compiled from official statistics of the U.S. Department of Commerce.

moving food to second place. In 1987, this group accounted for 25.1 percent of overall U.S. imports from Brazil compared with 13.4 percent in 1984.

The value of food imports from Brazil— most of which are accounted for by coffee, orange juice, cocoa butter and beans, and sugar—remained virtually unchanged in 1987. Imports of coffee surged by quantity, but depressed coffee prices caused the import value to fall further from its already low level in 1986.[1] However, coffee continued to be the second leading import from Brazil. Imports of orange juice, which were also down in 1986, rebounded during the year under review but stayed below their 1985 value. The United States is the destination of more than one-half of Brazil's orange juice exports. Reduced U.S. sugar quota allocations in 1987 caused a continued decline in imports of sugar.

In 1987, footwear (classified in "miscellaneous manufactures") stayed on the top of the U.S. import list from Brazil. The United States receives some 80 percent of Brazil's footwear exports. Imports rebounded somewhat from their low 1986 value during the year, even though certain Brazilian footwear lost eligibility under the U.S. GSP program on July 1, 1987.[2] However, the announcement by President Reagan in November 1987, that he intends to impose sanctions against Brazilian exports, reportedly had an unsettling effect on this trade. U.S. importers of footwear (as well as some other likely targets for reprisals) cancelled orders in anticipation of punitive tariffs. This in turn, prompted Brazilian suppliers to slow their production.

In 1987, merchandise valued at $986 million or 13.2 percent of overall U.S. imports from Brazil, entered free of duty under the GSP compared with $1.1 million or 16.6 percent of the total in 1986.

Major Policy Developments Affecting Trade

Brazil maintains a wide range of import restrictions such as a prior licensing system administered by the Foreign Trade Department of the Bank of Brazil (CACEX), a general restriction on imports of products that can also be produced in Brazil (the law of similars), individual import quotas for companies, a list of products barred from importation under any conditions; and a variety of restrictive administrative techniques. Tariffs are also high, but the tariff system, established in 1957, has gradually lost importance relative to other protective measures.[3] As a result of these controls, Brazil is less dependent on imports than nearly any other nation of the world.[4]

Brazil also maintains export incentive programs such as relief from import duties for exporters, income tax exemptions for export earnings, special financing for export trading companies, and subsidized loans to buyers of Brazilian goods.[5] The United States has sought Brazilian export subsidy cuts for some time and has imposed countervailing duties on a wide variety of Brazilian products.

A program of liberalizing international trade was first announced in January 1985 by Brazil's previous administration, but progress has been minimal. Yet, Brazilian officials have continually insisted that a trade reform program continues to be under serious consideration, including a shift in emphasis from current bureaucratic import controls to tariffs, which are more responsive to market forces. A major tariff reform is expected to go into effect sometime in 1988.

At the beginning of 1987, Brazilian officials lengthened the list of prohibited imports from 2,000 to 4,500 as a response to Brazil's poor trade performance in 1986.[6] However, in view of Brazil's improving 1987 trade performance, in September the Government responded to domestic industry calls for imported material and equipment by reducing that list to 2,000.

On the export side, income tax exemption for profits of manufactured exports was in effect throughout 1987. Among other yearend measures designed to raise the Government's revenue and help reduce Brazil's large public deficit, President Sarney decided not to renew this subsidy in 1988.

Striving to maintain the competitiveness of exports, in 1987 Brazilian officials continued the daily "mini-devaluations" of the cruzado; they also ordered two major devaluations of 10 and 7 percent against the dollar in April and June. In order to strengthen future exports, President Jose Sarney proposed in June to create export-oriented foreign trade zones modeled after those of Taiwan and Korea.

While generally continuing to promote exports in 1987, the Government also temporarily suspended export licenses from time to time for items that were in short supply on the domestic market. In addition, some exports were ad-

[1] In 1986, the volume of Brazilian coffee shipments to the U.S. market was reduced by almost one-half, due to a prolonged drought in Brazil.

[2] A 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.

[3] For a discussion of Brazil's trade restrictions, see *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 183, and the *37th report, 1985*, p. 215.

[4] Brazil has an average nominal duty rate of 51 percent. However, Brazil's effective tariff rate (customs receipts compared with the value of imports) is believed to be no more than 10 percent.

[5] Ibid.

[6] See the *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-46.

versely affected by restrictions Brazilian officials imposed on short-term credit lines (reducing 180-day maturities to 60 or even 30 days) following the February 1987 moratorium on interest payments).[1] The impact was greatest on smaller private exporters; large state-owned companies (such as oil and mineral producers), and multinational companies (such as automotive producers) with their independent financial resources have suffered fewer repercussions.

United States-Brazil Bilateral Trade Issues

Overview

Once joined in a relatively harmonious economic alliance, the United States and Brazil entered into an era of tension a few years ago. This resulted from Brazil's aggressive export promotion schemes, coupled with the protectionist barriers Brazil erected against foreign sales and investment. Frequent charges by U.S. producers about unfair export-promotion practices led eventually to U.S. restrictions on Brazil's shipments of steel[2] and textiles[3], and the imposition of antidumping and countervailing duties on certain other imports from Brazil. The strain in bilateral economic relations continued in 1987. Whereas Brazil made some progress in lowering its trade barriers, many differences failed to be resolved.

In January 1987, a 2-year general review of the GSP program was completed. On the basis of this review, and the annual GSP review concluded in April, Brazil became one of the advanced developing countries slated to lose some benefits under this program, beginning July 1, 1988.[4] In May, Brazil complained to the GATT that recent modifications to the U.S. GSP, such as removal of products of certain countries from GSP eligibility, were contrary to GATT rules. The United States denied this charge.

In February, Brazil's decision to suspend interest payments on foreign debt aggravated relations between the two countries. Brazil owes some one-third of its total commercial debt to U.S. banks such as Citicorp and Manufacturers Hanover.

Early in July, bilateral tensions eased temporarily as the President decided not to impose trade sanctions against Brazil under section 301 of the Trade Act of 1974 in the unresolved "informatics" case and even suspended part of this investigation. However, relations deteriorated shortly thereafter. At the end of July, the U.S. Government instituted a new section 301 case against Brazil in the area of pharmaceuticals. In addition, the informatics dispute again flared up, and in November, President Reagan stated his intention to impose trade sanctions against Brazil for unfair practices in this area. Brazil's failure to provide adequate protection for intellectual property is an important aspect of both the informatics and pharmaceutical cases.[5]

On the positive side, in June the United States and Brazil concluded a long-delayed action to include specialty items under the steel agreement. Completion of this agreement had been held up pending progress on various other trade issues. In November, U.S. Government officials from the Treasury Department and the Federal Reserve Bank became active in helping Brazil and U.S. commercial banks complete an agreement on foreign debt.[6] These efforts contributed to prompting Brazil to resume payments in 1988.

Informatics

Since 1983, Brazil's efforts to establish a domestic computer industry under a protectionist umbrella have generated major trade disputes with the U.S. Government, continuing into the year under review. The United States set June 30, 1987, as the third deadline for Brazil to take corrective action in the "informatics" case.[7] It became the third time Brazil escaped U.S. sanctions.[8] The bilateral dispute over Brazil's reserved computer market and its lack of adequate protection for computer software first reached critical proportions in September 1985, when the United States opened an investigation of these issues under section 301 of the Trade Act of 1974.[9] Days before the June 1987 deadline, the Brazilian Chamber of Deputies (the lower house of the Brazilian Congress) passed a bill containing provisions for copyright protection of software in Brazil. U.S. officials perceived this as progress in the dispute, and President Reagan refrained from imposing sanctions. The President even suspendedthe intellectual property rights portion of the section 301 investigation and instructed the USTR to monitor the bill's passage through the

[1] See previous section.

[2] A 5-year accord concluded by the two countries, effective October 1984, imposed limitations on Brazil's steel shipments to the United States. See also *Operation of the Trade Agreements Program, 36th Report, 1984*, p. 187.

[3] In 1987, a comprehensive 3-year bilateral agreement on textiles and apparel trade ending on March 31, 1988, was in effect. See also the *Operation of the Trade Agreements Program, 37th Report, 1985*, p. 221.

[4] See "the Generalized System of Preferences" in ch. 5 of this report.

[5] In a report issued in early 1988, the U.S. International Trade Commission cited Brazil as one of several countries in which inadequate protection of patents, trademarks, copyrights, and trade secrets is most prevalent. (*Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade*, Feb. 1988, USITC Publication 2065.)

[6] See "The Economic Situation in 1987" earlier in this section.

[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, 38th report, 1986*, p. 4-51.

[9] See *The Operation of the Trade Agreements Program, 37th Report, 1985*, p. 220.

Brazilian Senate.[1] The President left active the portion of the section 301 case that covers Brazil's investment policies.

The proposed legislation upheld the right of Brazilian authorities to deny marketing of foreign software when an equivalent product of Brazilian origin is available. Since the practice of Brazilian officials to interpret equivalency in a broad protectionist manner had been a major barrier to imports in the past, U.S. officials called into question the effectiveness of the new software bill.

The prospect that U.S. trade sanctions against Brazil might be imposed was soon revived. In September, Brazilian officials ruled that a local product is sufficiently equivalent to the popular MS-DOS personal computer operating program of Microsoft Corp. to deny a license for the U.S. software. The U.S. Government supported Microsoft's claim that its own system is superior to the Brazilian product, and concluded that officials in Brazil are not interpreting equivalency objectively. U.S. officials also concluded that denying licensing to the Microsoft product will encourage continued piracy.

On these grounds, on November 13, President Reagan announced his intention "...to raise tariffs on Brazilian exports to the United States and to prohibit imports from Brazil of certain computer products in response to the maintenance by Brazil of unfair trade practices in the area of computer products."[2] A list of Brazilian exports targeted for retaliation was issued subsequently and discussed at a hearing in December. The size of retaliation was to reflect lost sales opportunities by the U.S. software industry in Brazil, estimated at $105 million.

Meanwhile, in November, Brazil's Senate approved a modified version of the software bill that the House had passed in June. In December, this bill was enacted as Brazil's copyright protection law. Although making software piracy more difficult than before, the new legislation has not eliminated certain market reserve features. It is also considered by many as vague in defining the criteria used to assess the equivalency of imported products. Whether the new law will open Brazil to U.S. software, however, will ultimately depend on the implementing regulations still to be written.[3]

[1] On Dec. 30, 1986, President Reagan had already suspended parts of the 301 case—concerning administrative procedures and market reserve—based in part on Brazil's commitment not to extend its market reserve practices to new areas. At the same time, the President postponed retaliatory action on the remaining active parts of the case that concerned intellectual property protection and foreign investment. The first postponement of retaliatory action took place in October 1986.

[2] Statement by the President, The White House, Office of the Press Secretary, Nov. 13, 1987.

[3] On Feb. 29, 1988, President Reagan postponed retaliatory action, pending review of these implementing regulations. Before that, in January, Brazilian officials announced that they will allow licensing of Microsoft's newer, more sophisticated systems software (MS-DOS #3.3), but they will sustain the ban on the product subject to the original dispute (MS-DOS #3.2).

Pharmaceuticals

On June 10, 1987, the Pharmaceutical Manufacturers Association (PMA) filed a complaint with the USTR under section 301 of the Trade Act of 1974. PMA took this action immediately following U.S.-Brazilian bilateral consultations that failed to result in a commitment from Brazil to provide patent protection for U.S. pharmaceutical products. The PMA complaint focused on Brazilian regulations which, although recognizing patent rights in general, expressly deny protection for products and processes of the pharmaceutical industry and for some other specialty chemicals. The regulations could encourage infringers to copy, manufacture, and market pharmaceutical products invented by PMA members. PMA estimated that its member companies lost at least $160 million in sales between 1979 and 1986 due to Brazil's failure to provide patent protection. With some $2 billion in sales, Brazil ranks among the top ten pharmaceutical markets in the world.

On July 23, the USTR initiated an investigation acting on the U.S. pharmaceutical industry's complaint.[4] The USTR notice announcing the investigation noted that "Brazil's refusal to provide patent protection for pharmaceuticals is significant evidence of an unfair trade practice. Brazil's inaction in this area has concerned the U.S. Government since 1984. Despite three rounds of consultations in the last year, Brazil still rejects our request for protection of this basic intellectual property right. Brazil is the only major pharmaceutical market in the world without either process or product patent protection for pharmaceuticals. As a consequence pharmaceutical piracy appears to be a major problem."[5] The USTR held a hearing in this case on September 14. Bilateral consultations on pharmaceuticals have continued simultaneously with the Section 301 investigation on this matter.

In Brazil, all new specialty chemical production—principally pharmaceuticals— requires prior approval.[6] A 1984 regulation allows Brazilian authorities to ban foreign investments that would compete with nationally controlled companies if internal demand to sustain both is deemed insufficient. As a result, Brazil can de facto apply the market reserve principle to specialty chemicals.[7] Partly in response to U.S. concerns, Brazil abandoned in 1987 an earlier plan to apply an outright market reserve policy—such as the one on "informatics"—to this sector.[8]

[4] See also "Enforcement of trade agreements and responses to unfair foreign practices" in ch. 5 of this report.

[5] USTR Press Release, Jul. 23, 1987.

[6] Specialty chemicals are defined as raw materials, pharmaceuticals and additives used in drugs, and a variety of chemical products.

[7] See section on "informatics" above. 4-55

[8] See *Operation of the Trade Agreements Program, 38th Report, 1986*, p. 4-50.

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 1987. The chapter is subdivided into sections relating to actions under (1) the import relief laws (the escape clause, market disruption, and adjustment assistance provisions of the Trade Act of 1974); (2) unfair trade laws; and (3) certain other trade law provisions, including section 22 of the Agricultural Adjustment Act (interference with programs of the U.S. Department of Agriculture), section 232 of the Trade Expansion Act of 1962 (impairment of national security), the Caribbean Basin Economic Recovery Act (CBERA) and the renewed U.S. Generalized System of Preferences (GSP). In addition, U.S. programs regulating imports of both textiles and steel are covered in this chapter.

IMPORT RELIEF LAWS

Safeguard Actions

U.S. industries seriously injured by increased imports may receive temporary relief from imports under section 201 of the Trade Act of 1974.[1] Section 201, the so-called U.S. escape-clause law, is based on article XIX of the GATT, which permits a country to "escape" temporarily from its obligations with respect to a particular article when certain conditions exist. Under section 201, the U.S. International Trade 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] If the Commission makes an affirmative determination, it must find and recommend to the President the form and level of import relief necessary to prevent or remedy the injury, or, if it finds that the provision of adjustment assistance can remedy such injury, recommend the provision of such assistance. The Commission's findings or recommendation, together with any dissenting or separate views, are transmitted to the President.[3] The President must, within 60 days of receipt of an affirmative Commission determination and recommendation of relief, proclaim import relief unless he determines that import relief is not in the national economic interest. If the Commission recommends adjustment assistance, the President must direct the Secretaries of Labor and Commerce to consider petitions for such assistance.[4] The President may provide relief by proclaiming an increase in, or imposition of, a duty; by proclaiming a tariff-rate quota;[5] by proclaiming the modification or imposition of a quantitative restriction (quota); by negotiating orderly marketing agreements with foreign countries limiting the exportation to, and importation into, the United States of such articles; or by taking 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]

During 1987, the Commission did not undertake or complete any section 201 investigations. However, the Commission conducted a preliminary investigation under section 603 of the Trade Act of 1974 with respect to industrial forklift trucks following rejection of a section 201 petition filed in June 1987 by Yale Materials Handling Corp. with respect to such articles (investigation No. TA-603-10, Industrial Forklift Trucks).[8] The Commission had rejected the petition on the ground that the petitioner and supporting producers had not provided sufficient basis for determining that they were "representative of an industry" within the meaning of section 201(a) of the Trade Act. At the conclusion of the section 603 investigation, the Commission concluded that Yale and the firms supporting the petition were representative of a domestic industry and would have standing to file a petition of the scope proposed in the original petition. [9]

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 already in place under section 201.[10]

The Commission conducted two section 203 investigations in 1987: Stainless Steel and Alloy

[1] 19 U.S.C. § 2251, as amended.
[2] 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).
[4] 19 U.S.C. § 2252(a)(1)(A).
[5] A tariff-rate quota provides for varying rates of duty based on levels of imports. For example, the first 1,000 tons of a given article entered during a calendar year (within-quota imports) may be dutiable at one rate of duty and all additional imports entered during the calendar year (over-quota imports) may be dutiable at a higher rate of duty.
[6] 19 U.S.C. § 2253(a). A rate of duty may not be increased to a rate that is more than 50 percent ad valorem above the rate presently existing, and any quantitative restriction must allow the importation of at least that quantity or value of the article entered during the most recent period that the President finds is representative of imports of that article. 19 U.S.C. § 2253(d).
[7] 19 U.S.C. §§ 2253(h)(1) and (3).
[8] The Commission is generally authorized under section 603(a) of the Trade Act of 1974 (19 U.S.C. § 2482(a)) to conduct preliminary investigations to determine the scope and manner of its proceedings and to consolidate proceedings before it. 5-1
[9] See Commission notice issued Nov. 23, 1987.
[10] 19 U.S.C. § 2253(i).

Tool Steel (investigation No. TA-203-16) and Heavyweight Motorcycles (investigation No. TA-203-17). Following receipt of the Commission's advice in these investigations, the President extended the relief on stainless and alloy tool steel and terminated the relief on heavyweight motorcycles. Each of these investigations is discussed below.

Stainless Steel and Alloy Tool Steel

The Commission instituted the section 203 investigation on stainless and alloy tool steel in January 1987 following receipt of a petition from the Specialty Steel Industry of the United States and the United Steelworkers of America, AFL-CIO. The petitioners asked that the relief proclaimed by the President in 1983 be extended. The Commission reported its advice to the President on May 15, 1987. Three Commissioners advised that the termination of relief with respect to stainless steel sheet and strip and plate would not have an "adverse effect"[1] on the domestic industries producing such articles, assuming the administration of voluntary restraint agreements (VRA's) at present levels on such articles continued in effect, but that the termination of relief with respect to stainless steel bars, wire rod, and alloy tool steel would have an "adverse effect"[2] on the domestic industries producing such articles. Two Commissioners provided advice as to the probable economic effect of terminating the relief, but did not advise as to whether relief should be terminated or extended. The President subsequently extended relief through September 1989.

Heavyweight Motorcycles

The Commission instituted a section 203 investigation with respect to heavyweight motorcycles in April 1987 following receipt of a request from the United States Trade Representative (USTR). The USTR requested the Commission investigation after it had received a request from Harley-Davidson, Inc., the firm that had originally sought relief, asking that relief be terminated early. On June 19, 1987, the Commission advised that the termination of relief presently in effect would have "no significant economic effect" on the domestic industry producing heavyweight motorcycles. The President subsequently terminated the relief (Proclamation 5727 of Oct. 9, 1987).

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 produced in a Communist country are causing market disruption with respect to an article produced by a U.S. industry. Market disruption is defined as existing in 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."[3]

During 1987, the Commission conducted one section 406 investigation, ammonium paratungstate and tungstic acid from the People's Republic of China (China) (investigation No. TA-406-11). At the conclusion of the investigation in June 1987, the Commission reported to the President that it found market disruption to exist and recommended that a quota be imposed on such imports from China. The President subsequently announced that he would seek to negotiate an orderly marketing agreement with the Chinese with respect to such imports. An agreement was negotiated and quotas at a level equal to that negotiated in the agreement were imposed on such imports (Proclamation 5718 of Oct. 2, 1987).

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. 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 Reconciliation Act of 1985 (COBRA) discontinued financial assistance to firms effective April 7, 1986.[4] 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. Trade adjustment technical services are provided to certified firms through consultants under direct contract with the

[1] One of the Commissioners used the term "significant adverse effect."
[2] Ibid.

[3] 19 U.S.C. § 2436(e)(2). If the Commission makes an affirmative determination, it must find and recommend to the President the import restriction 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.

[4] 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.

Department of Commerce.[1] 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 instituted 1,877 investigations in fiscal year 1987 on the basis of petitions filed for eligibility to apply for trade adjustment assistance, representing an increase of 7.1 percent from the 1,752 investigations instituted in fiscal 1986. According to official statistics of the U.S. Department of Labor, the results of investigations completed or terminated in fiscal 1987, including those instituted in the previous year, are shown in the following tabulation:

Item	*Number of investigations or petitions*	*Estimated number of workers*
Complete certifications	875	111,513
Partial certifications	13	3,419
Petitions denied	1,491	147,377
Petitions terminated or withdrawn	80	6,202
Total	2,459	268,511

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,[2] Department of Labor expenditures in fiscal 1987 on direct cash benefits to certified workers increased to $198 million. This figure represented a 69.8-percent increase from the $116.6 million expenditure in fiscal 1986. The increase according to Department officials primarily reflects certification activity in the petroleum and related products industries. In addition to direct financial assistance, the Department of Labor provided consultation and relocation services valued at $49.9 million in fiscal 1987 for worker activities in the areas shown in the following tabulation:

Item	*Estimated number of workers*
Job search	2,165
Relocation allowances	1,893
Training	10,588
Total	14,646

[1] Certified firms are eligible to apply for technical services necessary to implement programs of economic recovery. Technical services include legal consultation designed to assist firms in assessing the appropriateness of pursuing remedies available through various trade statutes, and in-depth technical consultation in engineering, marketing, production methods, and financial management.

[2] The OBRA and Deficit Reduction Act made changes in the law 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.

Data for fiscal year 1987 indicate an estimated 14,646 workers utilized available service benefits in 1987, representing an increase of 42.2 percent from the 10,300 workers receiving such services in the previous year. The special training and relocation program initiated at the request of the President on August 28, 1985, continued in effect throughout fiscal year 1987 for workers dislocated as a result of import competition in the footwear industry.[3]

Assistance to Firms and Industries

The Department of Commerce through its Office of Industrial Trade Administration certified 110 firms as eligible to apply for trade adjustment assistance during fiscal year 1987, representing a decrease of 38.2 percent from the 178 firms certified in the previous fiscal year. Consultants under direct contract with the Department of Commerce provided trade adjustment technical services to certified firms in fiscal 1987; however, financial assistance—discontinued effective April 7, 1986, upon enactment of the Consolidated Omnibus Reconciliation Act of 1985—is no longer available. According to Department officials, the decrease in certifications in most instances represents the lack of any inducement to participate in the program. Firms in the primary metals, fabricated metals, machinery, and miscellaneous manufacturing sectors compose the largest proportion of all firms certified in fiscal 1987. Commerce officials estimate two-thirds of all certification activity took place in the industrial sectors mentioned above. Certified firms continued to utilize available consultation services in fiscal 1987. According to official statistics of the U.S. Department of Commerce, 270 trade-impacted firms[4] received trade adjustment technical services valued at $13.2 million, through consultants under direct contract with the International Trade Administration. The Department also awarded trade adjustment technical assistance grants totaling $588,000 to three industry associations. These associations represented wire machinery manufacturers and producers of furniture and textile machinery.[5]

LAWS AGAINST UNFAIR TRADE PRACTICES

As a result of antidumping and countervailing duty (CVD) investigations conducted in 1987 by the U.S. International Trade Commission and the Department of Commerce, 38 new antidumping orders and 13 new CVD orders were issued. During 1987, the Commission completed 21 investigations under section 337 of the Tariff Act of 1930 involving allegations of unfair methods of competition. Those investigations resulted in the

[3] The President's footwear program—designed to operate for 3 years at a total cost of $5 million—is retroactive to Aug. 28, 1985, and is scheduled to remain in effect through June 30, 1988.

[4] This figure includes firms certified in years previous to fiscal 1987.

[5] Trade adjustment technical assistance programs initially funded in previous years continued in effect throughout fiscal year 1987 for industries that produce electronics, industrial machinery, apparel, die castings, auto parts, and foundry products.

issuance of three exclusion orders prohibiting the importation of merchandise that would violate section 337 if permitted entry.

In 1987, four section 301 investigations were instituted upon petitions filed by private parties, and one case was self-initiated by the President. Bilateral settlements were reached in three pending cases.

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 less than fair value (LTFV) in the United States, and (2) the U.S. International Trade Commission determines that 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 imports for which the administering authority made an affirmative determination. In general, imports are considered to be sold at LTFV when the U.S. selling price is less than the foreign market value, which is usually the home-market price or, in certain cases, the price in a third-country market, or the cost of production of the merchandise. The dumping duty equals the difference between the U.S. price and the foreign market value. In determining whether 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 an industry or on behalf of one with the Department of Commerce and the 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 International Trade Commission conduct preliminary and final antidumping investigations.[2] Commerce completed 43 final antidumping investigations in 1987, a decrease from the 49 final investigations completed in 1986.[3] Imported products investigated included urea, color picture tubes, silica filament fabric, pipe fittings, chemical products, and numerous steel products. Antidumping orders were imposed in 38 of these investigations on a total of 15 products from 26 countries. The Commission completed 20 preliminary and 51 final antidumping injury investigations.[4] Details of antidumping actions and orders, including suspension agreements in effect[5] and revocations in 1987, are presented in tables B-19 and B-20. The following tabulation is a summary of antidumping cases in 1987:

Antidumping Cases	*Number*[1]
Petitions filed	15
Preliminary Commission negative determinations	2
Final Commerce determinations	
Negative	3
Affirmative	39
Terminated	1
Final Commission determinations:	
Negative	9
Affirmative (includes partial affirmatives)	39
Terminated	3
Suspension of investigations	0

[1] The number of investigations instituted and determinations made generally would exceed the number of petitions filed. When a petition alleges dumping with respect to more than one product and/or by more than one country, separate investigations generally are instituted for imports of each product from each country.

Countervailing Duty Actions

The U.S. countervailing duty 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 subsidies[6] on products imported into the

[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 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 continues its investigation and makes preliminary and final determinations concerning whether the imported article is being, or is likely to be, sold at LTFV. If Commerce makes an affirmative preliminary and/or final determination, the Commission must conduct a final injury investigation. 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 but 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] 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. It does not count court-remanded cases on which new votes were taken.

[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 affected 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 reinstituted 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).

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 material injury or threat thereof 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,[1] or has otherwise been designated as a "country under the Agreement."[2] 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 unconditionally free of duty.[3]

Commerce completed 21 final CVD investigations[4] in 1987 compared with 24 completed in 1986. CVD orders were imposed as a result of 13 of these investigations on a total of 7 products from 12 countries. The Commission completed 3 preliminary and 19 final injury investigations.[5] Details of CVD actions and outstanding orders, including suspension agreements in effect[6] and revocations in 1987, are presented in tables B-21 and B-22. The following tabulation is a summary of CVD cases in 1987:

CVD Cases	*Number*[1]
Petitions filed	8
Preliminary Commission negative determinations	0
Preliminary Commission affirmative determinations	3
Final Commerce determinations:	
Negative	3
Affirmative	16
Terminated	2
Final Commission determinations:	
Negative	3
Affirmative (includes partial affirmatives)	11
Terminated	4
Suspended	1
Suspension of non-ITC cases	2

[1] The number of investigations instituted and determinations made generally would exceed the number of petitions filed. When a petition alleges dumping with respect to more than one product and/or by more than one country, separate investigations generally are instituted for imports of each product from each country.

Reviews of Outstanding Antidumping and Countervailing Duty Orders

Section 751 of the Tariff Act of 1930, as amended, requires Commerce (the administering authority), if requested, 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 compliance with any suspension agreement. Section 751 also authorizes Commerce and the Commission, as appropriate, to review outstanding determinations after receiving information or a petition that shows changed circumstances.[7] Under section 751(a), an annual review 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 may be reviewed by the Commission within 24 months after the date of publication of notice of the determination. The party seeking revocation or modification 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.

In 1987, the Commission completed three 751(b) investigations including bicycle tires and tubes from Taiwan (751-TA-12) and bicycle tires and tubes from Korea (751-TA-13). The

[1] Agreement on Interpretation and Application of art. VI, XVI, and XXIII of the General Agreement on Tariffs and Trade.

[2] See 19 U.S.C. § 1671.

[3] Most major U.S. trading partners have signed the GATT Agreement on Subsidies and Countervailing Duties. Section 303(a)(2) provides: "[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).

[4] These figures include investigations that resulted in determinations as well as investigations that were terminated before determinations were issued.

[5] 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. It does not count court-remanded cases on which new votes were taken.

[6] 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 reinstituted at the same stage where it was suspended if subsidization recurs. See 19 U.S.C. § 1671c.

[7] See 19 U.S.C. § 1675.

antidumping order against the Korean products had been issued in 1979, and that against the products from Taiwan in 1984. On the basis of comments and information filed, the Commission found that because of changed circumstances, no U.S. industry would be threatened if the two antidumping orders were to be revoked. The Commission also initiated a section 751(b) investigation, Inv. No. 751-TA-14, concerning the revocation in part of the outstanding antidumping order on television receivers from Japan to include Liquid Crystal Display (LCD) televisions. As a result of this investigation, the Commission determined not to modify the order to exclude LCD televisions.

Commerce, through its section 751 review procedures, partially revoked an antidumping order on fish netting of manmade fibers from Japan (A-588-029) and completely revoked such an order on bicycle tires and tubes from Korea (A-580-073).

Section 337 Investigations

Section 337 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 and 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 in the *Federal Register,* but may take up to 18 months to complete cases declared to be "more complicated." Most investigations, however, are completed within 12 months. In 1987, as in previous years, most complaints filed with the Commission alleged infringement of a U.S. patent by imported merchandise. Virtually all section 337 cases filed in 1987 involved trademark or copyright infringement, false advertising, false designation of origin, and trade secret misappropriation.[3]

In 1987, the Commission completed a total of 21 investigations under section 337. These investigations addressed such products as DRAMs, luggage products, herbicides, motorcycle helmets, and fur coats. Three violations were found and three exclusion orders were issued. Several investigations were terminated by the Commission without determining whether section 337 had been violated. Generally, these terminations were based on settlement agreements and consent orders. At the close of 1987, there were 16 section 337 cases pending before the Commission. Commission activities involving section 337 actions in 1987 are presented in table B-23.

As of December 31, 1987, a total of 63 outstanding exclusion orders based on violations of section 337 were in effect. All but 12 of these involved patent violations. Table B-24 also lists the investigations that preceded the issuance of the orders.

Enforcement of Trade Agreements and Responses to Unfair Foreign Practices

Sections 301-307 of the Trade Act of 1974, 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 act, policy, or practice of a foreign country or instrumentality that is unjustifiable, unreasonable, or discriminatory, and burdens or restricts U.S. commerce.[4] Within 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, policy, or practice.[5] An interdepartmental committee headed by the USTR conducts these investigations (including hearings,

[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 under review by the President, and whether certain public-interest considerations preclude the issuance of any remedy.

[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.

[5] The statute provides a number of procedures and time limits for action by the United States Trade Representative (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 in 12 months from the date of initiation in most cases, or within 30 days of the conclusion of the dispute settlement procedures.

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. 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.

In 1987, four section 301 investigations were instituted as a result of petitions filed by private parties. These cases included two on EC policies, those affecting oilseeds and oilseed substitutes and a new EC directive on meat imports; one on inadequate Brazilian patent protection for pharmaceutical products; and one on India's licensing and tariffs affecting almonds. In one instance, a petition filed with the USTR did not result in the institution of an investigation.[1] An investigation was not initiated in response to a petition filed in October 1987 by Bristol-Meyers Co. complaining of Korea's lack of adequate enforcement of Bristol-Meyers' patent for the antibiotic, amikacin. Bristol-Meyers withdrew the petition in November, pending the outcome of 1988 discussions on trade issues with the Korean Government. A fifth investigation was instituted by the President acting on his own motion. This case involved the implementation of an EC ban on imports of meat from animals treated with growth hormones. Further developments occurred in eight cases initiated prior to 1987. In three of these cases, bilateral settlements were obtained in 1987. Eight pending cases in which no further activity was reported in 1987 are listed at the end of this section. Cases not discussed or listed below were either settled, terminated, or suspended prior to 1987. Table 5–1 summarizes activity on section 301 cases during 1987 that is described in greater detail below.

Cases Initiated in 1987

EC oilseed policies[2]

In December 1987, the American Soybean Association filed a petition complaining that the EC's policies and practices relating to oilseeds and oilseed substitutes nullify or impair GATT benefits and are inconsistent with a zero tariff bound by the EC under its GATT schedule of tariff concessions. On January 5, 1988, the USTR initiated an investigation and requested consultations with the EC.[3] GATT article XXIII:1 consultations are scheduled.

[1] See USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July–December 1987.
[2] USTR Docket No. 301-63.
[3] See 52 F.R. 984, Jan. 14, 1988.

EC animal hormone directive[4]

On November 25, 1987, the President announced his intention to retaliate against the January 1, 1988, implementation of an Animal Hormone Directive in the EC. The Animal Hormone Directive would ban imports of meat produced from animals treated with growth hormones. The United States argued that since the ban was not supported by valid scientific evidence, it represents a disguised restriction on trade.[5] The President proposed raising customs duties to a prohibitive level on as much as $100 million in EC exports to the United States, but that these duty increases would be suspended if EC member states would continue to allow such imports.

On December 24, 1987, the President proclaimed, and immediately suspended, the increased duties on specified EC products.[6] The President delegated to the USTR the authority to modify, suspend, or terminate the increased duties. The USTR intends to use a 12-month extension on implementing the ban as an opportunity to reach a resolution of the issue during 1988.[7]

Brazil patent protection for pharmaceuticals[8]

The Pharmaceutical Manufacturers Association filed a petition in June 1987 complaining that Brazil lacked process and patent protection for pharmaceutical products. The USTR initiated an investigation in July 1987[9] and requested consultations with Brazil.[10] Consultations are scheduled for February 1988.[11]

EC third-country meat directive[12]

In July 1987, the American Meat Institute, the U.S. Meat Export Federation, the American Farm Bureau Federation, the National Pork Producers Council, and the National Cattlemen's Association filed a petition complaining that the EC's Third Country Meat Directive, which sets requirements for meat slaughter and packing plants only when the meat will be shipped across national borders, violates GATT article III (national treatment) and is a burden on U.S. commerce. In July 1987, the USTR initiated an investigation and requested consultations with the

[4] USTR Docket No. 301-62.
[5] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July–December 1987.
[6] See 52 F.R. 49131, Dec. 30, 1987.
[7] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July–December 1987.
[8] USTR Docket No. 301-61.
[9] See 52 F.R. 28223, July 28, 1987.
[10] USTR, "Section 301 Table of Cases," January 1988.
[11] Consultations held in February yielded no further progress. Brazil is reportedly studying the issue.
[12] USTR Docket No. 301-60.

5-7

Table 5-1
Summary of activity on sec. 301 investigations during 1987

Doc. No., date filed	*Petitioner*	*Product or service/ country*	*Status at yearend 1987*
301-63 Dec. 1987	American Soybean Association.	Oilseeds/EC.	Investigation initiated January 1988. Consultations requested with the EC.
301-62 Nov. 1987	President acted on his own motion.	Animal Hormone Directive/EC.	In December 1987, the President proclaimed increased duties on certain EC exports. Duties suspended on same date as EC agreed to 12-month transition before implementing directive. Authority to activate, modify, or terminate duties delegated to USTR.
301-61 June 1987	Pharmaceutical Manufacturers Association.	Lack of patent protection/Brazil.	Consultations with Brazil scheduled for Febuary 1988.
301-60 July 1987	American Meat Inst., et al.	Third Country Meat Directive/EC.	GATT Council agreed to establish a dispute settlement panel in December 1987.
301-59 Jan. 1987	California Growers Exch.	Almond licensing and tariffs/India.	GATT panels established under the GATT Council and the GATT Import Licensing Code in late 1987.
301-58 Dec. 1986	USTR initiated at President's direction.	Softwood lumber/ Canada.	In May 1987, Canada passed a bill implementing the United States-Canada lumber agreement. In December 1987, the Government reached agreement on modification of stumpage practices in British Columbia.
301-55 Apr. 1986	Icicle Seafoods and Associated Processors.	Ban on unprocessed herring and salmon exports/ Canada.	GATT panel report favorable to the United States completed in November 1987. Report awaits adoption.
301-54 Mar. 1986	USTR initiated at President's direction.	Accession of Spain and Portugal/EC.	Settlement reached Jan. 30, 1987.
301-53 Apr. 1986	National Soybean Processors Association.	Soybean and soybean product export taxes/ Argentina.	Discussions with Argentina held in November and December 1987 on Argentine progress to eliminate export taxes.
301-49 1985	USTR initiated at President's direction.	Informatics policy/Brazil.	In November 1987, President proposed retaliatory duty increases. Hearings on retaliation held in December 1987.
301-48 June 1985	Semiconductor Industry Association.	Semiconductors/ Japan.	Increased duties imposed on certain Japanese products in April 1987. Some duties removed in June and November 1987. Other duties remain in effect.
301-47 Aug. 1984	Fertilizer Institute.	Triple super-phosphate/EC.	Pending. Consultations under the GATT Standards Code started in December 1984. No action reported in 1987.
301-42 Apr. 1983	National Soybean Processors Association.	Soybean oil and meal/Spain.	Pending. Consultations have taken place. No action reported in 1987.
301-40 Apr. 1983	National Soybean Processors Association.	Soybean oil and meal/Brazil.	Pending. GATT Subsidies Code consultations initially held to confirm Brazil's claim that barriers were eliminated. No action reported in 1987.
301-35 Oct. 1982	Footwear Industries of America, Inc.	Nonrubber footwear/Brazil.	Pending. In November 1985, Brazil offered to liberalize its import surcharge and reduce tariffs. No action reported in 1987.

5-8

Table 5-1—Continued
Summary of activity on sec. 301 investigations during 1987

Doc. No., date filed	*Petitioner*	*Product or service/ country*	*Status at yearend 1987*
301-34 July 1982	J.I. Case Co.	Front-end loaders/ Canada.	Pending. Following informal GATT consultations, the USTR returned to the petitioner for further information. No action reported in 1987.
301-23 Sept. 1981	National Broiler Council.	Poultry/EC.	Pending. GATT Subsidies Code conciliation undertake outset of case. No action reported in 1987.
301-25 Oct. 1981	National Pasta Association.	Pasta export subsidies/EC.	Agreement signed September 1987. EC reduced export subsidies on 50 percent of pasta exports to United States. President directed Customs to exclude entry of any EC pasta not having documentation to enforce agreement.
301-11 Nov. 1976	Florida Citrus Commission.	Citrus fruits and juices/EC.	Settlement reached August 1986. Full implementation of agreement requires passage of Omnibus Trade Bill.
301-6 Nov. 1975	Millers National Federation.	Wheat flour/EC.	Pending. GATT Subsidies Code panel declined to rule if EC violated code rules. Report not yet adopted by Code members.

EC.[1] The United States consulted with the EC under GATT article XXIII:1 in September and again in November 1987. In December, the GATT Council agreed to establish a dispute settlement panel.

India's licensing requirements and tariffs on almonds[2]

In January 1987, the California Growers Exchange filed a petition that complained of India's licensing requirements and steep tariffs on almonds. The USTR initiated an investigation in February 1987 and requested consultations with India.[3] The United States consulted with India under GATT article XXIII:1 in June and September 1987. The United States then requested the establishment of a GATT panel in the GATT Council meetings in July, October, and November. In December, the GATT Council agreed to establish a dispute settlement panel.

Meanwhile, the United States also raised the almonds issue in the GATT Balance-of-Payments Committee consultations with India and consulted under the GATT Import Licensing Code. In September, India agreed to a panel under the code to examine the U.S. complaint about the licensing procedures.

Other Cases Active in 1987

Canadian softwood lumber[4]

On December 30, 1986, the Governments of Canada and the United States signed an agreement on trade in certain softwood lumber products.[5] Under the bilateral agreement, 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. 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.[6] The action was designed to enforce the trade agreement and the Canadian authorities took the necessary domestic steps to implement the 15 percent export tax agreed to in the Memorandum of Understanding between the two Governments.[7] In May, the Canadian Senate passed a bill that formally implemented the U.S./Canada Softwood Lumber Agreement and gave Revenue Canada the authority to enforce collection of the 15 percent Federal export tax on lumber destined for U.S. markets.[8] In December 1987, the United States and Canada reached an agreement under which British Columbia modified its stumpage practices and adopted "replacement measures" that show efforts to achieve consistency with U.S. countervailing duty law.[9]

Canadian ban on fish exports[10]

Icicle Seafoods and nine other seafood processors filed a petition in April 1986 alleging that the Canadian prohibition on exports of unprocessed herring and salmon violates article XI, covering quantitative restrictions, and provides Canadian processors with an unfair cost advantage that burdens U.S. exports in third-country

[1] See 52 F.R. 28223, July 28, 1987.
[2] USTR Docket No. 301-59.
[3] See 52 F.R. 6412, Mar. 3, 1987, and 52 F.R. 7057, Mar. 6, 1987.
[4] USTR Docket No. 301-58.
[5] See 52 F.R. 231, Jan. 2, 1987. As a result of the agreement, the sec. 301 petition was withdrawn triggering the U.S. Commerce Department to terminate the related countervailing duty investigation.
[6] See 52 F.R. 229, Jan 2, 1987. 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.
[7] By Jan. 8, 1987, the Canadian Government had begun to collect the surcharge, and as a result, the Secretary of Commerce announced the suspension of the U.S. duty.
[8] Bill C-47, the Canadian Lumber Export Tax Bill, passed the Canadian Senate on May 28, 1987.
[9] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July-December 1987.
[10] USTR Docket No. 301-55.

markets. The USTR initiated an investigation in May 1986.[1] Consultations between the USTR and Canadian officials were held under article XXIII:1 of the GATT in September and October 1986.

The United States requested and obtained a GATT dispute settlement panel. In November 1987, a panel report favorable to the U.S. position was issued. The report termed Canada's export controls to be inconsistent with article XI (on quantitative restrictions) of the GATT.[2] At the December GATT Council meeting, Canada requested that adoption be postponed until 1988 to allow further time to study the report.[3]

EC enlargement[4]

Following a January 21, 1987, proclamation of dramatic U.S. duty increases on a number of EC products,[5] the United States and the EC settled the issue of U.S. compensation for the effect of EC enlargement on U.S. trade.[6] The agreement was reached on January 30, 1987, the eve of the deadline for the duty hikes to take effect. The EC agreed to ensure annual imports of corn and sorghum to Spain of 2 million and 300,000 metric tons, respectively. The EC also agreed to rescind the requirement in Portugal that 15 percent of the Portuguese grain market (about 400,000 metric tons) be reserved for sales from EC member countries. Moreover, the EC agreed to reduce duties on 26 other products and to extend all current EC tariff bindings to Spain and Portugal. As a result of the agreement, the USTR suspended the increased duties.[7]

Argentine differential export taxes on soybeans and soybean products[8]

The USTR initiated the investigation in April 1986 at the request of the National Soybean Processors Association.[9] The petitioner complained of Argentina's system of differential export taxes, under which soybeans are charged a higher export tax than soybean oil.

[1] See 51 F.R. 19648, May 30, 1986.
[2] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July-December 1987.
[3] See also the "Dispute settlement" section of ch. 2.
[4] USTR Docket No. 301-54.
[5] See 52 F.R. 2663, Jan. 26, 1987.
[6] For further details see the "EC Enlargement" section of ch. 4 of this report as well as *Operation of the Trade Agreements Program, 38th Report, 1986*, USITC Publication 1995, July 1987, pp. 5-9 and 4-5.
[7] See 52 F.R. 3523, Feb. 4, 1987.
[8] USTR Docket No. 301-53.
[9] See 51 F.R. 16764, May 6, 1986. 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 initial consultations with Argentina in August 1986. Following further bilateral discussions, in which Argentina assured the United States that it planned to eliminate the export taxes causing the differential, the President suspended the investigation in May 1987.[10] In November and December 1987 further discussions were held with Argentina because the export tax had not as yet been eliminated. The USTR hopes to reach a settlement with Argentina in early 1988.[11]

Brazilian informatics policies[12]

In September 1985, the USTR initiated an investigation into Brazil's informatics policy.[13] The policy encompasses a variety of measures such as investment restrictions, subsidies, and import restrictions.[14] The first consultations with Brazil on its policies took place in February 1986.

In October 1986, the President determined that Brazil's policies are unreasonable. 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.[15] In December 1986, the President decided to terminate the part of the investigation dealing with Brazilian administrative procedures.[16]

In February 1987, the USTR held hearings on the intellectual property and investment aspects of the case.[17] Although the President had suspended the intellectual property portion of the investigation in June 1987,[18] the President announced in November 1987 his intention to take retaliatory measures in response to Brazil's breach of understandings that were the basis for the June suspension action.[19] The President proposed measures that included banning imports of Brazilian informatics products and raising duties or otherwise restricting imports of about $105 million more in Brazilian products. Hearings were held in December on the issue of retaliation.[20] Meanwhile, the investment aspects of this case remain pending.

[10] See 52 F.R. 18685, May 16, 1987.
[11] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July-December 1987.
[12] USTR Docket No. 301-49.
[13] See 50 F.R. 37608, Sept. 16, 1985.
[14] See also "Brazil" section of ch. 4.
[15] See 51 F.R. 35993, Oct. 8, 1986.
[16] The Brazilian reforms included simplification of the licensing process, the creation of an appeals process, and narrowing the scope of import restrictions. The 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. See 52 F.R. 1619, Jan. 15, 1986.
[17] See 52 F.R. 4207, Feb. 10, 1987.
[18] See 52 F.R. 24971, July 2, 1987.
[19] See 52 F.R. 44937, Nov. 23, 1987.
[20] See 52 F.R. 47071, Dec. 11, 1987.

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Japanese barriers to the domestic sale of foreign semiconductors[1]

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 July[2] and held initial consultations in August 1985 with the Japanese. In July 1986, the United States concluded an agreement with Japan under which Japan agreed to increase access to the Japanese market for U.S. firms and prevent dumping of Japanese semiconductors in the United States and third-country markets. Consequently, the President suspended the investigation.[3]

Consultations under the agreement were held monthly until March 1987 because of difficulties concerning Japan's implementation of the agreement.[4] In March, the USTR announced hearings on possible U.S. actions to respond to Japan's failure to fulfill the agreement.[5] In April, the President determined that Japan had not implemented or enforced the agreement.[6] He also proclaimed increased duties on Japanese imports, including certain color televisions, power handtools, and automatic data processing machines, and authorized the USTR to modify, suspend, or terminate the duties.[7]

In June, the USTR suspended the increased duties on imports of 20-inch color television sets because of Japan's improved conformity with the agreement.[8] In November, USTR suspended duties on certain other Japanese imports on the grounds that Japan was no longer dumping semiconductors in third-country markets.[9] Other sanctions imposed in April remain in effect.

EC export subsidies on pasta[10]

In October 1981, the National Pasta Association filed a petition alleging that EC export subsidies on pasta products violate the GATT Subsidies Code. Although the report of a panel established under the Subsidies Code was completed in 1983 and as yet remains unadopted by the Code committee, the United States arrived at a settlement on pasta in the context of settling a dispute over EC measures on citrus products.[11]

On September 15, 1987, the United States signed an agreement with the EC under which the EC initially will reduce its pasta export subsidies by 27.5 percent. The reduction is intended to eliminate all export subsidies on one-half of the EC pasta exported to the United States.[12] On September 30th, the President directed the U.S. Customs Service to exclude imports of EC pasta products unless accompanied by the documentation necessary to enforce the agreement.[13]

EC citrus preferences[14]

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. This case, which was considered by a GATT panel,[15] was finally resolved bilaterally in 1986 following several months of retaliatory and counterretaliatory measures.[16] However, 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. Therefore, according to USTR, when tariff proclamation authority is obtained from Congress the United States will reduce tariffs on specified products and the EC will reduce its tariffs on almonds and peanuts.[17] The Omnibus Trade Bill contains provisions in both the House version (section 118) and Senate version (section 946) authorizing the President to proclaim reduced tariffs and implement the remainder of the citrus agreement.

Cases Pending

Outstanding cases in which no further action occurred in 1987 include the following:[18]

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[1] USTR Docket No. 301-48.
[2] See 50 F.R. 28866, July 16, 1985.
[3] See 51 F.R. 27811, Aug. 4, 1986.
[4] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July-December 1987. See also "Japan" section of ch. 4.
[5] See 52 F.R. 10275, Mar. 31, 1987.
[6] See 52 F.R. 13419, Apr. 22, 1987.
[7] See 52 F.R. 13412, Apr. 22, 1987.
[8] See 52 F.R. 22693, June 15, 1987.
[9] See 52 F.R. 43146, Nov. 9, 1987. Duties were suspended on certain power handtools, certain other color television sets, and low performance 16-bit desktop computers.
[10] USTR Docket No. 301-25.
[11] For details on the citrus dispute, see *Operation of the Trade Agreements Program, 38th Report, 1986*, USITC Publication 1995, July 1987, pp. 2-10, 4-7, and 5-10.
[12] USTR, "Report to Congress on Section 301 Developments, Required by Section 306 of the Trade Act of 1974," July-December 1987.
[13] See 52 F.R. 36897, Oct. 2, 1987.
[14] USTR Docket No. 301-11.
[15] 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.
[16] See also "European Community" section of ch. 4. For further background on the case see *Operation of the Trade Agreements Program, 38th Report, 1986*, USITC Publication 1995, July 1987, pp. 5-10 and 4-7.
[17] USTR, "Section 301 Table of Cases," January 1988.
[18] For further details on these cases see *Operation of the Trade Agreements Program, 38th Report, 1986*, USITC Publication 1995, July 1987, pp. 5-10 and 4-7.

EC export subsidies on wheat flour[1]
EC and Brazilian export subsidies on poultry[2]
Canadian tax and customs measures on front-end loaders[3]
Brazilian import restrictions on nonrubber footwear[4]
Barriers to U.S. exports of soybean oil and meal: Brazil[5] and Spain[6]
EC technical standards for fertilizers[7]

OTHER IMPORT ADMINISTRATION LAWS

Arrangement Regarding International Trade in Textiles

The Arrangement Regarding International Trade in Textiles, generally known as the Multifiber Arrangement (MFA), regulates world trade in textiles, including apparel.[8] In 1987, 83 percent of U.S. textile imports came from MFA signatories. 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,[9] and scheduled to expire 5 years later on July 31, 1991.[10] MFA IV expands upon the coverage of previous agreements to include textile products of noncotton vegetable fibers and silk blends.

The MFA was established at a time when developed countries were facing rising textile imports from a number of low-cost producers. It was designed to promote the expansion and liberalization of world trade in textiles and at the same time to avoid disruption of markets and production lines. Operating under the aegis of the GATT, the MFA permits the regulation of trade in textiles by providing the framework for negotiation of bilateral agreements between importing countries and suppliers. The United States had 38 agreements in place with MFA member countries at the end of November 1987.

Not all countries are signatories to the MFA, however. Bilateral agreements with nonparticipants are negotiated under authority of section 204 of the Agricultural Act of 1956. The United States has negotiated agreements under this Act with five countries—Taiwan, Costa Rica, Guatemala, Mauritius, and Nepal. The United States also has agreements with two U.S. possessions—Guam and the Northern Mariana Islands—that limit shipments of sweaters classified as products of foreign countries, but assembled in the possessions.

Bilateral agreements enable the United States to set aggregate limits on its textile imports from a particular country and/or to set limits on imports of specific product categories or groups of categories.[11] Most U.S. bilateral agreements encompass almost all imports of textile products made of cotton, wool, and manmade fibers. In general, bilaterals that have been negotiated since the MFA was renewed—including China, Hong Kong, Taiwan, and Korea—also cover previously uncontrolled products of silk blends and noncotton vegetable fibers. Table 5-2 lists the status of quantitative limitations on U.S. imports of textiles under the MFA as of November 30, 1987.

Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) requires the President to take action to prevent imports from undermining the integrity of U.S. Department of Agriculture (USDA) programs designed to stabilize or raise domestic agricultural commodity prices. The President acts on the basis of a formal investigation and recommendation by the U.S. International Trade Commission. Following receipt of the Commission's report, the President may impose, when necessary, quantitative restrictions on imports. He may also impose compensatory fees, not to exceed 50 percent of the imported product's value, to protect relevant USDA programs. In instances in which 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 actions were taken during 1987 under section 22 authority. The section 22 investigations involving sugar (Investigation No. 22-49) and sugar-containing articles (Investigation No. 22-48) instituted by the International Trade Commission at the direction of the President in March 1985 to determine the respective import effects on USDA price-support programs were transmitted to the President on September 15 and October 15, respectively. At the close of 1987,

[1] USTR Docket No. 301-6. Initiated in December 1975. Since 1983, the Subsidies Code Committee remains unable to adopt the report of the dispute settlement panel on this case.
[2] USTR Docket No. 301-23. Initiated in Oct. 1981.
[3] USTR Docket No. 301-34. Initiated in Oct. 1982.
[4] USTR Docket No. 301-35. Initiated in Dec. 1982.
[5] USTR Docket No. 301-42. Initiated in May 1983.
[6] USTR Docket No. 301-40. Initiated in May 1983.
[7] USTR Docket No. 301-47. Initiated in Oct. 1984.
[8] The statutory authority to enforce the bilateral agreements under the MFA is contained in sec. 204 of the Agricultural Act of 1956.
[9] For a complete discussion of the MFA extension, see *Operation of the Trade Agreements Program, 38th Report, 1986,* USITC Publication 1995, July 1987, pp. 1-7 to 1-12.
[10] Forty-three signatories, including the EC as a single signatory, participated in the negotiation of MFA IV. As of Nov. 16, 1987, 36 countries had signed MFA IV.
[11] The U.S. Department of Commerce, Office of Textiles and Apparel, 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).

Table 5-2
Status of quantitative limitations on U.S. imports of textiles under the MFA, as of Nov. 30, 1987

Country	Current limitation on import trade: For 12 months beginning—[1]	Current limitation on import trade: Quantity restrained[2]	Expiration of current agreement or quota
		Million square yard equivalents	
Bangladesh[3]	1-2-87	133.8	1-31-89
Brazil	4-1-87	289.0	3-31-88
Bulgaria	5-1-87	.6	4-30-89
Burma[3]	1-1-87	5.0	12-31-87
China	1-1-87	1,142.3	12-31-87
Colombia[4]	3-31-87	3.0	7-30-88
Costa Rica[3]	1-1-87	34.7	12-31-87
Czechoslovakia	6-1-87	.8	5-31-89
Dominican Republic[5]	6-1-87	70.8	5-31-88
East Germany	1-1-87	.8	12-31-89
Egypt	([6])	([6])	([6])
El Salvador	1-1-87	39.1	12-31-89
Guatemala	1-1-87	5.7	12-31-88
Haiti	1-1-87	24.9	12-31-89
Hong Kong	1-1-87	1,268.0	12-31-91
Hungary	1-1-87	6.2	12-31-87
India	1-1-87	286.4	12-31-91
Indonesia	7-1-87	327.5	6-30-88
Jamaica[7]	1-1-87	42.9	12-31-89
Japan	1-1-87	712.2	12-31-89
Korea	1-1-87	1,313.0	12-31-89
Macau	1-1-87	81.7	12-31-91
Malaysia	1-1-87	244.1	12-31-91
Maldives	9-29-87	.8	9-28-88
Mauritius[3]	10-1-87	([8]) 34.2	9-30-90
Mexico	1-1-87	891.1	12-31-87
Nepal	1-1-87	17.7	12-31-90
Pakistan	1-1-87	429.6	12-31-91
Panama	4-1-87	([9])	3-31-89
Peru	5-1-87	132.4	4-30-89
Philippines	1-1-86	410.0	12-31-91
Poland	1-1-87	78.4	12-31-89
Romania[10]	1-1-87	57.1	12-31-89
	1-1-87	82.6	12-31-87
Singapore	1-1-87	216.4	12-31-90
South Africa[11]	9-1-87	24.3	8-31-88
Sri Lanka	6-1-87	157.0	5-31-88
Taiwan	1-1-87	1,643.8	12-31-89
Thailand	1-1-87	253.0	12-31-88
Trinidad and Tobago[12]	10-1-86	10.4	12-31-89
Turkey[13]	7-1-87	123.9	6-30-88
	6-24-87	8.6	6-23-88
U.S.S.R	7-22-87	4.4	7-21-88
Uruguay	([5])	4.6	6-30-88
Yugoslavia	1-1-87	43.5	12-31-89

[1] The starting date for the 12-month restraint period may vary according to the product category.
[2] This figure represents either an overall aggregate limit or the sum of limits established on specified groups or categories, whichever was in effect on Nov. 30, 1987. Limits include specific limits or consultation levels.
[3] Some limits established after the beginning of the agreement year are for less than 12 months.
[4] The quota was unilaterally established by the United States under art. 3 of the MFA.
[5] Agreement years vary by category.
[6] The agreement with Egypt expired June 1, 1987. As of Nov. 30, 1987, a new agreement had not been signed.
[7] Some restraints are for the 16-month period beginning Sept. 1, 1986, and some are for the 7-month period beginning June 1, 1987.
[8] In addition to the restraints shown, imports of sweaters and of wool knit shirts and blouses are subject to a limit of 117,312 dozen.
[9] Restraint limit is 170,000 dozen wool and manmade-fiber sweaters.
[10] Two separate bilateral restraint agreements were concluded with Romania, the first covering wool and manmade-fiber categories, and the second covering cotton categories.
[11] The agreement with South Africa, scheduled to be in effect for the period Sept. 1, 1985 to Aug. 31, 1988, was made inoperative by the Anti-Apartheid Act of 1986, which prohibits imports from South Africa of these textiles and certain other products.
[12] Restraints are for a 15-month period ended Dec. 31, 1987.
[13] Two separate agreements were concluded with Turkey; the second was the result of calls under art. 3 of the MFA.

Source: U.S. Department of Commerce, Office of Textiles and Apparel, Performance Report, Nov. 30, 1987, and U.S. Department of State, Textiles Division, notices.

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the President still had not indicated what response he wished to make to the Commission's recommendations. Therefore, the report findings remained confidential and the President's emergency actions with respect to sugar and sugar-containing articles temporarily established in 1985 continued in effect.[1]

Quantitative import restrictions established—pursuant to section 22 authority—through presidential proclamations of previous years remained in place throughout calendar 1987 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.

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 beneficiary developing countries. The objective of the system is to help these countries to 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, the result of amendments to the original act by the Trade and Tariff Act of 1984, has been in effect since January 4, 1985. The program is scheduled to expire on July 4, 1993. The original GSP was established under the Trade Act of 1974 for a period of 10 years.

The current GSP provides for a 2-year general review of the program to implement the redirection of GSP benefits from the wealthier, more advanced developing countries, to the poorer beneficiaries with greater need. The general review was to determine which products from which countries were "sufficiently competitive" to warrant the application of reduced limits to GSP benefits.[2] The results were announced on January 2, 1987, effective July 1, 1987.

Under the amended GSP, when making decisions relating to country eligibility or product-specific benefit levels, the President must consider a country's laws and practices regarding market access for goods and services, foreign investment, intellectual property rights, and worker rights. The President must also consider a country's general level of development and a range of other factors.

As a result of the general review, the President reduced the competitive-need limits on 290 products from 9 advanced developing countries: Argentina, Brazil, Colombia, Hong Kong, South Korea, Mexico, Singapore, Taiwan, and Yugoslavia.[3] For these products, the President set the limits at 25 percent of total U.S. imports, or $28.2 million in imports from any such country (based on 1986 trade). For all other products, the President specified the competitive limits at 50 percent of total imports as before, or an amount of $71.4 million (based on 1986 trade). Also, as a result of the general review, the President granted 10 beneficiary countries a waiver of competitive-need limits on 95 products with an estimated total trade value of over $2 billion (based on 1985 trade).

Pursuant to the requirement of the new GSP that a review of workers' rights laws and practices of selected countries be conducted, the President suspended GSP eligibility for Romania, Nicaragua, Paraguay, and Chile.

On April 2, 1987, the USTR released the results of the customary annual review procedures that modify GSP benefits in response to petitions from interested parties. These were the first annual modifications that reflected the new standards of eligibility established in the general review 3 months earlier. The changes required by the annual review also took effect on July 1, 1987.[4]

Under the applicable "competitive-need" limits, the 1987 annual review excluded from GSP eligibility $18.6 billion in 1986 imports from 16 countries. In comparison, exclusions based on competitive need amounted to $13.0 billion in the 1986 annual review. Of the $18.6 billion, $3.8 billion involved articles losing GSP eligibility for the first time, of which $2.4 billion was attributable to the new, lower competitive-need limits for certain countries and products.

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[1] For further details, see *Operation of the Trade Agreements Program, 37th Report, 1985*, USITC Publication 1871, pp. 246–249.

[2] The so-called competitive-need provisions of the GSP law state that if, in any calendar year, imports from an eligible country of an eligible article (an "article" being defined as all products in a 5-digit item in the TSUS) either (1) exceed a given dollar amount or (2) account for more than a specified percentage of total U.S. imports of that article for that year, the imports of that article from that country cannot receive duty-free treatment under GSP in the following GSP year.

[3] On Jan. 29, 1988, President Reagan decided to remove GSP privileges from Taiwan, South Korea, Hong Kong, and Singapore, effective Jan. 2, 1989. The President made his decision with regard to these countries' "impressive level of economic development and competitiveness, which can be sustained without preferences provided by the program." In 1987, a total of 60 percent of all the products that entered the United States under the program came from Taiwan, Korea, Hong Kong, and Singapore. The President's action was in keeping with the original intent of GSP and with its operation during the past 12 years. Since its inception, GSP has been a program of temporary incentives rather than permanent tariff advantages.

[4] 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 any interested party (foreign governments, U.S. producers, exporters and importers) for modification in the list of items eligible for GSP duty-free treatment. The review also covers the 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.

Product coverage may also be modified annually under the President's discretionary authority to "graduate" countries for particular products in response to petitions filed by U.S. producers and trade associations.[1] Under this authority, the President removed $942 million in 1986 imports from the list of GSP-eligible articles compared with 2.4 billion dollars' worth of graduations in the previous annual round of changes. This action affected seven countries: Taiwan, South Korea, Mexico, Brazil, Singapore, Yugoslavia, and Turkey. Under the same authority, the President reinstated $442 million in 1986 imports to GSP-eligible treatment and also added 53 million dollars' worth of new articles to the GSP-eligibility list.

On May 19, 1987, the President announced that Bahrain, Bermuda, Brunei Darussalam, and Nauru will no longer be eligible for GSP treatment because each has exceeded the applicable limit of $8,500 per capita Gross National Product (GNP) mandated by section 504(f)(2) of the Trade Act of 1974. These four countries will lose GSP treatment on July 1, 1988.

Also, on May 19, 1987, President Reagan added Greenland to the list of countries eligible for GSP treatment. As a territory of Denmark and therefore part of the EC, Greenland had been previously ineligible under the U.S. GSP. However, home rule granted to Greenland in February 1985 had the effect of ending that country's EC membership status. Greenland's less advanced stage of development allowed the United States to include it in its own right as a GSP beneficiary. Counting Greenland, the United States currently grants duty-free treatment on approximately 3,000 products from 141 developing countries.

In 1987, duty-free U.S. imports under the GSP amounted to $16.3 billion; they were responsible for 12.9 percent of total imports from the beneficiary countries and 4.1 percent of overall U.S. imports. Of the 34 percent of imports from beneficiary countries that were GSP-eligible, 38.1 percent entered duty-free under GSP (table 5-3).

Seven advanced beneficiary countries supplied 79.1 percent of all U.S. imports that received duty-free treatment under the GSP. These leading GSP beneficiaries were Taiwan, Korea, Hong Kong, Mexico, Singapore, Brazil, and Israel. GSP imports from these nations collectively amounted to $12.9 billion. Table 5-4 shows the amount of duty-free imports under GSP separately for the seven advanced beneficiary countries, and the ratio of such imports to the GSP-eligible and total U.S. imports from each of these countries in 1987. These leading beneficiaries have not changed in recent years. In 1987, Taiwan continued to be number one among the GSP-eligible countries in terms of the value of its shipments to the United States. Duty-free U.S. imports from Taiwan under the GSP amounted to $4.2 billion, and they were responsible for 25.6 percent of total 1987 U.S. imports under the program. The share of imports entering under GSP provisions to the overall imports from each of these seven countries ranged from 21 percent for Singapore to 8.5 percent for Mexico. Mexico's low GSP share is accounted for by the dominance of petroleum in the composition of U.S. imports from that country. Petroleum is not a GSP-eligible article.

Based on five-digit TSUS items, switchboard panels and accounting and computing equipment were responsible for the largest value among all eligible articles entering the United States under the GSP in 1987 (table B-25). Sugar, which was the leading GSP product before 1986, ranked only eighth in 1987, reflecting the effect of major U.S. quota reductions for this article for the year. Table B-26 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-27 gives the same information by divisions of the Standard Industrial Classification (SIC) system.

Caribbean Basin Economic Recovery Act (CBERA)

In 1987 the Caribbean Basin Initiative (CBI) marked its fourth year of operation. It was authorized by the CBERA,[2] which was signed into law in August 1983; the program became operative by Presidential proclamation on January 1, 1984. As a 12-year program, the CBERA is designed to foster economic development in the Caribbean Basin by providing a combination of trade preferences, aid, and investment incentives to eligible countries.[3]

The centerpiece of the CBERA is a one-way trade preference program that allows duty-free access of eligible products from designated beneficiary countries to the U.S. market, provided 35 percent of their value is added in a Caribbean Basin country participating in the program. (U.S. value may be counted up to a level of 15 percent.) CBERA preferences constitute one of three major duty-remission or duty-reduction programs available to Caribbean Basin countries from the United States. The other two, which

[1] Graduation is recognition that a beneficiary country does not currently need GSP treatment for particular products in order to be competitive.

[2] In August 1987, new legislation was introduced in the U.S. Congress to extend the benefits of the CBERA. The proposed bill would extend the program for another 12 years, expand the range of products eligible for duty-free treatment, restore sugar quotas, and make special provisions for the smaller, lesser developed islands of the Eastern Caribbean.

[3] Public Law 98-67, title II.

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Table 5-3
U.S. imports[1] for consumption[2] from GSP beneficiary countries, 1987

Item	*Total, all beneficiary countries*	*Total all countries*
Total imports (1,000 dollars)	$126,305,267	$400,387,804
GSP-eligible products (1,000 dollars)	42,738,031	134,231,007
Duty-free under GSP (1,000 dollars)	16,298,436	16,298,436
Competitive-need exclusions (1,000 dollars)	21,509,351	21,509,351
Other (1,000 dollars)	4,930,244	96,423,220
Noneligible product imports (1,000 dollars)	83,567,236	266,156,797
Ratio of:		
GSP-eligible imports to total imports (percent)	33.8	33.5
GSP duty-free imports to GSP-eligible imports (percent)	38.1	12.1
Competitive-need exclusions to GSP-eligible imports (percent)	50.3	16.0
Other imports to GSP-eligible imports (percent)	11.5	71.8
GSP duty-free to total imports (percent)	12.9	4.1

[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 $1.7 billion in 1987. 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.

Table 5-4
U.S. imports for consumption under the GSP from advanced beneficiary countries, 1987

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	24,573	14,124	57.5	4,173	29.5	17.0	25.6
2	Korea	16,887	6,174	36.6	2,504	40.6	14.8	15.4
3	Hong Kong	9,808	3,997	40.8	1,703	42.6	17.4	10.4
4	Mexico	19,765	7,999	40.5	1,677	21.0	8.5	10.3
5	Singapore	6,178	2,072	33.5	1,297	62.6	21.0	8.0
6	Brazil	7,609	2,021	26.6	1,045	51.7	13.7	6.4
7	Israel	2,638	1,009	38.2	487	48.3	18.5	3.0
	Top 7	87,460	37,396	42.8	12,886	34.5	14.7	79.1
	World	400,388	42,738	10.7	16,298	38.1	4.1	100.0

Note.—Because of rounding, figures may not add to the totals shown.

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

have been in effect for years, are the GSP[1] and TSUS items 806.30 and 807.00. Item 807.00 provides an exclusion from the calculation of dutiable value, in imposing U.S. customs duties, of the value of U.S. components in imported products that have been assembled in a foreign country and then returned to the United States for additional processing. Item 806.30 provides similar treatment for certain U.S. metal products exported to a foreign country for processing and then returned to the United States for additional processing. Table B-28 separately lists imports from the Caribbean region under special programs during 1985-87.

[1] For a discussion of the GSP, see the previous section in this chapter.

The President of the United States initially designated 20 countries for CBERA trade benefits. The Bahamas became the 21st beneficiary country in 1985. Aruba, which became independent of the Netherlands Antilles in April 1986, was separately designated as the 22d CBERA beneficiary, retroactive to January 1, 1986. The list of all designated and nondesignated Caribbean countries and U.S. imports from these countries during 1983-87 are shown in table 5-5.[2]

[2] For a description of the criteria that the President must consider in designating a country eligible for CBERA benefits, see *Operation of the Trade Agreements Program, 35th Report, 1983*, USITC Publication 1535, pp. 27-28.

Table 5-5
U.S. imports for consumption from the Caribbean Basin, by countries, designated or nondesignated under the CBERA, 1983-87

(Customs-value basis, in thousands of dollars)

Country	*1983*	*1984*	*1985*	*1986*	*1987*
Designated:					
Antigua	8,809	7,898	24,695	11,849	8,621
Aruba[1]	(2)	(2)	(2)	1,797	2,452
Bahamas	1,676,394	1,154,282	626,084	440,985	377,881
Barbados	202,047	252,598	202,194	108,991	59,110
Belize	27,315	42,843	46,951	50,181	42,906
British Virgin Islands	880	1,335	11,902	5,904	11,162
Costa Rica	386,520	468,633	489,294	646,508	670,953
Dominica	242	86	14,161	15,185	10,307
Dominican Republic	806,520	994,427	965,847	1,058,927	1,144,211
El Salvador	358,898	381,391	395,658	371,761	272,881
Grenada	211	766	1,309	2,987	3,632
Guatemala	374,692	446,267	399,617	614,708	487,308
Haiti	337,483	377,413	386,697	368,369	393,660
Honduras	364,742	393,769	370,219	430,906	483,096
Jamaica	262,360	396,949	267,016	297,891	393,912
Montserrat	924	989	3,620	3,472	2,413
Netherlands Antilles[1]	2,274,510	2,024,367	793,162	453,333	478,836
Panama	336,086	311,627	393,605	352,206	342,700
St. Christopher-Nevis-Anguilla[3]	18,758	23,135	16,258	22,278	23,793
St. Lucia	4,700	7,397	13,796	12,269	17,866
St. Vincent and Grenadines	4,276	2,958	9,643	7,836	8,493
Trinidad and Tobago	1,317,534	1,360,106	1,255,498	786,405	802,838
Total	8,763,900	8,649,235	6,687,226	6,064,745	6,039,031
Nondesignated:					
Anguilla[3]	(2)	(2)	(2)	89	168
Cayman Islands	8,607	6,212	10,950	14,611	27,670
Guyana	67,332	74,417	46,010	62,928	58,828
Nicaragua	99,013	58,064	41,003	1,071	1,231
Suriname	63,147	104,636	60,091	38,591	46,445
Turks and Caicos Islands	3,965	3,935	4,649	4,792	4,680
Total	242,065	247,264	162,703	122,082	139,022
Grand total	9,005,965	8,896,499	6,849,928	6,186,826	6,178,053

[1] During 1982-85 and January-May 1986, import statistics treated Aruba as part of the Netherlands Antilles.
[2] Not applicable or not available.
[3] Before 1986, U.S. import statistics treated St. Christopher, Nevis, and Anguilla as one entity. Therefore, although Anguilla has not been designated as a beneficiary country, it was treated as such in pre-1986 data.

Source: Compiled from official statistics of the U.S. Deparment of Commerce.

In 1987, U.S. imports from the Caribbean Basin amounted to $6.2 billion, the same as those in 1986. The downward trend characterizing this trade flow in recent years stopped, but the composition of imports continued to change. For 3 consecutive years before 1987, the shrinking value of crude and refined oil products pushed total U.S. imports from the region sharply downward. In 1987, however, imports of crude oil and related imports virtually ceased to decline in both absolute and relative terms. Chemicals, consisting predominantly of crude oil and its derivatives, accounted for 27 percent of all U.S. imports from the Caribbean in 1987, about the same as that in 1986. This compares with 60 percent in 1982. Conversely, imports of textiles and apparel—another major component of this trade—continued to grow rapidly, rising 39 percent, by value, above those in 1986.

Notably, neither petroleum and most petroleum products, nor textiles and apparel, are eligible for duty-free treatment under the CBERA. In addition, products ineligible for CBERA preferences include footwear, luggage, handbags, and leather wearing apparel.

Considering the significance of textiles and apparel for the region's economy, the President announced a "special access program" in February 1986 to liberalize quotas for CBERA countries for imports of apparel and made-up textiles, such as bed linens. The program, referred to as 807-A, 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 into 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 access levels (GALs) are separate from quotas applicable to those products that were not assembled solely from U.S.-made and U.S.-cut fabric.

Duty-free imports entering under CBERA preferences, shown in table 5-6, totaled $906.1 million in 1987, or 14.7 percent, of overall U.S. imports from the region. This compares with $689.8 million, or 11.2 percent, in 1986. Entries to U.S. customs territory under the CBERA have continued to rise in 1987, and entries under GSP have continued to fall as a share of overall U.S. imports from the Caribbean (table B-28.)

Beef and veal composed the leading product category in 1987 entering the United States under CBERA provisions. Sugar fell to third place because U.S. quota allocations to CBI countries, as for all U.S. sugar imports, were cut to little more than one-half their 1986 amount. The list of leading items includes analgesics, electrical and electronic articles, tobacco products, miscellaneous manufactured products, and fruits and vegetables.

[1] To date, Costa Rica, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago have entered into bilateral textile agreements with the United States under the program. In 1987, special access apparel imports from beneficiaries amounted to $79 million.

As part of the CBERA, the United States also assists eligible countries in improving their business climate, and by facilitating private investment in the area. In 1987, the activities of the Caribbean Basin Information Center (CBIC) of the Department of Commerce continued. CBIC supplies data on trade and investment opportunities in the region to the U.S. business community, and assists Caribbean firms by organizing exhibitions for their products and promoting their participation in trade shows.

Meat Import Act of 1979

The Meat Import Act of 1979, successor to the Meat Act of 1964, became effective on January 1, 1980. The Act requires the President to impose quotas on imports of certain meats, mainly fresh, chilled, or frozen beef, if the projected aggregate quantity of such imports for the calendar year, as estimated by the Secretary of Agriculture, equals or exceeds a level equal to approximately 7 percent of annual domestic production. This level is calculated on the basis of a Congressionally prescribed formula outlined in the law. Included in the formula is a "countercyclical factor" that increases the maximum import allocation if U.S. domestic per capita supplies are inadequate and decreases the allowable level in the event of domestic surpluses.

Table 5-6
Leading items in U.S imports for consumption entered under CBERA provisions, by descending duty-free value, 1987

(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*
106.10	Beef and veal, fresh, chilled	124,979	114,324	91.5	Costa Rica
412.22	Analgesics, antipyretic	98,346	92,121	93.7	Bahamas
155.20	Sugars, syrups, and molasses	113,834	83,105	73.0	Dominican Republic
146.40	Bananas, fresh	467,723	65,226	13.9	Honduras
685.90	Electrical switches	89,729	37,002	41.2	Dominican Republic
427.88	Ethyl alcohol for nonbeverage	28,756	27,468	95.5	Jamaica
160.10	Coffee, crude, roasted, or ground	601,147	26,205	4.4	Guatemala
170.70	Cigars each valued 23 cents	34,979	23,049	65.9	Dominican Republic
740.15	Jewelry, etc., and parts	22,010	21,701	98.6	Dominican Republic
734.56	Baseball equipment and parts	37,622	21,312	56.6	Haiti
148.96	Pineapples, fresh, in packages	22,863	15,634	68.4	Costa Rica
686.10	Resistors, fixed	18,475	14,390	77.9	Costa Rica
685.80	Electrical capacitors	34,582	14,217	41.1	El Salvador
114.45	Shellfish other than clams	253,520	12,146	4.8	Panama
148.30	Melons, fresh, except cantaloupes	12,982	11,055	85.2	Panama
138.05	Broccoli, cauliflower, and okra	14,529	9,689	66.7	Guatemala
165.29	Fruit juices, not mixed, orange	9,796	9,482	96.8	Belize
791.27	Leather, other than patent leather	55,682	8,690	15.6	Dominican Republic
475.05	Crude petroleum less than 25 degrees API	519,860	8,520	1.6	Bahamas
110.35	Fresh fish, whole	19,556	7,913	40.6	Costa Rica
	Total, above items	2,580,969	623,251	24.1	(1)
	Total, all items from CBERA countries	6,039,030	906,144	15.0	(1)

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

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No quotas have been imposed since the act became effective on January 1, 1980. The predecessor statute, the Meat Act of 1964—on the basis of a similar but different formula—also provided authority to the President to impose quotas on imports of meat.

The USDA on December 30, 1986, estimated that imports of quota meat in 1987 would amount to 1,400 million pounds, approximately 40 million pounds below the "trigger" level of 1,440 million pounds mandating imposition of quantitative limitations. Actual imports of meat subject to the act totaled 1,428 million pounds, distributed by source as follows in 1987 (million-pounds):

Source	*Quantity*
Australia	722.1
New Zealand	438.7
Canada	152.7
Honduras	16.6
Costa Rica	51.2
Guam	.6
Guatemala	16.3
European Community	6.4
El Salvador	1.6
Dominican Republic	18.8
Belize	.1
Sweden	3.3
Total	1,428.3

Because the total of 1,428 million pounds was below the 1,440 million pound "trigger" level, no quotas were imposed in 1987. As a result of heavy shipments during the third quarter of 1987 relative to January-March levels, Australia and New Zealand agreed in October 1987 to limit voluntarily their exports of cattle meat products to respective levels equivalent to 722 million pounds and 439 million pounds through December 1987.

The USDA in November 1987 estimated that in the absence of restraints, 1988 meat imports subject to the law would total 1,439 million pounds, 1 million pounds below the "trigger" level of 1,440 million pounds that would 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 articles 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. The predecessor statute of the Trade Expansion Act of 1962—the Trade Agreements Extension Act of 1958—provided the President similar authority to regulate imports in the interest of national security. Section 232 has been administered by the Department of Commerce since January 1980. Previously, responsibility for the program was centered at the Department of the Treasury and the Office of Emergency Preparedness. The most frequent use of section 232 authority by U.S. Presidents has been to impose quotas and fees on imports of petroleum and petroleum products.

Developments in 1987

The Department of Commerce in 1987 initiated two new section 232 investigations covering imports of anti-friction bearings, and imports of crude and refined petroleum. The Commerce Department must report its findings to the President by July 17, 1988, in the bearing case, and by December 1, 1988, in the petroleum investigation. The bearing and petroleum cases represent, respectively, the fifth and sixth section 232 cases conducted at Commerce. Previous investigations covered glass-lined chemical processing equipment; ferroalloys; crude oil from Libya; industrial fasteners; and machine tools.[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 1987. 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 March 1982.

Petroleum

On December 24, 1987, the U.S. Department of Commerce initiated an investigation under section 232 of the Trade Expansion Act of 1962. This action was taken in response to a petition filed on December 1, 1987, by Enserch Corporation, on behalf of the National Energy Security Committee (an ad hoc coalition of State petroleum associations, industry associations, and companies; it includes royalty owners, drilling equipment manufacturers, and drilling services companies) and the Texas Independent Producers and Royalty Owners Association. The petition requested that an investigation be initiated under section 232 to determine whether U.S. imports of crude petroleum and refined petroleum products threaten to impair the national security of the United States. The U.S. Department of Commerce has up to 1 year to complete its study and report its findings.

The industry group has stated that it is also considering filing a petition with the U.S. International Trade Commission under section 201 of the Trade Act of 1974, alleging that crude petroleum and refined petroleum products are being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article.

[1] Four countries—Japan, Taiwan, West Germany, and Switzerland—agreed in 1986 to limit for a 5-year period exports of machine tools to the United States. For additional details on the voluntary restrictions in place throughout calendar year 1987, see the *Operation of the Trade Agreements Program, 38th Report*, 1986. USITC Publication 1995, July 1987, pp. 4-11; 4-27; and 4-41.

The section 232 petition filed with the U.S. Department of Commerce and the possibility of a section 201 petition at the U.S. International Trade Commission were spurred by the increase in imports coupled with the decrease in production of crude petroleum since 1985. U.S. production of crude petroleum declined by about 7 percent, from 9 million barrels per day in 1985 to 8.3 million barrels per day in 1987; during the same period, U.S. imports increased from 3 million barrels per day in 1985 to 5 million barrels per day in 1987, or by 46 percent. The ratio of imports to consumption increased from 27 percent in 1985 to 36 percent in 1987. Although domestic production and the ratio of imports to consumption of refined petroleum products have remained at approximately the same levels during the period, it is expected that if some action is taken to limit U.S. imports of crude petroleum without a similar action being taken for petroleum products, foreign producers would instead export higher valued refined petroleum products to the U.S. market.

The Steel Import Program

Background of Voluntary Restraint Arrangement Program

On September 18, 1984, the President determined, following a section 201 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.[1] Under this program, the President directed the USTR to negotiate voluntary restraint arrangements to cover the period from October 1, 1984, through September 30, 1989 (and, if necessary, to self-initiate unfair trade petitions), with countries "whose exports to the United States increased significantly in recent years due to an unfair surge in imports."[2] As a result of the President's program, imports of finished steel products were expected to fall to a more normal level of 18.5 percent of the domestic market. That share excludes semifinished steel, which would be limited to about 1.7 million tons annually. In 1987, imports accounted for about 21 percent of U.S. apparent consumption of steel.[3]

[1] 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.

[2] The authority to enforce these voluntary restraint arrangements is contained in the Steel Import Stabilization Act (Title VIII of the Trade and Tariff Act of 1984, Public Law 98–573, 98 Stat. 2948, 19 U.S.C. 2253 note).

[3] USITC, *Monthly Reports on the Status of the Steel Industry*, January 1988, USITC Publication 2049.

Current Status of the Program

As of January 1988, voluntary restraint arrangements have been concluded with 19 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.

During 1987, new agreements limiting steel imports entered into effect with China (68,000-ton-quota agreement), and Trinidad and Tobago (73,500-ton-quota agreement). 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, steel imports in 1987 were reduced by the Comprehensive Anti-Apartheid Act of 1986 that embargoes certain steel products. In December 1985, the 1982 Arrangement Concerning Trade in Certain Steel Products between the European Coal and Steel Community and the United States and the Pipe and Tube Arrangement were extended to coincide with the scheduled expiration of the voluntary restraint arrangements on September 30, 1989. The current EC agreement includes approximately 200,000 tons of semifinished steel which may be imported at the discretion of the United States Trade Representative.

Specialty Steel

On July 19, 1983, the President announced his decision to grant import relief to the specialty steel industry for a period of 4 years (48 F.R. 33233). The relief was scheduled to expire on July 19, 1987. Under the relief, quotas were imposed on imports of stainless steel bars, stainless steel wire rods, and certain alloy tool steel products; increased duties were imposed on stainless steel plates and stainless steel sheets and strip. On July 16, 1987, the President announced his decision to extend the import relief in the form currently in effect for a period from July 20, 1987, through September 30, 1989. Under the steel voluntary restraint arrangements, in return for their agreement to limit exports of stainless steel plates and sheets and strip, countries were exempted from having to pay additional duties (with the exception of Finland, whose arrangement does not include stainless steel flat-rolled products). Quotas were unaffected by the arrangements for all countries except the EC–10, which negotiated limits on rods, bars, and alloy tool steel as part of its agreement; Brazil whose agreement now includes the specialty steel products subject to quotas; and Austria, which included alloy tool steel in its agreement.

Table 5-7
Countries subject to voluntary restraint arrangements on exports of steel and their respective limits,[1] 1987

Country	*Overall limits* [2]	*Semifinished steel*
		Tons
Australia	.25 percent	50,000
Austria	.21 percent	(3)
Brazil	1.50 percent	700,000
China	68,000 tons	(3)
Czechoslovakia	40,000 tons	(3)
EC	5.90 percent	(4)820,000
East Germany	110,000 tons	(3)
Finland	.22 percent	15,000
Hungary	34,000 tons	(3)
Japan	5.50 percent	100,000
Korea	1.80 percent	50,000
Mexico	.41 percent	100,000
Poland	90,000 tons	(3)
Portugal	40,000 tons	(3)
Romania	105,000 tons	(3)
South Africa	(5)	0
Spain	.70 percent	50,000
Trinidad and Tobago	73,500 tons	(3)
Venezuela	199,100 tons	60,000
Yugoslavia	25,200 tons	(3)

[1] Percentages reflect imports as a percent of U.S. apparent consumption. Tonnage is in short tons.
[2] Including semifinished steel for all countries except Venezuela. Does not include adjustments for overages in 1986.
[3] No explicit semifinished steel provisions.
[4] Includes approximately 200,000 tons that may be imported at the discretion of the United States Trade Representative.
[5] Steel imports from South Africa in 1987 are reduced by the Comprehensive Anti-Apartheid Act of 1986, which embargoes certain steel products.

Source: USITC, *Monthly Reports on the Status of the Steel Industry*, January 1988, USITC Publication 2049, pp. i-vii.

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APPENDIX A
SIGNATORIES TO THE HARMONIZED SYSTEM

Table A-1
The 39 Contracting Parties to the Harmonized System Convention and to its protocol of amendment

States and Customs or Economic Unions	*Date of becoming Contracting Party*		*Entry into force*
	HS convention	*Protocol*	
Australia	9-22-87	9-22-87	1-1-88
Austria	9-22-87	9-22-87	1-1-88
Bangladesh	9-22-87	9-22-87	7-1-88
Belgium	9-22-87	9-22-87	1-1-88
Botswana	2-13-87	2-13-87	1-1-88
Canada	12-14-87	12-14-87	1-1-88
Czechoslovakia	12-9-86	4-22-87	1-1-88
Denmark	9-22-87	9-22-87	1-1-88
EC	9-22-87	9-22-87	1-1-88
Finland	9-22-87	9-22-87	1-1-88
France	9-22-87	9-22-87	1-1-88
Iceland	10-28-87	10-28-87	1-1-88
India	6-23-86	12-8-86	1-1-88
Ireland	12-22-87	12-22-87	1-1-88
Israel	8-5-87	10-2-87	1-1-88
Japan	6-22-87	6-22-87	1-1-88
Jordan	6-10-85	3-5-87	1-1-88
Korea	11-27-87	11-27-87	1-1-88
Lesotho	12-12-85	5-14-87	1-1-88
Madagascar	12-22-87	12-22-87	1-1-88
Malaysia	12-15-87	12-17-87	1-1-88
Mauritius	6-10-85	4-14-87	1-1-88
Netherlands	9-22-87	9-22-87	1-1-88
New Zealand	9-22-87	9-22-87	1-1-88
Norway	8-27-87	8-27-87	1-1-88
Pakistan	9-22-87	9-22-87	7-1-88
Portugal	11-4-87	11-4-87	1-1-88
South Africa	11-25-87	11-25-87	1-1-88
Spain	9-28-87	9-28-87	1-1-88
Swaziland	11-26-85	8-25-87	1-1-88
Sweden	9-22-87	9-22-87	1-1-88
Switzerland	9-22-87	9-22-87	1-1-88
Tunisia	10-28-87	10-28-87	
United Kingdom	9-22-87	9-22-87	1-1-88
West Germany	9-22-87	9-22-87	1-1-88
Yugoslavia	9-10-87	9-10-87	1-1-88
Zaire	11-10-87	11-10-87	1-1-88
Zambia	12-22-86	9-25-87	1-1-88
Zimbabwe	11-5-86	11-5-86	1-1-88

Signatures subject to ratification are Algeria, Argentina, Brazil, Burundi, Ghana, Greece, Haiti, Hungary, Iran, Italy, Liberia, Luxembourg, Morocco, Saudi Arabia, and Syria.

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APPENDIX B
STATISTICAL TABLES

Table B-1
Countervailing duty actions reported[1] by signatories to the GATT Committee on Subsidies and Countervailing Measures, 1987

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		5-7-87 No injury.
	Brazil	Galvanized hoop, strip, sheet and coil, iron and steel	12-22-86	5-7-87	
	New Zealand	Frozen peas	2-5-86	8-21-86	
Canada	Brazil	Carbon steel seamless pipe	8-13-86	11-10-86	3-12-87 No injury.
	Brazil	Electric motors	6-1-87		11-9-87 Definitive duty.
	Denmark	Canned ham	11-2-87		12-23-87 Definitive duty.
	EC	Canned luncheon meat	12-2-87		12-23-87 Definitive duty.
	EC	Dry pasta	7-2-86	9-3-86	1-28-87 No injury.
	France	Drywall screws	6-4-87	9-2-87	12-31-87 Definitive duty.
	Netherlands	Canned ham	11-2-87		12-23-87 Definitive duty.
	United States	Grain corn	4-24-87		7-24-87 Definitive duty.
	United States	Grain corn	7-2-86	11-7-86	3-6-87 Definitive duty.
New Zealand	Australia	Wheat	2-19-87	3-20-87	7-28-87 Case withdrawn.
	Australia	Aluminium passenger catamarans	10-20-87	12-10-87	

[1] Second half of 1987 notifications received as of May 1988.
Source: Compiled from documents of the GATT Committee on Subsidies and Countervailing Measures.

Table B-2
Antidumping actions reported[1] by signatories to the GATT Committee on Antidumping Practices, 1987

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		5-7-87 No injury.
	Brazil	Galvanized hoop, strip, sheet and coil, iron and steel.	12-22-86		5-7-87 No dumping.
	Brazil	Frozen concentrated orange juice	9-10-86	11-17-86	
	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		6-23-87 No injury.
	China	Electric motors, a.c. three phase	2-13-85	8-22-85	
	China	Industrial nitrocellulose	9-29-86		5-11-87 No injury.
	China	Passenger car tires	2-7-86	7-16-86	
	China	Woven worsted fabrics	9-16-86	4-15-87	
	Czechoslovakia	Electric motors, a.c. three phase	2-13-85	8-22-85	
	Czechoslovakia	Parts of certain electric motors	10-15-86		4-22-87 No injury.
	Czechoslovakia	Passenger car tires	2-7-86	7-16-86	
	France	Industrial nitrocellulose	9-29-86		5-11-87 No injury.
	France	Passenger car tires	2-7-86	7-16-86	
	France	Pigments flushed	9-22-86		6-12-87 No injury.
	France	Sublimation transfer printing paper	5-11-87		
	Hong Kong	Ceiling sweep fans	3-11-86	6-25-86	3-3-87 No dumping.
	Italy	Steel alloy chains	12-10-86		6-23-87 No injury.
	Italy	Sublimation transfer printing paper	5-11-87		
	Japan	Dental surgery furniture and dental apparatus	7-10-86		
	Korea	Rigid thermoforming grade, PVC sheet	1-14-87		
	Malaysia	Urea	7-15-86		
	Netherlands	Hydraulic brake fluid	5-21-86		
	Netherlands	Electric motors	10-15-86		4-22-87 Other.
	New Zealand	Frozen peas	2-5-86	8-21-86	
	New Zealand	Reflective aluminium foil insulation	2-9-87		
	Poland	Electric motors, a.c. three phase	2-13-85	8-22-85	
	Poland	Parts of certain electric motors	10-15-86		4-22-87 No injury.
	Qatar	Polyethylene, low density	8-13-86	2-9-87	
	Romania	PVC general-purpose homopolymer	5-14-86	8-14-86	4-13-87 No injury.
	Spain	Passenger car tires	2-7-86	7-16-86	
	Taiwan	Castors	8-11-86		4-10-87 No injury.
	Taiwan	Ethyl acetate	9-29-86	5-4-87	
	Taiwan	Passenger car tires	2-7-86	7-16-86	
	Taiwan	Rigid thermoforming grade PVC sheet	1-14-87		
	Taiwan	Electric motors, a.c. three phase	2-13-85	8-22-85	
	Taiwan	Sublimation transfer printing paper	5-11-87		
	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	
	United Kingdom	Hydraulic brake fluid	5-21-86		
	United Kingdom	Passenger car tires	2-7-86	7-16-86	

[1] Second half of 1987 notifications received as of May 1988.

Table B-2—Continued
Antidumping actions reported[1] by signatories to the GATT Committee on Antidumping Practices, 1987

Reporting country	*Country of origin*	*Product*	*Initiation date*	*Provisional measures*	*Date and final outcome*
Australia	United Kingdom	Sublimation transfer printing paper	5-11-87		
	U.S.S.R	Electric motors, a.c. three phase	2-13-85	8-22-85	
	United States	Certain nylon polyamide yarn	3-19-86	6-29-87	
	United States	Dental surgery furniture and dental apparatus	7-10-86		
	United States	Certain electric winches	1-14-87		
	United States	Hypodermic needles	10-2-86		
	United States	Commercial out-front mowers	2-6-87		
	United States	Pigments flushed	9-22-86		6-12-87 No injury.
	United States	Silicon sealants, neutral cure	9-29-86		6-8-87 No injury.
	United States	Sublimation transfer printing paper	5-11-87		
	United States	Urea	7-15-86		
	West Germany	Dental surgery furniture and dental apparatus	07-10-86		
	West Germany	Industrial nitrocellulose	9-29-86		5-11-87 No injury.
	West Germany	Parts of certain electric motors	10-15-86		4-22-87 No dumping.
	West Germany	Passenger car tires	2-7-86	7-16-86	
	West Germany	Steel alloy chains and fittings	12-10-86		6-23-87 No injury.
	West Germany	Sublimation transfer printing paper	5-11-87		
Canada	Austria	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Definitive duty.
	Belgium	Brass-coated steel wire	4-6-87	7-31-87	
	Belgium	Wide-flange steel beams	1-19-87		
	Belgium	Carbon steel welded pipe	9-16-87		
	Belgium	Carbon and alloy steel plate	12-31-87		
	Belgium	Stainless steel plate	11-25-86		6-11-87 Definitive duty.
	Belgium	12 Gauge shotshells	10-1-87		12-22-87 Definitive duty.
	Belgium	Articficial graphite electrodes	7-31-87		10-16-87 Definitive duty.
	Belgium	Wide flange steel beams	1-19-87		7-9-87 Definitive duty.
	Belgium	Brass coated steel wire	4-6-87		7-31-87 Definitive duty.
	Brazil	Carbon and alloy steel plate	12-31-87		
	Brazil	Carbon steel welded pipe	9-16-87		
	Brazil	Tillage tools and earth engaging tools	10-29-86		11-23-87 Definitive duty.
	Brazil	Synthetic baler twine	9-26-86		3-9-87 Definitive duty.
	Brazil	Electric motors	6-1-87		11-9-87 Definitive duty.
	Brazil	Stainless steel bars and wire	11-25-86		6-11-87 Definitive duty.
	Brazil	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Definitive duty.
	China	Waterproof rubber footwear	10-17-86		4-7-87 Definitive duty
	China	Photo albums with pocket sheets	8-28-87	10-30-87	
	Czechoslovakia	Waterproof rubber footwear	10-17-86		4-15-87 Defintive duty.
	Czechoslovakia	Carbon and alloy steel plate	12-31-87		
	East Germany	Urea	5-29-87	8-27-87	
	France	Drywall screws	6-4-87	9-2-87	12-31-87 Definitive duty.
	France	Wide-flange steel beams	1-19-87		7-9-87 Definitive duty.
	France	Carbon and alloy steel plate	12-31-87		
	France	12 gauge shotshells	10-1-87		12-22-87 Definitive duty.
	France	Alpine ski poles	2-27-87		7-22-87 Definitive duty.
	France	Stainless steel strip, plate, bars, and wire	11-25-86		6-11-87 Definitive duty.

[1] Second half of 1987 notifications received as of May 1988.

Table B-2—Continued

Antidumping actions reported[1] by signatories to the GATT Committee on Antidumping Practices, 1987

Reporting country	*Country of origin*	*Product*	*Initiation date*	*Provisional measures*	*Date and final outcome*
Canada	Hong Kong	Waterproof rubber footwear	10-17-86		4-7-87 Defintive duty.
	Hong Kong	Photo albums with pocket sheets	8-28-87	10-30-87	
	Hong Kong	Ladies' handbags	9-8-87		
	Italy	Alpine ski poles	2-27-87		7-22-87
	Italy	12 gauge shotshells	10-1-87		12-22-87
	Italy	Stainless steel plate	11-25-86		6-11-87 Definitive duty.
	Japan	Porcelain station post insulators	4-8-87		7-7-87 Price undertaking.
	Japan	Printing plates	4-1-87	6-30-87	
	Japan	Wide-flange steel beams	1-19-87		7-9-87 Definitive duty.
	Japan	Electric motors	6-1-87		11-9-87 Definitive duty.
	Japan	Stainless steel plate, sheet, bars, and wire	11-25-86		6-11-87 Definitive duty.
	Japan	Photo albums with pockes sheets	8-28-87	10-30-87	
	Japan	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Definitive duty.
	Japan	Porcelain insulators	11-7-86		3-11-87 Definitive duty.
	Japan	Aluminum offset printing plates	4-1-87	6-30-87	10-27-87 No injury.
	Japan	Artifical graphite electrodes	7-31-87		10-16-87 Definitive duty.
	Japan	Countertop microwave ovens	12-23-87		
	Korea	Drywall screws	8-1-86	10-23-86	2-20-87 Definitive duty.
	Korea	Carbon steel welded pipe	7-25-86		2-6-87 Definitive duty.
	Korea	Synthetic rope	5-7-87		
	Korea	Wide-flange steel beams	1-19-87		7-9-87 Definitive duty.
	Korea	Waterproof rubber footwear	10-17-86		4-7-87 Definitive duty.
	Korea	Stainless steel bars and wire	11-25-86		6-11-87 Definitive duty.
	Korea	Cars	7-15-87	11-24-87	
	Korea	Photo albums with pocket sheets	8-28-87	10-30-87	
	Korea	Ladies' handbags	9-8-87		
	Korea	Countertop microwave ovens	12-31-87		
	Korea	Carbon and alloy steel plate	12-31-87		
	Korea	Twisted polyproplene and nylon rope	5-7-87		7-15-87
	Korea	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Definitive duty.
	Luxembourg	Carbon steel welded pipe	9-16-87		
	Luxembourg	Wide-flange steel beams	1-19-87		7-9-87 Definitive duty.
	Malaysia	Waterproof rubber footwear	10-17-87		4-7-87 Definitive duty.
	Malaysia	Photo albums with self-adhesive leaves	4-9-87	7-6-87	11-3-87
	Malaysia	Photo albums with pocket sheets	8-28-87	10-30-87	
	Mexico	Carbon steel reinforcing bars	5-27-87	8-25-87	12-22-87 No injury.
	Mexico	Electric motors	6-1-87		11-9-87 Definitive duty.
	Netherlands	Carbon and alloy steel plate	12-31-87		
	Poland	Electric motors	6-1-87		11-9-87 Definitive duty.
	Poland	Waterproof rubber footwear	10-17-86		4-15-87 Definitive duty.
	Poland	Carbon steel welded pipe	9-16-87		
	Portugal	Synthetic baler twine	10-6-86		1-16-87 Definitive duty.
	Republic of South Africa	Wide-flange steel beams	1-19-87		7-9-87 Definitive duty.

[1] Second half of 1987 notifications received as of May 1988.

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Table B-2—Continued

Antidumping actions reported[1] by signatories to the GATT Committee on Antidumping Practices, 1987

Reporting country	*Country of origin*	*Product*	*Initiation date*	*Provisional measures*	*Date and final outcome*
Canada	Republic of South Africa.	Stainless steel plate and sheet	11-25-86		6-11-87 Definitive duty.
	Republic of South Africa.	Carbon and alloy steel plate	12-31-87		
	Romania	Carbon and alloy steel plate	12-31-87		
	Singapore	Photo albums with self-adhesive leaves	4-9-87	7-6-87	11-3-87 Definitive duty.
	Singapore	Countertop microwave ovens	12-23-87		
	Singapore	Photo albums with pocket sheets	8-28-87	10-30-87	
	Spain	Wide-flange steel shapes	5-22-87	8-20-87	12-18-87 Definitive duty.
	Spain	Phenol	5-22-87	8-20-87	12-18-87 No injury.
	Spain	Carbon and alloy steel plate	12-31-87		
	Spain	Brass coated steel wire	4-6-87		7-31-87 Definitive duty.
	Spain	Stainless steel bars and wire	11-25-86		6-11-87 Definitive duty.
	Sweden	Arificial graphite electrodes	7-31-87		10-16-87 Definitive duty.
	Sweden	Gasoline-powered chain saws	10-24-86	3-6-87	7-3-87 Definitive duty.
	Sweden	Stainless steel plate	11-25-86		6-11-87 Definitive duty.
	Sweden	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Definitive duty.
	Taiwan	Photo albums with pocket sheets	8-28-87	10-30-87	
	Taiwan	Photo albums with self-adhesive leaves	4-9-87	7-6-87	11-3-87 Definitive duty.
	Taiwan	Ladies' handbags	9-8-87		
	Taiwan	Electric motors	6-1-87		11-9-87 Definitive duty.
	Taiwan	Waterproof rubber footwear	10-17-86		4-7-87 Definitive duty.
	Turkey	Carbon steel welded pipe	9-1687		
	United Kingdom	Printing plates	4-1-87	6-30-87	
	United Kingdom	Electric motors	6-1-87		11-9-87 Definitive duty.
	United Kingdom	Wide-flange steel beams	1-19-87		9-7-87 Definitive duty.
	United Kingdom	Aluminium offset printing plates	4-1-87	6-30-87	10-27-87
	United Kingdom	Carbon and alloy steel plate	12-31-87		
	United Kingdom	12 gauge shotshells	10-01-87		12-33-87 Defintive duty.
	United Kingdom	Stainless steel plate	11-25-86		6-11-87 Definitive duty.
	United Kingdom	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Definitive duty.
	United States	Absorbent clay	11-14-86		3-27-87 No injury.
	United States	Tile becker board	10-8-86		2-19-87 Definitive duty.
	United States	Carbon steel reinforcing bars	5-27-87	8-25-87	12-22-87 No injury.
	United States	Fertilizer blending equipment	3-5-87	6-2-87	9-30-87 No injury.
	United States	Gasoline chain saws	10-24-87	3-6-87	7-3-87 Definitive duty.
	United States	Recreational vehicle doors	8-28-87	11-25-87	
	United States	Metal storage cabinets	11-2-87		
	United States	Soda ash	7-27-87		10-26-87 Definitive duty.
	United States	Arificial graphite electrodes	7-31-87		10-16-87 Definitive duty.
	United States	Frozen pot pies	8-18-86		8-30-87 Price undertaking.
	United States	Electric motors	3-27-87		7-16-87 Definitive duty.
	United States	Plate coils	10-16-86		2-25-87 Definitive duty.
	United States	Vehicle washing equipment	11-27-86		8-12-87 Definitive duty.

[1] Second half of 1987 notifications received as of May 1988.

Table B-2—Continued

Antidumping actions reported[1] by signatories to the GATT Committee on Antidumping Practices, 1987

Reporting country	*Country of origin*	*Product*	*Initiation date*	*Provisional measures*	*Date and final outcome*
Canada	United States	Porcelain insulators	11-7-86		3-11-87 Definitive duty.
	United States	Soda ash	12-1-86		2-27-87 Definitive duty.
	United States	Yellow onions	10-14-86	1-12-87	4-30-87 Definitive duty.
	U.S.S.R	Urea	5-29-87	8-27-87	12-24-87 No injury.
	West Germany	Gasoline chain saws	10-24-86	3-6-87	7-3-87 Definitive duty.
	West Germany	Gasoline-powered chain saws	10-24-86	3-6-87	
	West Germany	Porcelain station post insulators	4-8-87		7-7-87 Price undertaking.
	West Germany	Wide-flange steel beams	1-19-87		7-9-87 Definitive duty.
	West Germany	Stainless steel plate, sheet, strip, bars and wire	11-25-86		6-11-87 Defintive duty.
	West Germany	Alloy tool steel bars, plates, and forgings	11-25-86		6-11-87 Defintive duty.
	West Germany	Photo albums with pocket sheets	8-28-87	10-30-87	
	West Germany	Mold steel	11-25-86		6-11-87 Defintive duty.
	West Germany	Carbon and alloy steel plate	12-31-87		
	Yugoslavia	Carbon steel welded pipe	9-16-87		
	Yugoslavia	Waterproof rubber footwear	10-17-86		4-7-87 Definitive duty.
EC	Austria	Urea	10-9-87		
	Brazil	Ferro-silicon		8-8-87	12-5-87 Definitive duty; 8-8-87 Price undertaking.
	Brazil	Binder and baler twine of sisal			2-5-87 Price undertaking.
	Brazil	Kraftliner paper and board	4-28-87		
	Brazil	Ferro-silico-calcium	9-30-86	5-19-87	11-12-87 Definitive duty.
	Canada	Cellular mobile radio telephones	7-15-87		
	Czechoslovakia	Copper sulphate			8-20-87 Definitive duty.
	Czechoslovakia	Electric multiphase motors			3-27-87 Definitive duty.
	Czechoslovakia	Urea	10-11-86	5-9-87	11-7-87 Price undertaking.
	Czechoslovakia	Oxalic acid	5-22-87		
	Hong Kong	Video cassette tapes	12-18-87		
	Hungary	Urea	10-9-87		
	Hungary	Copper sulphate			8-20-87 Definitive duty.
	Hungary	Electric multiphase motors	10-1-86	3-27-87	
	Japan	Compact disc players	7-7-87		
	Japan	Dynamic random access memories (DRAMS)	7-9-87		
	Japan	Cellular mobile radio telephones	7-15-87		
	Japan	Electronic weighing scales (anticircumvention)	9-1-87		
	Japan	Electronic typewriters (anticircumvention)	9-1-87		
	Japan	Video cassette recorders	9-26-87		
	Japan	Hydraulic excavators (anticircumvention)	10-23-87		
	Japan	Miniature ball bearings			11-26-87 Definitive duty.
	Japan	Housed bearing units			2-6-87 Definitive duty.
	Japan	Photocopiers			2-24-87 Definitive duty; 2-24-87 Price undertaking.
	Japan	Daisy wheel printers	5-7-87		
	Japan	Electronic semi-conductors	4-14-87		
	Japan	Dot matrix printers	4-25-87		
	Japan	Miniature ball bearings	4-25-87		

[1] Second half of 1987 notifications received as of May 1988.

Table B-2—Continued
Antidumping actions reported[1] by signatories to the GATT Committee on Antidumping Practices, 1987

Reporting country	*Country of origin*	*Product*	*Initiation date*	*Provisional measures*	*Date and final outcome*
EC	Japan	Outboard motors			5-13-87 Definitive duty; 3-26-87 Price undertaking.
	Japan	Oxalic acid	5-22-87		
	Japan	Electric multiphase motors			3-27-87 Definitive duty.
	Korea	Polyester yarn	7-1-87		
	Korea	Compact disc players	7-7-87		
	Korea	Viedeo cassette recorders	9-26-87		
	Korea	Viedeo cassette tapes	12-18-87		
	Poland	Copper sulphate			8-20-87 Price undertaking.
	Romania	Electric multiphase motors			3-27-87 Price undertaking.
	Romania	Herbicide	5-29-87		
	Romania	Synthetic fibers of polyester	7-1-87		
	Romania	Urea	10-9-87		
	Romania	Synthetic fibers of polyester	5-24-86		4-15-87 No injury.
	Sweden	Pentaeythritol			11-11-87 Price undertaking.
	United States	Synthetic textiles fibers of polyester	7-1-87		
	United States	Vinyle acetate monomer			8-4-87 Definitive duty.
	United States	Styrene monomer			9-8-87 No dumping.
	United States	Urea and amonium nitrate in liquid solution			7-30-87 No dumping.
	United States	Urea	10-9-87		
	Yugoslavia	Electric multiphase motors	11-8-86	4-14-87	
	Yugoslavia	Urea	2-12-87	5-9-87	
	Yugoslavia	Iron or steel coils	5-12-87		
	Yugoslavia	Synthetic fibers of polyester	5-24-86		4-15-87 No injury.
	Yugoslavia	Synthetic textile fibers of polyester	7-1-87		
	Yugoslavia	Iron or steel sections	8-14-87		
	Yugoslavia	Electric motors			8-7-87 Defintive duty.
	Yugoslavia	Urea			11-7-87 Price undertaking.
Finland	Austria	Electricity meters for household purposes	6-12-87		
	Czechoslovakia	Ski boots, "Nordic morm"	5-7-87		
	Poland	Impregnated insulation board	1-9-87	3-30-87	6-29-87 Price undertaking.
	Poland	Hardboard, surface-treated	1-9-87	3-30-87	6-29-87 Price undertaking.
	Poland	Hardboard, other	3-27-87	4-6-87	6-29-87 Price undertaking.
Korea	Japan	Slide fastener (zipper)	2-16-87		

[1] Second half of 1987 notifications received as of May 1988.
Source: Compiled from documents of the Committee on Antidumping Practice, GATT.

Table B-3
Leading items exported to Israel, by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
694.65	Aircraft, parts	$263,012	$226,384	$321,875
520.33	Diamonds, over 0.5 carat, cut	28,320	79,897	104,745
175.41	Soybeans, other	85,897	80,574	88,236
694.40	Aircraft	330	68	85,296
685.60	Radio navigation aids	67,253	56,030	74,540
660.54	Parts of comp-ignition engines	19,534	25,420	66,173
130.65	Wheat	61,586	63,527	61,031
676.55	Parts of office machines	62,569	68,953	58,599
685.90	Electrical switches	74,934	42,327	48,260
676.28	Digital central processing units	71,438	57,331	48,252
676.27	Digital machines	37,186	29,644	40,603
818.90	General merchandise less than $1501	[1]19,853	[1]15,866	39,298
685.27	Radiotelegraphics, other	36,462	39,692	35,945
130.34	Corn, not donated for relief or charity	32,387	31,444	35,945
678.50	Machines, n.s.p.f	20,677	26,181	32,947
687.60	Electronic tubes, not TV	33,414	39,808	32,640
688.40	Electrical articles, n.s.p.f.	23,863	26,285	31,959
252.78	Unbleached kraft packaging paper	15,952	22,675	29,889
712.50	Electrical measuring instruments	18,736	19,261	23,507
130.40	Grain sorghum	50,690	33,142	22,762
	Total	1,024,092	984,508	1,282,503
	Total, U.S. exports to Israel	1,808,005	1,751,780	2,065,842

[1] Prior to Jan. 1, 1987, Schedule B item 818.90 included only general merchandise valued $1000 or less.

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

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Table B-4
Leading items imported from Israel, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
520.32	Diamonds not over 0.5 carat, cut, not set, suitable for jewelry	$448,227	$542,689	$629,819
520.33	Diamonds over 0.5 carat, cut, not set, suitable for jewelry	340,924	429,017	406,056
694.67	Other aircraft and spacecraft, parts thereof	34,018	78,993	77,537
800.00	U.S. goods returned	[1]54,000	[1]55,098	56,831
740.14	Jewelry of precious metals	45,750	44,090	51,585
740.13	Other necklaces and neck chains	51,893	52,874	50,365
712.49	Electrical measuring equipment	8,812	16,735	34,090
660.71	Parts for internal combustion engines	11,548	20,716	33,580
660.73	Parts for civil aircraft internal combustion engines	13,183	24,257	31,197
694.41	Airplanes and parts thereof	34,519	54,799	30,858
676.30	Office machines, n.s.p.f.	54,593	29,820	28,952
685.60	Radio navigation aids, and parts thereof	5,077	6,200	26,577
688.42	Electric synchros and transducers	40,402	52,574	23,927
685.33	Radio-phonograph combinations	[2]6,782	[2]4,269	[2]24,987
687.74	Monolithic integrated circuits	191	2,840	20,764
709.17	Electro-medical apparatus	29,537	14,428	20,580
684.59	Telephonic apparatus	1,470	14,818	19,975
520.38	Emeralds, cut, not set	11,461	14,110	19,376
480.50	Potassium chloride	30,920	18,427	18,636
709.15	Electro-surgical apparatus	14,245	16,770	18,515
	Total	1,237,552	1,493,525	1,624,206
	Total U.S. imports from Israel	2,119,862	2,414,609	2,638,050

[1] Figures given include $30,137 and $75,000 reported respectively in 1985 and 1986 as entering the Gaza Strip. Trade for the Gaza Strip has since been included in figures for Israel.
[2] Prior to July 1, 1987, trade for TSUS item 685.33 was reported under 685.32 (part.)

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

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Table B-5
Leading items exported to the European Community (EC), by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	$3,108,720	$3,470,828	$4,165,480
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof	2,437,063	2,544,370	2,993,115
694.40	Airplanes	1,700,447	2,093,546	2,663,727
694.65	Parts, for aircraft and spacecraft	1,633,486	1,886,981	2,124,174
175.41	Soybeans, other than seed for planting	1,634,090	1,948,589	1,987,228
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines	1,425,803	1,604,748	1,766,643
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	2,026,868	1,928,885	1,506,710
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	624,874	745,395	945,877
184.80	Other animal feeds and ingredients therefor, n.s.p.f.	622,451	870,413	888,996
818.90	General merchandise valued under $1,501, except shipments requiring a validated export license	[1]423,062	[1]456,471	872,714
676.27	Digital machines comprising in one housing the central processing unit and input and output capability	550,888	710,113	852,832
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic components, and parts.	792,371	737,507	847,200
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof	514,903	590,274	743,826
433.10	Chemical mixtures and preparations, n.e.s.	423,087	496,849	626,323
678.50	Machines, n.s.p.f, and parts thereof.	603,723	634,233	619,972
660.49	Non-piston-type internal combustion engines	400,178	446,430	603,872
170.65	Cigarettes	332,535	453,180	600,629
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof	617,983	573,503	582,004
692.29	Parts of motor vehicles, n.e.s.	443,545	468,041	558,901
709.16	Electro-medical apparatus, and parts thereof	356,752	433,068	525,511
	Total	20,672,826	23,093,423	26,475,734
	Total, U.S. exports to the EC	46,712,746	50,251,834	57,230,077

[1] Prior to Jan. 1, 1987, Schedule B item 818.90 included only general merchandise valued at $1,000 or less.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-6
Leading items imported from the European Community (EC), by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
692.10	Passenger automobiles, snowmobiles, trucks valued under $1,000, and other miscellaneous vehicles	$8,287,312	$9,974,796	$11,269,621
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees API or more	2,999,580	2,044,315	2,223,217
800.00	U.S. goods returned	1,494,993	1,586,709	2,028,900
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	1,027,903	1,390,843	1,722,243
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	1,248,629	1,490,566	1,497,749
475.25	Motor fuel, including gasoline and jet fuel	1,625,160	947,570	954,419
676.54	Parts of automatic data processing machines and units thereof, other than parts incorporating a cathode-ray tube	(1)	[1]610,577	915,482
660.61	Internal combustion engines, non-piston-type, for aircraft, certified for use in civil aircraft	787,249	932,874	888,340
700.45	Leather footwear n.e.s., valued over $2.50 per pair, not for men, youths, or boys	920,023	951,500	857,296
678.50	Machines, n.s.p.f., and parts thereof	585,712	789,641	781,710
712.49	Electrical measuring, checking, analyzing, or automatically controlling instruments or apparatus, n.s.p.f., and parts thereof	561,700	636,093	730,834
999.95	Under $251 formal and informal entries, and non-exempt items from $251 to $1,000, estimated	542,566	624,446	686,208
660.73	Parts for internal combustion engines, certified for use in civil aircraft	611,066	711,033	684,924
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils testing under 25 degrees API	359,964	389,123	676,771
740.14	Jewelry and other objects of personal adornment, of precious metals, n.e.s.	574,599	611,525	644,029
692.34	Tractors suitable for agricultural use and parts thereof	546,662	605,765	615,223
664.08	Excavating, leveling, boring, and extracting machinery n.e.s., stationary or mobile, for earth, minerals, ores, pile drivers, snowplows, and parts	458,987	616,564	595,736
772.51	Pneumatic tires, n.e.s.	387,122	381,526	592,892
685.90	Electrical apparatus for making and breaking electrical circuits, for protection of electrical circuits, and for making connections to or in circuits	390,599	524,392	563,396
167.30	Still wine from grapes, not over 14 percent alcohol, in containers not over 1 gallon	662,091	645,382	557,823
	Total	24,071,915	26,465,241	29,486,814
	Total, U.S. imports from the EC	67,552,783	75,474,337	80,144,348

[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.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-7
Leading items exported to Canada, by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
818.91	Adjustment for undocumented exports to Canada	[1]$6,036,000	[1]$10,179,000	[1]$6,429,102
692.29	Parts of motor vehicles, n.e.s.	6,378,491	5,458,973	6,175,325
692.10	On-the-highway, four-wheeled passenger automobiles, ambulances, hearses, motor homes, ski vehicles, and other like motor vehicles	5,752,937	5,856,177	5,777,519
818.90	General merchandise valued under $1,501, except shipments requiring a validated export license	[2]1,823,209	[2]1,654,454	2,787,233
818.80	Shipments valued $10,000 and under, not identified by kind	[3]1,371,970	[3]1,472,862	[3]1,872,562
692.05	Automobile trucks, except truck tractors	1,548,306	1,664,065	1,804,578
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	1,214,877	1,047,441	1,457,336
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof	809,524	730,220	889,522
660.48	Piston-type internal combustion engines, other than compression-ignition engines	928,089	966,002	832,279
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	891,733	784,297	711,282
694.65	Parts, for aircraft and spacecraft	436,662	503,830	563,798
605.20	Gold or silver bullion, dore, and gold or silver precipitates	764,536	1,018,389	527,499
692.20	Bodies (including cabs) and chassis for automobile trucks, truck tractors, and motor buses	347,120	479,225	507,233
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines	567,181	471,171	497,163
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic crystal components, and parts	234,849	357,407	488,875
660.52	Parts of piston-type engines, other than compression-ignition engines	425,692	356,044	478,348
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof	342,523	368,511	457,838
664.05	Excavating, leveling, boring, and extracting machinery, excluding front-end loaders, pile drivers, non-self-propelled snowplows, and parts	536,560	372,309	407,456
660.41	Compression-ignition piston-type engines (diesel)	344,284	262,623	395,091
678.50	Machines n.s.p.f., and parts thereof	233,707	254,518	375,114
	Total	30,988,250	34,257,518	33,435,156
	Total, U.S. exports to Canada	51,064,947	53,165,113	57,001,048

[1] These are Bureau of the Census estimates of the value of undocumented exports from the United States to Canada.
[2] Prior to Jan. 1, 1987, Schedule B item 818.90 included only general merchandise valued at $1,000 or less.
[3] General merchandise valued at $1,000 or less in 1985 and 1986, was reported under Schedule B item 818.90. In 1987, such merchandise valued $1,500 or less was reported under Schedule B item 818.90.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-8
Leading items imported from Canada, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles (Automotive Products Trade Act)	$11,163,086	$11,812,986	$10,237,651
692.33	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined (Automotive Products Trade Act)	4,237,870	4,234,085	4,385,232
252.65	Standard newsprint paper	3,495,625	3,553,359	3,949,994
692.03	Trucks valued at $1,000 or more each (Automotive Products Trade Act)	3,612,865	3,081,276	3,773,449
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils, testing 25 degrees API or more	3,518,568	2,296,220	2,530,820
475.15	Natural gas, methane, ethane, propane, butane, and mixtures thereof	3,786,751	2,451,193	2,165,809
800.00	United States goods returned	2,048,794	2,098,218	2,153,870
202.03	Spruce lumber	1,881,712	1,972,281	2,004,601
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	1,385,871	1,422,180	1,841,952
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate, and residual fuel oils testing under 25 degrees API	1,727,402	1,146,217	1,418,160
660.49	Piston-type engines other than compression-ignition engines for automobiles, including trucks and buses (Automotive Products Trade Act)	1,252,380	949,221	1,126,257
605.20	Gold or silver bullion, dore, and precipitates	1,823,558	2,672,085	961,322
618.02	Unwrought aluminum n.e.s., other than alloys of aluminum	399,387	587,632	801,467
692.21	Automobile truck and motor bus chassis and bodies (Automotive Products Trade Act)	688,916	687,490	775,967
694.62	Parts of civil aircraft, certified for use in civil aircraft	540,991	598,113	617,830
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	512,753	531,034	605,376
999.95	Under $251 formal and informal entries, and nonexempt items from $251 to $1,000, estimated	422,797	426,016	554,359
618.06	Other unwrought alloys of aluminum	373,650	504,379	549,299
676.54	Parts of automatic dataprocessing machines and units thereof, other than parts incorporating a cathode-ray tube	(1)	1390,843	543,783
772.51	Pneumatic tires, n.e.s	447,888	497,447	514,665
	Total	43,320,863	41,912,274	41,511,864
	Total, U.S. imports from Canada.	68,883,572	68,146,979	70,850,625

[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-December 1985) and 676.5215 (January 1986) assigned to 676.54 are not known, these items were excluded from the data above.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-9
Leading items exported to Japan, by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared	$682,239	$788,952	$1,127,472
694.40	Airplanes	903,579	1,158,937	1,093,260
130.34	Corn or maize, not donated for relief or charity	1,304,713	877,194	1,035,373
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	615,972	629,802	825,657
694.65	Parts, for aircraft and spacecraft	573,550	654,261	795,983
175.41	Soybeans, other than seed for planting	936,982	837,212	783,512
110.46	Fish, fresh, chilled, or frozen, whole or eviscerated, but not otherwise prepared or preserved, and live eels	503,731	599,469	690,099
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	926,383	674,675	617,644
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof	496,485	542,393	599,744
106.10	Beef and veal, carcasses and primal cuts, excluding offal, fresh, chilled, or frozen	344,598	465,116	543,793
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic crystal components, and parts	269,492	327,159	500,565
170.65	Cigarettes	94,874	127,974	491,857
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	284,015	366,909	479,498
422.55	Uranium compounds, excluding uranium oxide, and thorium compounds	437,338	546,530	417,907
300.10	Cotton, not carded, not combed, and not similarily processed, having a staple length under 1-1/8 inches	332,798	228,372	393,593
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines	277,658	363,033	379,346
130.65	Wheat	468,970	424,330	352,280
712.50	Instruments and apparatus for measuring or checking electrical quantities, except electricity meters, and parts thereof	255,448	289,701	350,912
120.14	Whole cattle hides	276,077	301,974	332,600
618.03	Unwrought aluminum, other than alloys of aluminum	228,665	155,883	304,995
	Total	10,213,567	10,359,879	12,116,088
	Total, U.S. exports to Japan	21,602,930	22,890,847	26,903,632

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-10
Leading items imported from Japan, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
692.10	Passenger automobiles, snowmobiles, trucks valued under $1,000, and other miscellaneous vehicles	$17,896,142	$24,343,760	$24,622,946
692.02	Trucks valued at $1,000 or more each	3,389,238	4,810,692	4,158,348
676.30	Office machines, n.s.p.f.	2,565,157	3,451,251	4,130,501
685.40	Tape recorders, dictation and transcribing machines, and parts thereof	4,635,750	4,935,126	3,128,871
676.54	Parts of automatic data-processing machines and units thereof, other than parts incorporating a cathode-ray tube	(1)	11,681,752	2,764,253
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	1,282,379	1,767,114	2,160,342
678.50	Machines, n.s.p.f., and parts thereof	1,186,385	1,344,931	1,347,212
685.49	Radiotelegraphic, radiotelephonic, and other devices for the transmission, reception, and reproduction of sound or image, n.s.p.f.	633,791	1,104,268	1,322,226
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts	901,359	919,208	1,306,205
724.45	Magnetic recording media, no material recorded thereon	756,603	859,149	803,767
685.90	Electrical apparatus for making and breaking electrical circuits, for protection of electrical circuits, and for making connections to or in circuits	477,837	552,848	785,045
674.35	Metalworking machine tools, n.e.s.	475,924	791,600	735,415
676.56	Parts of office machines, n.s.p.f.	(2)	2555,060	723,774
722.16	Photographic cameras, other than fixed-focus, over $10 each, lens not over 50 percent of value	507,897	654,836	684,157
685.08	Other television apparatus and parts thereof	554,903	568,701	651,181
608.13	Sheets of iron and steel, n.s.p.f., not alloyed, coated, or plated with metal, valued over 10 cents per pound	673,867	558,338	649,527
684.66	Electrical telegraph terminal apparatus, including teleprinting and teletypewriting machines, and parts thereof	279,650	335,200	594,793
676.15	Accounting, computing, and other data processing machines	426,108	583,918	581,077
772.51	Pneumatic tires, n.e.s	539,725	547,551	573,397
684.70	Microphones, loudspeakers, headphones, etc., and parts	582,032	535,587	515,125
	Total	339,492,407	351,129,173	52,238,160
	Total, U.S. imports from Japan	68,241,856	81,985,873	84,008,499

[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-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 Feb. 1, 1986, trade for TSUS item 676.56 was reported under 676.52 (part). Since those portions of TSUSA items 676.5230 (January-December 1985) and 676.5215 (January 1986) assigned to 676.56 are not known, these items were excluded from the data above.
[3] 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.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-11
Leading items exported to Mexico, by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
692.29	Parts of motor vehicles, n.e.s.	$1,176,965	$983,233	$1,198,481
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic crystal components, and parts	372,698	441,653	490,218
688.12	Ignition wiring sets and wiring sets designed for use in motor vehicles, aircraft, spacecraft, ships, boats, and other vessels	280,645	332,985	400,955
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards, and control panels, and parts thereof	340,178	356,123	374,328
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	289,278	272,958	344,119
818.90	General merchandise valued under $1,501, except shipments requiring a validated export license	[1]206,880	[1]178,315	339,334
130.34	Corn or maize, not donated for relief or charity	203,587	144,751	281,090
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines	220,619	289,553	270,115
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both	137,112	106,165	233,359
685.27	Radiotelegraphic, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	167,342	217,316	223,970
175.41	Soybeans, other than seed for planting	385,486	178,153	214,482
685.20	Television apparatus, and parts thereof	189,236	176,856	202,687
682.60	Generators, motor-generators, rotating converters, rectifers and rectifying apparatus, coils, inductors, lamp ballasts, and parts thereof	158,547	166,892	200,050
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	115,739	123,830	170,597
660.52	Parts of piston-type engines, other than compression-ignition engines	224,533	197,839	163,958
711.80	Instruments for measuring, checking, and automatically controlling the flow, depth, pressure, and temperature, etc. of liquids or gases, and parts	62,604	56,204	159,133
818.80	Shipments valued $10,000 and under, not identified by kind	[2]135,121	[2]128,474	[2] 154,535
680.27	Safety, relief, solenoid, control, and regulator valves (not hand operated), other taps, cocks, valves, and similar devices n.s.p.f., and parts	58,034	90,815	139,038
688.40	Electrical articles n.s.p.f., and electrical parts of articles n.s.p.f.	97,356	99,839	136,232
678.50	Machines, n.s.p.f. and parts thereof	130,739	145,501	130,017
	Total	4,952,700	4,687,454	5,826,698
	Total, U.S. exports to Mexico	13,084,252	11,924,851	14,045,175

[1] Prior to Jan. 1, 1987, Schedule B item 818.90 included only general merchandise valued at $1,000 or less.
[2] General merchandise valued $1,000 or less in 1985 and 1986, was reported under Schedule B item 818.90. In 1987, such merchandise valued at $1,500 or less was reported under Schedule B item 818.90.

Note.—Because of rounding, figures may not add to the totals shown.

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

Table B-12
Leading items imported from Mexico, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
475.05	Crude petroleum, topped crude petroleum, crude shale oil, and distillate and residual fuel oils, testing under 25 degrees API	$4,338,249	$2,168,456	$2,486,682
692.10	Passenger automobiles, snowmobiles, trucks valued under $1,000, and other miscellaneous vehicles	282,651	769,944	1,496,270
475.10	Crude petroleum, topped crude petroleum, crude shale oil, and distillate and residual fuel oils, testing 25 degrees API or more	3,309,848	1,363,023	1,151,135
688.12	Ignition wiring sets and wiring sets for transportation equipment	471,745	519,126	611,568
660.48	Piston-type engines other than compression-ignition for automobiles, including trucks and buses	599,259	585,370	610,918
800.00	U.S. goods returned	422,456	452,836	567,926
692.32	Parts n.s.p.f. of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	406,844	465,175	542,683
685.90	Electrical apparatus for making and breaking electrical circuits, for protection of electrical circuits, and for making connections to or in circuits	309,080	365,230	448,820
114.45	Shellfish other than clams, crabs, or oysters	312,299	357,338	435,823
160.10	Coffee, crude, roasted or ground	367,773	570,973	397,014
682.60	Generators, motors, motor-generators, converters, transformers, rectifying apparatus, inducers, other electrical goods, and parts, n.e.s.	190,027	252,818	322,241
676.54	Parts of automatic data processing machines and units thereof, other than parts incorporating a cathode-ray tube	(1)	[1]202,137	299,026
605.20	Gold or silver bullion, dore, and precipitates	247,409	239,733	284,808
678.50	Machines, n.s.p.f., and parts thereof	262,934	217,012	283,099
684.92	Complete television receivers	20,781	107,268	258,982
100.45	Cattle, weighing 200 pounds or more but under 700 pounds each	122,583	273,585	246,305
688.18	Insulated electrical conductors, with fittings, n.e.s.	116,375	170,802	215,179
684.98	Printed circuit boards or the like for color TV's, or subassemblies containing one or more such units, containing specified components	109,053	195,702	206,925
685.08	Other television apparatus and parts thereof, n.e.s.	180,592	187,245	200,320
167.05	Ale, port, stout, or beer	63,143	115,060	195,962
	Total	12,133,101	9,578,833	11,261,688
	Total, U.S. imports from Mexico	18,938,246	17,196,360	19,765,789

[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-December 1985) and 676.5215 (January 1986) assigned to 676.54 are not known, these items were excluded from the data above.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-13
Leading items exported to Taiwan, by Schedule B item number, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
605.20	Gold or silver bullion, dore, and gold or silver precipitates	$891	$1,700	$564,099
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic crystal components, and parts	183,275	283,893	489,469
175.41	Soybeans, other than seed for planting	321,720	358,750	379,935
130.34	Corn or maize, not donated for relief or charity	374,299	271,002	250,825
521.31	Coal; petroleum other than coke; and compositions of coal, coke, or other carbonaceous material used for fuel	134,044	157,377	192,156
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	107,664	134,465	191,155
120.14	Whole cattle hides	112,247	155,687	172,259
300.10	Cotton, not carded, not combed, and not similarily processed, having a staple length under 1-1/8 inches	112,386	36,721	135,011
404.22	Polycarboxylic acids, anhydrides, and their derivatives	92,527	132,216	133,890
170.65	Cigarettes	4,890	4,355	118,767
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof	85,293	87,686	116,294
404.05	Cyclic intermediate hydrocarbon compounds, except derivatives	4,047	38,688	111,574
692.10	On-the-highway, four-wheeled passenger automobiles, ambulances, hearses, motor homes, ski vehicles, and other like motor vehicles	6,314	10,645	111,348
130.65	Wheat	99,082	101,505	103,578
684.62	Electrical telegraph (including printing and typewriting) and telephone apparatus and instruments; and parts thereof, n.s.p.f.	47,666	39,549	101,845
250.04	Waste paper and paperboard; scrap paper and paperboard products fit only for remanufacture; and flax and hemp fibers to be used in papermaking	61,697	74,233	89,692
685.90	Electrical apparatus for making, breaking, protecting, or connecting to electrical circuits, switchboards and control panels, and parts thereof	50,327	71,648	83,117
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale or both	20,676	85,321	82,435
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	34,197	57,778	81,741
694.65	Parts, for aircraft and spacecraft	253,570	129,366	77,082
	Total	2,106,811	2,232,587	3,586,272
	Total, U.S. exports to Taiwan	4,337,499	5,057,124	7,019,239

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-14
Leading items imported from Taiwan, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
700.56	Footwear having uppers over 90 percent of exterior surface area of rubber or plastics, n.e.s.	$963,621	$1,173,108	$1,331,681
676.30	Office machines, n.s.p.f.	295,755	498,530	708,946
676.54	Parts of automatic data processing machines and units thereof, other than parts incorporating a cathode-ray tube	(1)	[1] 300,390	557,052
727.35	Furniture of wood, other than chairs	253,125	395,617	500,621
384.80	Other women's, girls', or infants' blouses, body suits, and shirts, shirts and sweaters, of manmade fibers, knit, not ornamented	[2]339,665	439,342	476,663
678.50	Machines, n.s.p.f., and parts thereof	293,493	312,740	443,586
700.45	Leather footwear n.e.s., valued over $2.50 per pair, not for men, youths, or boys	229,801	347,769	428,357
684.92	Complete television receivers	308,365	420,828	421,269
700.35	Footwear n.s.p.f., of leather, for men, youths, and boys	341,849	373,767	415,392
661.06	Fans and blowers, and parts, n.s.p.f., whether operated by hand or any kind of power unit	326,765	344,515	384,477
676.15	Accounting, computing, and other data processing machines	190,331	229,587	359,022
727.70	Furniture and parts thereof, n.s.p.f.	198,944	273,660	346,192
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts	207,464	230,539	334,425
735.20	Puzzles; game, sport, gymnastic, athletic, or playground equipment; all the foregoing and parts thereof, n.s.p.f.	172,768	279,304	306,797
381.95	Men's and boys' coats, selected shirts, suits, trunks and other swimwear, trousers, slacks, and shorts, of manmade fibers, not knit	[3]251,851	283,188	287,368
772.35	Curtains, drapes, napkins, table covers, mats, scarves, runners, doilies, centerpieces, slipcovers, like furnishings, of rubber or plastics	126,234	183,563	281,633
685.90	Electrical apparatus for making and breaking electrical circuits, for protection of electrical circuits, and for making connections to or in circuits	135,375	181,987	277,710
685.08	Other television apparatus and parts thereof, n.e.s.	215,180	157,270	255,805
684.70	Microphones, loudspeakers, headphones, etc., and parts	163,172	177,642	254,667
706.41	Other handbags and luggage of textile materials n.s.p.f.	189,801	203,478	233,262
	Total	5,250,258	6,806,827	8,604,925
	Total, U.S. imports from Taiwan	16,354,353	19,770,612	24,575,682

[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-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 Sept. 1, 1985, trade for TSUS item 384.80 was reported under 383.80 (part).
[3] Prior to Sept. 1, 1985, trade for TSUS item 381.95 was reported under 379.95 (part).

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-15
Leading items exported to Korea, by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
120.14	Whole cattle hides	$267,353	$445,780	$577,469
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic crystal components, and parts	436,960	467,859	566,972
130.34	Corn or maize, not donated for relief or charity	209,868	129,956	356,490
300.10	Cotton, not carded, not combed, and not similarly processed, having a staple length under 1-1/8 inches	332,691	142,066	289,213
175.41	Soybeans, other than seed for planting	185,476	206,091	232,188
694.65	Parts, for aircraft and spacecraft	274,543	209,951	215,075
130.65	Wheat	270,158	240,388	213,349
607.08	Carbon steel and iron waste and scrap	155,631	239,278	212,007
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	77,099	117,540	181,501
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	103,204	119,443	176,179
521.31	Coal; petroleum and other coke; and compositions of coal, coke, or other carbonaceous material used for fuel	157,087	158,162	171,735
200.35	Logs, softwood and hardwood, including pulpwood, in the rough, split, hewn, or roughly sided or squared	98,141	105,718	158,375
678.50	Machines, n.s.p.f., and parts thereof	160,740	126,892	149,513
475.07	Crude petroleum; topped crude petroleum; crude shale oil; and distillate and residual fuel oils derived from petroleum, shale, or both	214,160	53,539	123,403
250.04	Wastepaper and paperboard; scrap paper and paperboard products fit only for remanufacture; and flax and hemp fibers to be used in papermaking	72,318	103,539	122,164
692.29	Parts of motor vehicles, n.e.s.	14,856	29,326	96,029
676.28	Digital central processing units; auxiliary storage units; input units; output units; and combinations thereof	69,116	76,157	92,641
685.60	Radio navigational aid apparatus, radar apparatus, and remote control apparatus, and parts thereof	19,987	23,057	88,461
404.22	Polycarboxylic acids, anhydrides, and their derivatives	63,038	72,282	88,399
694.40	Airplanes	211,432	54,432	85,302
	Total	3,393,859	3,121,456	4,196,465
	Total, U.S. exports to Korea	5,666,503	5,795,704	7,486,064

Note.—Because of rounding, figures may not add to the totals shown.

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

Table B-16
Leading items imported from Korea, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
692.10	Passenger automobiles, snowmobiles, trucks valued under $1,000, and other miscellaneous vehicles	$5,846	$798,685	$2,062,209
700.35	Footwear, n.s.p.f., of leather, for men, youths, and boys	528,171	663,083	756,941
687.74	Electronic tubes, not cathode-ray tubes; transistors and related electronic crystal components; mounted piezoelectric crystal, and parts	409,307	436,375	656,015
737.30	Stuffed toy figures of animate objects, valued over 10 cents per inch of height	227,056	357,467	442,859
700.45	Leather footwear n.e.s., valued over $2.50 per pair, not for men, youths, or boys	289,741	462,631	442,817
791.76	Leather wearing apparel, n.s.p.f., other than reptile leather and other than in chief weight of textile material	225,407	241,068	390,325
684.25	Microwave ovens	219,648	292,411	366,201
381.95	Men's and boys' coats, selected shirts, suits, trunks and other swimwear, trousers, slacks, and shorts, of manmade fibers, not knit	[1]330,000	333,256	359,516
678.50	Machines, n.s.p.f., and parts thereof	202,544	221,415	340,792
685.40	Tape recorders, dictation and transcribing machines, and parts thereof	172,753	307,099	337,687
684.92	Complete television receivers	247,363	357,109	336,870
676.30	Office machines, n.s.p.f.	160,696	158,551	299,619
676.15	Accounting, computing, and other data processing machines	59,550	205,745	261,993
384.80	Other women's, girls', or infants' blouses, body suits and shirts, and shirts and sweaters, of manmade fibers, knit, not ornamented	[2]193,199	246,511	248,217
700.56	Footwear having uppers over 90 percent of exterior surface area of rubber or plastics, n.e.s.	49,184	128,763	186,220
384.53	Women's, girls', infants' wearing apparel, knit, not ornamented, of vegetable fiber except cotton, not subject to specified fiber restraints	[3]145,553	253,736	172,437
772.51	Pneumatic tires, n.e.s	181,608	162,926	163,554
338.59	Woven fabrics, of manmade fibers, except containing over 17 percent wool, and except of glass	[4]125,923	[4]158,213	[4]158,449
684.58	Telephone sets and other terminal equipment and parts thereof	75,958	106,968	146,240
724.45	Magnetic recording media, no material recorded thereon	98,615	168,977	142,802
	Total	3,948,122	6,060,988	8,271,739
	Total, U.S. imports from Korea	9,986,363	12,682,819	16,888,153

[1] Prior to Sept. 1, 1985, trade for TSUS item 381.95 was reported under 379.95 (part).
[2] Prior to Sept. 1, 1985, trade for TSUS item 384.80 was reported under 383.80 (part).
[3] Prior to Sept. 1, 1985, trade for TSUS item 384.53 was reported under 383.52 (part).
[4] 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. Trade carryovers of $33,998 and $24,955 were reported in 1986 and 1987 respectively for item 338.50, and included above.

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-17
Leading items exported to Brazil, by Schedule B item numbers, 1985-87
(In thousands of dollars)

Schedule B item No.	*Description*	*1985*	*1986*	*1987*
694.40	Airplanes	$238,915	$218,041	$627,024
685.27	Radiotelegraphic, radiotelephonic, and radiobroadcasting transmission and reception apparatus, and parts thereof, n.s.p.f.	103,845	205,383	279,033
521.31	Coal; petroleum and other coke; compositions of coal, coke, or other carbonaceous material used for fuel	307,190	279,195	254,539
676.55	Parts of automatic data processing, photocopying, calculating, accounting, and similar machines incorporating a calculating mechanism	173,004	205,023	170,820
694.65	Parts, for aircraft and spacecraft	89,474	108,638	130,927
660.54	Parts of compression-ignition piston-type engines, and non-piston-type engines	72,728	110,947	125,645
480.10	Fertilizers and fertilizer materials	[1]65,997	156,004	105,533
692.29	Parts of motor vehicles, n.e.s	60,011	71,477	93,634
175.41	Soybeans, other than seed for planting	45,757	65,232	87,974
664.05	Excavating, leveling, boring, extracting machinery, excluding front-end loaders, pile drivers, non-self-propelled snow plows, and parts	92,458	107,903	84,853
687.60	Electronic tubes, transistors, integrated circuits, diodes, rectifiers, mounted piezoelectric crystal, related electronic crystal components, and parts	56,627	84,094	83,397
676.28	Digital central processing units; auxiliary storage units; input units; output units, and combinations thereof	59,497	63,263	65,709
433.10	Chemical mixtures and preparations, n.e.s.	47,568	71,856	61,804
115.50	Nonfat dry milk, containing not over 3 percent of butterfat	14,952	56,210	49,764
446.15	Synthetic rubber	47,435	57,444	48,507
130.34	Corn or maize, not donated for relief or charity	64,183	131,278	42,234
818.90	General merchandise valued under $1,501, except shipments requiring a validated export license	[2]15,761	[2]22,960	37,819
818.10	Value of repairs or alterations to previously imported articles that were subsequently exported from the United States	8,013	24,716	36,015
692.38	Parts of tractors, except for automobile truck and off-the-highway platform tractors	23,204	25,179	32,713
660.52	Parts of piston-type engines, other than compression-ignition engines	23,612	25,846	31,905
	Total	1,610,233	2,090,689	2,449,851
	Total, U.S. exports to Brazil	3,058,782	3,746,982	3,889,272

[1] To avoid disclosure of confidential business information, trade statistics under Schedule B items 480.25 through 480.95 were combined and reported under item No. 480.10, effective July 1, 1985.
[2] Prior to Jan. 1, 1987, Schedule B item 818.90 included only general merchandise valued at $1,000 or less.

Note.—Because of rounding, figures may not add to the totals shown.

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

Table B-18
Leading items imported from Brazil, by TSUS item numbers, 1985-87
(In thousands of dollars)

TSUS item No.	*Description*	*1985*	*1986*	*1987*
700.45	Leather footwear, n.e.s., valued over $2.50 per pair, not for men, youths, or boys	$737,980	$700,464	$774,682
160.10	Coffee, crude, roasted, or ground	670,002	503,380	487,948
475.25	Motor fuel, including gasoline and jet fuel	319,542	225,131	479,887
692.10	Passenger automobiles, snowmobiles, trucks valued under $1,000, and other miscellaneous vehicles	38,759	217,257	445,072
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	669,863	352,317	407,054
692.32	Parts, n.s.p.f., of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined	164,043	190,724	256,028
156.35	Cocoa butter	119,688	139,068	158,613
170.35	Filler tobacco and cigarette leaf, stemmed, mixed, or packed with 0 to 35 percent wrapper tobacco	103,958	103,411	138,422
700.35	Footwear, n.s.p.f., of leather, for men, youths, and boys	116,904	104,345	133,903
660.42	Compression-ignition engines, other than those to be installed in tractors or other agricultural or horticultural machinery or implements	22,954	54,480	123,339
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing under 25 degrees API	234,472	123,830	120,246
692.20	Bodies (including cabs), and chassis, for automobile trucks and motor buses	62,704	82,702	117,694
250.02	Woodpulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	66,263	88,794	114,551
114.45	Shellfish other than clams, crabs, or oysters	117,944	98,479	110,995
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	26,849	62,807	103,053
678.50	Machines, n.s.p.f., and parts thereof	34,949	96,479	101,968
772.51	Pneumatic tires, n.e.s.	97,845	99,085	100,717
156.10	Cocoa beans	65,389	70,165	87,547
622.02	Tin other than alloys of tin, unwrought	127,128	62,334	87,306
607.83	Plate and sheet of iron and steel, not alloyed, not coated or plated with metal, and not clad, pickled, and cold rolled	47,896	67,566	78,137
	Total	3,845,132	3,442,818	4,427,163
	Total, U.S. imports from Brazil	7,545,259	6,682,597	7,612,206

Note.—Because of rounding, figures may not add to the totals shown.

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

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Table B-19

Antidumping cases active in 1987, filed under authority of title VII of the Tariff Act of 1930, by final outcome and by USITC investigation number

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*		*Final determination*		*Date of final action*[2]
				Commission	*ITA*[1]	*Commission*	*ITA*[1]	
		Affirmative:						
731-TA-304	Top-of-the-stove stainless steel cookware	Korea	1-22-86	A	A	A	A	1-9-87
731-TA-305	Top-of-the-stove stainless steel cookware	Taiwan	1-22-86	A	A	A	A	1-9-87
731-TA-309	Butt-weld pipe fittings	Japan	2-24-86	A	A	A	A	1-26-87
731-TA-313	Brass sheet and strip	France	3-10-86	A	A	A	A	2-19-87
731-TA-314	Brass sheet and strip	Italy	3-10-86	A	A	A	A	2-19-87
731-TA-316	Brass sheet and strip	Sweden	3-10-86	A	A	A	A	2-19-87
731-TA-317	Brass sheet and strip	West Germany	3-10-86	A	A	A	A	2-19-87
731-TA-318	Oil country tubular goods	Israel	3-12-86	A	A	A	A	2-20-87
731-TA-326	Frozen concentrated orange juice	Brazil	5-9-86	A	A	A	A	4-22-87
731-TA-327	Fresh cut flowers	Canada	5-21-86	A	A	P	A	3-5-87
731-TA-328	Fresh cut flowers	Chile	5-21-86	A	A	A	A	3-5-87
731-TA-329	Fresh cut flowers	Colombia	5-21-86	A	A	P	A	3-5-87
731-TA-330	Fresh cut flowers	Costa Rica	5-21-86	A	A	P	A	3-5-87
731-TA-331	Fresh cut flowers	Ecuador	5-21-86	A	A	P	A	3-5-87
731-TA-332	Fresh cut flowers	Kenya	5-21-86	A	A	P	A	4-9-87
731-TA-333	Fresh cut flowers	Mexico	5-21-86	A	A	A	A	4-9-87
731-TA-335	Tubeless steel disc wheels	Brazil	5-23-86	A	A	A	A	4-27-87
731-TA-338	Urea	East Germany	7-16-86	A	A	A	A	7-1-87
731-TA-339	Urea	Romania	7-16-86	A	A	A	A	7-1-87
731-TA-340	Urea	U.S.S.R.	7-16-86	A	A	A	A	7-1-87
731-TA-341	Tapered roller bearings	Hungary	8-25-86	A	A	A	A	6-5-87
731-TA-342	Tapered roller bearings	Italy	8-25-86	A	A	A	A	8-5-87
731-TA-343	Tapered roller bearings	Japan	8-25-86	A	A	A	A	9-23-87
731-TA-344	Tapered roller bearings	China	8-25-86	A	A	A	A	6-5-87
731-TA-345	Tapered roller bearings	Romania	8-25-86	A	A	A	A	6-5-87
731-TA-346	Tapered roller bearings	Yugoslavia	8-25-86	A	A	A	A	8-5-87
731-TA-347	Malleable cast-iron pipe fittings	Japan	8-29-86	A	A	A	A	6-15-87
731-TA-348	Malleable cast-iron pipe fittings	Thailand	8-29-86	A	A	A	A	8-12-87
731-TA-351	Forged steel crankshafts	West Germany	10-9-86	A	A	A	A	9-9-87
731-TA-353	Forged steel crankshafts	United Kingdom	10-9-86	A	A	A	A	9-9-87
731-TA-354	Stainless steel pipe and tube	Sweden	10-20-86	A	A	P	A	11-18-87
731-TA-355	Silica filament fabric	Japan	10-27-86	A	A	A	A	9-9-87
731-TA-364	Acetylsalicylic acid	Turkey	10-31-86	A	A	A	A	8-11-87
731-TA-365	Industrial phosphoric acid	Belgium	11-5-86	A	A	A	A	8-12-87
731-TA-366	Industrial phosphoric acid	Israel	11-5-86	A	A	A	A	8-12-87
731-TA-367	Color picture tubes	Canada	11-26-86	A	A	A	A	12-22-87
731-TA-368	Color picture tubes	Japan	11-26-86	A	A	A	A	12-22-87
731-TA-369	Color picture tubes	Korea	11-26-86	A	A	A	A	12-22-87
731-TA-370	Color picture tubes	Singapore	11-26-86	A	A	A	A	12-22-87
		Negative:						
731-TA-175(3)	Cold-rolled carbon steel sheet	Argentina	2-10-84	A	A	N	A	3-18-87
731-TA-238(3)	12-volt motorcycle batteries	Taiwan	1-11-85	N				6-25-87

See footnotes at end of table.

Table B-19—Continued

Antidumping cases active in 1987, filed under authority of title VII of the Tariff Act of 1930, by final outcome and by USITC investigation numbers

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*		*Final determination*		*Date of final action*[2]
				Commission	*ITA*[1]	*Commission*	*ITA*[1]	
		Negative—Continued:						
731-TA-319	Window operators	El Salvador	3-19-86	A	A	N	A	1-2-87
731-TA-320	Mirrors	Belgium	4-1-86	A	A	N	A	3-11-87
731-TA-321	Mirrors	West Germany	4-1-86	A	A	N	A	1-9-87
731-TA-322	Mirrors	Italy	4-1-86	A	A	N	A	1-9-87
731-TA-323	Mirrors	Japan	4-1-86	A	A	N	A	1-9-87
731-TA-324	Mirrors	Portugal	4-1-86	A	A	N	A	1-9-87
731-TA-325	Mirrors	United Kingdom	4-1-86	A	A	N	A	1-9-87
731-TA-349	Light-walled rectangular welded carbon steel pipe and tube	Taiwan	10-2-86	A	A	N	A	7-14-87
731-TA-352	Forged steel crankshafts	Japan	10-9-86	A	N	(4)	N	10-2-87
731-TA-371	Fabric and expanded neoprene laminate	Taiwan	12-23-86	A	A	N	A	11-12-87
731-TA-373	Copier toner	Japan	2-3-87	N	(4)	(4)	(4)	3-20-87
731-TA-375	Line pipe and tube	Canada	2-11-87	N	(4)	(4)	(4)	3-30-87
		Terminated:						
731-TA-334	Fresh cut flowers	Peru	5-21-86	A	A	T	N	3-16-87
731-TA-336	Porcelain-on-steel cookware	Spain	6-30-86	A	A	T	T	1-28-87
731-TA-337	Paint filters	Brazil	7-15-86	A	A	T	N	5-18-87
731-TA-372	Mercury vapor light fixtures	Taiwan	1-28-87	T	(4)	(4)	(4)	2-12-87
		In Progress:[5]						
731-TA-167(3	Table wine	France	1-27-84	A	(4)	(4)	(4)	(4)
731-TA-168(3)	Table wine	Italy	1-27-84	A	(4)	(4)	(4)	(4)
731-TA-200(3)	Radial ply tires	Korea	7-20-84	A	(4)	(4)	(4)	(4)
731-TA-374	Potassium chloride	Canada	2-11-87	A	A	(4)	(4)	(4)
731-TA-376	Stainless steel butt-weld pipe fittings	Japan	4-3-87	A	A	(4)	(4)	(4)
731-TA-377	Internal combustion engine fork-lift trucks	Japan	4-22-87	A	A	(4)	(4)	(4)
731-TA-378	Electrical conductor aluminum redraw rod	Venezuela	7-14-87	A	(4)	(4)	(4)	(4)
731-TA-379	Brass sheet and strip	Japan	7-20-87	A	(4)	(4)	(4)	(4)
731-TA-380	Brass sheet and strip	Netherlands	7-20-87	A	(4)	(4)	(4)	(4)
731-TA-381	Granite	Italy	7-28-87	A	(4)	(4)	(4)	(4)
731-TA-382	Granite	Spain	7-28-87	A	(4)	(4)	(4)	(4)
731-TA-383	Bimetallic cylinders	Japan	8-4-87	A	(4)	(4)	(4)	(4)
731-TA-384	Nitrile rubber	Japan	9-1-87	A	(4)	(4)	(4)	(4)
731-TA-385	Granular polytetrafluoroethylene resin	Italy	11-6-87	A	(4)	(4)	(4)	(4)
731-TA-386	Granular polytetrafluoroethylene resin	Japan	11-6-87	A	(4)	(4)	(4)	(4)

[1] U.S. Department of Commerce, International Trade Administration (ITA).
[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] The Commission's decisions in the above-referenced cases were pursuant to remand orders from the U.S. Court of International Trade.
[4] Not applicable.
[5] Three investigations covering a variety of products remained suspended in 1987 pending resolution of trade conflicts. For additional details on suspension arrangements in place throughout calendar year 1987, see the table immediately following.

Source: U.S. International Trade Commission, Office of Economics, Casis Database Information System.

Table B-20

Antidumping orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
Argentina:	
Carbon steel wire rod	Nov. 23, 1984
Barbed wire	Nov. 13, 1983
Australia:	
Canned bartlett pears	Mar. 23, 1973
Austria:	
Railway track equipment	Feb. 17, 1978
Belgium:	
Phosphoric acid	Aug. 20, 1987
Sugar	June 13, 1979
Brazil:	
Disk wheels	May 28, 1987
Orange juice	May 5, 1987
Brass sheet and strip	Jan. 12, 1987
Butt-weld pipe fittings	Dec. 7, 1986
Pipe fittings	May 21, 1986
Construction castings	May 9, 1986
Canada:	
Fresh cut flowers	Mar. 18, 1987
Brass sheet and strip	Jan. 12, 1987
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
Pig iron	July 24, 1971
Steel jacks	Sept. 13, 1966
Steel bars and shapes	Sept. 25, 1964
Steel reinforcing bars	Apr. 21, 1964
Chile:	
Standard carnations	Mar. 20, 1987
Sodium nitrate	Mar. 25, 1983
China:	
Tapered roller bearings	June 15, 1987
Cookware	Dec. 2, 1986
Candles	Aug. 28, 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
Colombia:	
Fresh cut flowers	Mar. 18, 1987
Dominican Republic:	
Portland cement	May 4, 1963
East Germany:	
Urea	July 19, 1987
Ecuador:	
Fresh cut flowers	Mar. 18, 1987
Finland:	
Rayon staple fiber	Mar. 21, 1979
France:	
Brass sheet and strip	Mar. 6, 1987

See footnote at end of table.

Table B-20—Continued

Antidumping orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
France—Continued:	
Nitrocellulose	Aug. 10, 1983
Sorbitol	Apr. 9, 1982
Anhydrous sodium metalsilicate	Jan. 7, 1981
Sugar	June 13, 1979
Rayon staple fiber	Mar. 21, 1979
Large power transformers	June 14, 1972
Hong Kong:	
Photo albums	Dec. 16, 1985
Hungary:	
Tapered roller bearings	June 19, 1987
India:	
Pipes and tubes	May 12, 1986
Construction castings	May 9, 1986
Iran:	
Pistachio nuts	July 17, 1986
Israel:	
Phosphoric acid	Aug. 19, 1987
Oil country tubular goods	Mar. 6, 1987
Italy:	
Brass sheet and strip	Mar. 6, 1987
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
Japan:	
Tapered roller bearings over 4 in.	Oct. 6, 1987
Filament fabric	Sept. 23, 1987
Neoprene laminate	July 19, 1987
Cast-iron pipe fittings	July 6, 1987
Butt-weld pipe fittings	Feb. 10, 1987
64K dynamic random access memory chips	June 16, 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
Tapered roller bearings 4 inches and under	Aug. 17, 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

See footnote at end of table.

Table B-20—Continued

Antidumping orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
Japan—Continued:	
Bicycle speedometers	Nov. 22, 1972
Cadmium	Aug. 4, 1972
Large power transformers	June 14, 1972
Fishnetting	June 9, 1972
Ferrite cores	Mar. 13, 1971
Television receiving sets	Mar. 10, 1971
Tuners	Dec. 12, 1970
Kenya:	
Standard carnations	Apr. 23, 1987
Korea:	
Stainless steel cookware	Jan. 20, 1987
Brass sheet and strip	Jan. 12, 1987
Pipe fittings	May 23, 1986
Photo albums	Dec. 16, 1985
Television receiving sets	Apr. 30, 1984
Mexico:	
Fresh cut flowers	Apr. 23, 1987
Cookware	Dec. 2, 1986
Elemental sulphur	June 28, 1972
Netherlands: Animal glue	Dec. 22, 1977
New Zealand: Brazing copper wire and rod	Dec. 4, 1985
Romania:	
Urea	July 4, 1987
Tapered roller bearings	June 19, 1987
Singapore:	
Rectangular pipes and tubes	Nov. 14, 1986
South Africa:	
Brazing copper wire rod	Jan. 29, 1986
Sweden:	
Seamless stainless steel hollow products	Dec. 3, 1987
Brass sheet and strip	Mar. 6, 1987
Staples	Dec. 20, 1983
Staplers	Dec. 20, 1983
Animal glue	Dec. 22, 1977
Stainless steel plate	June 8, 1973
Taiwan:	
Stainless steel cookware	Jan. 20, 1987
Cookware	Dec. 2, 1986
Oil country tubular goods	June 18, 1986
Pipe fittings	May 23, 1986
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
Thailand:	
Pipe fittings	Aug. 20, 1987
Circular welded pipes and tubes	Mar. 11, 1986

Table B-20—Continued

Antidumping orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
Trinidad and Tobago:	
Carbon steel wire rods	Nov. 16, 1983
Turkey:	
Aspirin	Aug. 25, 1987
Pipes and tubes	May 15, 1986
United Kingdom:	
Crankshafts	Sept. 21, 1987
Diamond tips	Apr. 1, 1972
U.S.S.R.:	
Urea	July 14, 1987
Titanium sponge	Aug. 28, 1968
West Germany:	
Crankshafts	Sept. 23, 1987
Brass sheet and strip	Mar. 6, 1977
Barium carbonate	June 25, 1981
Sugar	June 13, 1979
Animal glue	Dec. 22, 1977
Drycleaning machinery	Nov. 2, 1972
Yugoslavia:	
Tapered roller bearings	Aug. 14, 1987
Animal glue	Dec. 22, 1977
Revocations in 1987:	
Japan:	
Jackets and piles	May 21, 1986
Korea:	
Jackets and piles	May 21, 1986
Taiwan:	
Bicycle tires and tubes	June 12, 1984
Suspension agreements in effect:	
Canada:	
Sheet piling	Sept. 14, 1982
Hungary:	
Truck trailer axles	Jan. 4, 1982
Japan:	
Erasable programmable read-only memory chips	Aug. 1, 1986
265K dynamic random access memory chips	Aug. 1, 1986
Small motors	Nov. 6, 1980

[1] The U.S. Department of Commerce conducts a periodic review of outstanding antidumping duty orders and suspension 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: U.S. Department of Commerce, International Trade Administration.

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Table B-21

Countervailing duty cases active in 1987, filed under authority of sec. 303 or title VII of the Tariff Act of 1930, by final outcome and by USITC investigation numbers.

(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*[1]	*Preliminary determination*		*Final determination*		*Date of final action*[3]
				Commission	*ITA*[2]	*Commission*	*ITA*[2]	
		Affirmative						
(4)	Steel wire nails	New Zealand	5-18-87	(5)	A	(5)	A	10-5-87
(4)	Steel wire nails	Thailand	5-18-87	(5)	A	(5)	A	10-5-87
(4)	Miniature carnations	Ecuador	6-17-86	(5)	A	(5)	A	1-5-87
701-TA-224[6]	Live swine and pork	Canada	11-2-84	A	A	A	A	9-15-87
701-TA-267	Top-of-the-stove stainless steel cookware	Korea	1-21-86	A	N	A	A	1-9-87
701-TA-268	Top-of-the-stove stainless steel cookware	Taiwan	1-21-86	A	N	A	A	1-9-87
701-TA-270	Brass sheet and strip	France	3-10-86	A	A	A	A	2-19-87
701-TA-271	Oil country tubular goods	Israel	3-12-86	A	A	A	A	2-20-87
701-TA-275	Fresh cut flowers	Canada	5-21-86	A	A	P	A	3-5-87
701-TA-276	Fresh cut flowers	Chile	5-21-86	A	N	A	A	3-5-87
701-TA-278	Fresh cut flowers	Netherlands	5-21-86	A	A	P	A	3-5-87
701-TA-283	Acetylsalicylic acid	Turkey	10-31-86	A	A	A	A	8-11-87
701-TA-286	Industrial phosphoric acid	Israel	11-5-86	A	A	A	A	8-12-87
303-TA-18 [7]	Fresh cut flowers	Peru	5-21-86	A	A	P	A	4-9-87
		Negative						
701-TA-272	Window operators	El Salvador	3-19-86	A	A	N	A	1-2-87
701-TA-277	Fresh cut flowers	Israel	5-21-86	A	A	N	A	3-5-87
701-TA-280	Paint filters	Brazil	7-15-86	A	N		N	5-21-87
701-TA-281	Stainless steel hollow products	Sweden	9-4-86	A	A	N	A	4-3-87
303-TA-17 [7]	Fresh cut flowers	Kenya	5-21-86	A	N	(5)	N	3-25-87
		Suspended[8]						
(4)	Miniature carnations	Costa Rica	6-17-86	(5)	A	(5)	A	8-25-87
(4)	Miniature carnations	Colombia	6-17-86	(5)	A	(5)	A	8-25-87
701-TA-282	Forged steel crankshafts	Brazil	10-9-86	A	A	A	A	11-24-87
		Terminated						
701-TA-249-1[6]	Light-iron castings	Brazil	5-15-85	A	A	T	A	8-6-87
701-TA-274	Softwood lumber	Canada	5-19-86	A	A	T	T	1-7-87
701-TA-279	Porcelain-on-steel cookware	Spain	6-30-86	A	N	(5)	T	1-30-87
701-TA-284[6]	Bicycle tires and tubes	Korea	10-23-86	(5)	(5)	T	A	1-13-87
701-TA-285	Industrial phosphoric acid	Belgium	11-5-86	A	A	T	N	7-17-87
		In Progress[9]						
(4)	Circular welded carbon steel pipe and tube	Iran	8-24-87	(5)	A	(5)	(5)	(5)
(4)	Carbon steel wire rod	Malaysia	9-30-87	(5)	(5)	(5)	(5)	(5)
(4)	Carbon steel wire rod	Singapore	11-18-87	(5)	(5)	(5)	(5)	(5)
701-TA-210 [6]	Table wine	France	1-27-84	A	(5)	(5)	(5)	(5)
701-TA-211 [6]	Table wine	Italy	1-27-84	A	(5)	(5)	(5)	(5)
701-TA-287	Electrical conductor aluminum redraw rod	Venezuela	7-14-87	A	A	(5)	(5)	(5)

See footnotes at end of table.

Table B-21—Continued

Countervailing duty cases active in 1987, filed under authority of sec. 303 or title VII of the Tariff Act of 1930, by final outcome and by USITC investigation numbers.

(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*[1]	*Preliminary determination*		*Final determination*		*Date of final action*[3]
				Commission	*ITA*[2]	*Commission*	*ITA*[2]	
		In progress—Continued						
701-TA-288	Granite	Italy	7-28-87	A	N	([5])	([5])	([5])
701-TA-289	Granite	Spain	7-28-87	A	A	([5])	([5])	([5])

[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 (ITA).
[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] Not applicable.
[6] The Commission's decisions in the above-referenced cases were pursuant to remand orders from the U.S. Court of International Trade.
[7] The Commission does 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).
[8] The Department of Commerce terminated the above-referenced investigations through suspension arrangements agreed upon in lieu of full prosecution on the issue of subsidization. Commerce's action—based on assurances from the Governments of Costa Rica, Colombia, and Brazil that each would renounce subsidy benefits—was taken notwithstanding the completion of proceedings with respect to each of the above-mentioned investigations. Countervailing-duty orders will be issued immediately if conditions of the Agreements are not met.
[9] 21 investigations covering a variety of products remained suspended in 1987 pending resolution of trade conflicts. For additional details on suspension arrangements in place throughout calendar year 1987, see the table immediately following.

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 that have neither signed the Code nor 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 International Trade Commission. Exceptions are granted in instances in which the exporting country becomes a signatory to the Code or to an equivalent agreement during the pendency of the investigation.

Source: U.S. International Trade Commission, Office of Economics, Casis Database Information System.

Table B-22

Countervailing duty orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
Argentina:	
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
Brazil:	
Brass sheet and strip	Jan. 8, 1987
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
Canada:	
Standard carnations	Mar. 12, 1987
Oil country tubular goods	Jun. 16, 1986
Groundfish	May 15, 1986
Live swine	Aug. 15, 1985
Chile:	
Standard carnations	Mar. 19, 1987
Ecuador:	
Fresh cut flowers	Jan. 13, 1987
European Community[2]*:*	
Sugar	July 31, 1978
France:	
Brass sheet and strip	Mar. 6, 1987
Nitrocellulose	Mar. 22, 1983
India:	
Certain iron-metal castings	Oct. 6, 1980
Certain fasteners	July 21, 1980
Iran:	
Roasted pistachios	Oct. 7, 1986
Pistachios (nonroasted)	Apr. 11, 1986.
Israel:	
Industrial phosphoric acid	Aug. 19, 1987
Oil country tubular goods	Mar. 6, 1987
Fresh cut roses	Sept. 4, 1980
Italy:	
Forged undercarriages	Jan. 4, 1984
Korea:	
Offshore platforms	May 21, 1986
Mexico:	
Porcelain cookware	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, 1982
Leather wearing apparel	Apr. 10, 1981

See footnote at end of table.

Table B-22—Continued

Countervailing duty orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
Netherlands:	
Standard chrysanthemums	Mar. 12, 1987
New Zealand:	
Steel wire nails	Oct. 5, 1987
New Zealand:	
Steel wire nails	Oct. 5, 1987
Steel wire	Aug. 5, 1987
Copper rod and wire	Aug. 5, 1987
Carbon steel wire rod	Apr. 7, 198
Lamb meat	Sept. 17, 1985
Copper rod and wire	Aug. 5, 1985
Pakistan:	
Cotton shop towels	Mar. 9, 1984
Peru:	
Pompom chrysanthemums	Apr. 23, 1987
Rebars	Nov. 27, 1985
Textiles and apparel	Mar. 12, 1985
Cotton sheeting and sateen	Feb. 1, 1983
Cotton yarn	Feb. 1, 1983
Philippines:	
Canned tuna	Oct. 30, 1983
Saudi Arabia:	
Carbon steel wire rod	Feb. 3, 1986
South Africa:	
Ferrochrome	Mar. 11, 1981
Spain:	
Stainless steel wire rod	Jan. 3, 1983
Sri Lanka:	
Textiles and apparel	Mar. 12, 1985
Sweden:	
Certain carbon steel	Oct. 11, 1985
Viscose rayon staple fiber	May 15, 1979
Taiwan:	
Stainless steel cookware	Jan. 20, 1987
Thailand:	
Steel wire nails	Oct. 2, 1987
Rice	Apr. 10, 1986
Pipes and tubes	Aug. 14, 1985
Certain apparel	Mar. 12, 1985
Turkey:	
Acetylsalicylic acid (aspirin)	Aug. 25, 1987
Pipe and tube	Apr. 7, 1986.
United Kingdom:	
Stainless steel plate	June 23, 1983
Uruguay:	
Leather wearing apparel	July 17, 1982
Zimbabwe:	
Wire rod	Aug. 15, 1987
Revocations in 1987:	
Korea:	
Bicycle tires and tubes	Oct. 6, 1983
Spain:	
Carbon steel wire rod	Dec. 10, 1984

See footnote at end of table.

Table B-22—Continued

Countervailing duty orders and findings in effect as of Dec. 31, 1987

Country and commodity	*Effective date of original action*[1]
Suspension agreements in effect:	
Argentina:	
Carbon steel wire rod	Sept. 27, 1982
Brazil:	
Forged crankshafts	July 28, 1987
Tool steel products	Mar. 21, 1983
Orange juice	Mar. 4, 1983
Stainless steel products	Feb. 2, 1983
Canada:	
Red raspberries	Jan. 9, 1986
Colombia:	
Miniature carnations	Jan. 13, 1987
Textiles and apparel	Mar. 12, 1985
Cut flowers	Jan. 12, 1983
Leather wearing apparel	Apr. 2, 1981
Costa Rica:	
Fresh cut flowers	Jan. 3, 1987
Cement	Dec. 4, 1984
European Community[2]*:*	
Sodium gluconate	Nov. 30, 1981
Mexico	
Float glass	Feb. 28, 1984
Polypropylene yarn	Feb. 7, 1983
Polypropylene film	Dec. 7, 1982
Pectin	Dec. 7, 1982
Peru:	
Shop towels	Sept. 12, 1984
Singapore:	
Compressors	Nov. 7, 1983
Thailand:	
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 suspension agreements, upon request, to determine if the amount of the net subsidy has changed. If a change has occurred, the imposed countervailing duties are adjusted accordingly.

[2] Includes Belgium, Denmark, France, Ireland, Italy, the United Kingdom, West Germany, Luxembourg, the Netherlands, and Greece.

Source: U.S. Department of Commerce, International Trade Administration.

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Table B-23
Sec. 337 investigations completed by the U.S. International Trade Commission during 1987 and those pending on Dec. 31, 1987

Status of investigation	*Article*	*Country*	*Commission determination*
Completed:			
337-TA-237	Miniature hacksaws	Taiwan, Hong Kong	Issued general exclusion order and 5 cease and desist orders.
337-TA-241	Prefabricated bow forms	Philippines, Italy, Hong Kong, Taiwan	No violation.
337-TA-242	Dynamic random access memory chips	Japan	Limited exclusion order.
337-TA-243	Luggage products	Taiwan, Korea	No violation.
337-TA-244	Insulated security chests	Taiwan	Terminated on basis of settlement agreement for 1 respondent, rest of respondents complaint withdrawn.
337-TA-245	Low-nitrosamine trifluralin herbicides	Israel, Italy	Terminated on basis of consent order and settlement agreements.
337-TA-247	Sickle guards	England, West Germany	No violation.
337-TA-248	Plastic fasteners	Korea	No violation.
337-TA-250	Ventilated motorcycle helmets	Japan	Terminated on basis of settlement agreement.
337-TA-251	Electronic chromatogram analyzers	Japan	No violation.
337-TA-252	Heavy-duty mobile scrap shears	England	Terminated on basis of Motion for Summary Determination.
337-TA-255	Garment hangers	Hong Kong, Taiwan, Brazil.	No violation.
337-TA-257	Electronic wall stud finders	Hong Kong	Terminated on basis of consent order agreements.
337-TA-258	Moldable/extrudable polyetheresteramide copolymers	West Germany	Complaint withdrawn.
337-TA-259	Battery-powered smoke detectors	Hong Kong, Canada	Complaint withdrawn.
337-TA-260	Feathered fur coats and pelts	Korea, Greece, China	General exclusion order.
337-TA-262	Hard-sided molded luggage	Taiwan	No violation.
337-TA-263	Office filing cabinets	None named in notice	(1)
337-TA-265	Dental prophylaxis methods	France, Switzerland Brazil, Israel West Germany.	Terminated on basis of settlement agreements for 7 respondents and remaining respondents terminated with prejudice.
337-TA-269	Picture-in-a-picture video add-on products	Hong Kong	Terminated with prejudice.
337-TA-272	Electronic chime modules	Canada	(1)
Pending:			
337-TA-253	Electrically resistive monocomponent toner	Japan	(1)
337-TA-254	Small aluminum flashlights	Hong Kong, Taiwan	No violation.
337-TA-256	Cryogenic ultramicrotome apparatus	Austria, England	Investigation suspended during pendency of patent reexamination proceeding at U.S. Patent and Trademark Office.
337-TA-261	Ink jet printers employing solid ink	Japan	(1)

See footnote at end of table.

Table B-23—Continued

Sec. 337 investigations completed by the U.S. International Trade Commission during 1987 and those pending on Dec. 31, 1987

Status of investigation	*Article*	*Country*	*Commission determination*
Pending—Continued:			
337-TA-264	Mail extraction desks	West Germany	(1)
337-TA-266	Certain reclosable plastic bags	Singapore, Taiwan, Korea, Thailand, Hong Kong, Malaysia.	Hearing held for permanent exclusion order.
337-TA-267	Minoxidil powder, salts and compositions for use in hair treatment.	Austria, Canada Finland, Italy, Mexico, Switzerland.	(1)
337-TA-268	High-intensity retroreflective sheeting	Japan	(1)
337-TA-270	Noncontact tonometers	Japan, United Kingdom	(1)
337-TA-271	Buoyant metallized balloons	Korea	(1)
337-TA-273	Cellular mobile telephones and subassemblies	Canada, Korea, Hong Kong	(1)
337-TA-274	Toggle clamps for clamping, fixturing, processing original-equipment manufacturing.	Taiwan	(1)
337-TA-275	Nonwoven gas filter elements	Holland	(1)
337-TA-276	Erasable programmable read only memories (EPROM's)	Korea	(1)
337-TA-277	Marine automatic pilots	None named in notice	(1)
337-TA-278	Programmable digital clock thermostats	Hong Kong	(1)

[1] Not applicable.

Source: U.S. International Trade Commission, Office of Unfair Import Investigations.

Table B-24

Outstanding sec. 337 exclusion orders as of Dec. 31, 1987

Investigation No.	*Article*	*Country*	*Date patent expires*
337-TA-2	Certain convertible game tables and components thereof	None named in notice; imports from Taiwan	Jan. 16, 1990
337-TA-24	Certain exercising devices	Hong Kong, Taiwan, Singapore	July 3, 1990
337-TA-30	Certain display devices for photographs and the like	Hong Kong, Japan	Nov. 27, 1990
337-TA-39	Certain luggage products	Taiwan, Korea	Nov. 2, 1990
337-TA-42	Certain electric slow cookers	Japan, Hong Kong	Apr. 29, 1992
337-TA-44	Certain roller units	Korea, Taiwan	May 29, 1994
337-TA-47	Certain flexible foam sandals	Taiwan	Sept. 7, 1993
337-TA-55	Certain novelty glasses	Hong Kong	Nonpatent
337-TA-56	Certain thermometer sheath packages	Sweden	Jan. 5, 1988
337-TA-59	Certain pump-top insulated containers	Korea, Taiwan	Sept. 12, 1995
337-TA-62	Certain rotary scraping tools	Taiwan	May 25, 1993
337-TA-69	Certain airtight cast-iron stoves	Taiwan, Korea	Nonpatent
337-TA-74	Certain rotatable photograph and card display units and components thereof.	Hong Kong	Feb. 12, 1991
337-TA-83	Certain adjustable window shades and components thereof	Taiwan	Feb. 8, 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	Jan. 19, 1991 Feb. 19, 1992
337-TA-90	Certain airless paint spray pumps	Italy	Nov. 30, 1993
337-TA-105	Certain coin-operated audiovisual games and components thereof.	Japan, Taiwan	Dec. 2, 1987
337-TA-110	Certain methods for extruding plastic tubing	Taiwan	Patent expired
337-TA-112	Certain cube puzzles	Taiwan, Japan, Canada	Nonpatent
337-TA-114	Certain miniature plug-in blade fuses	Taiwan	Sept. 30, 1992; Aug. 9, 1994; Nov. 8, 1994; Dec. 26, 1995.
337-TA-118	Certain sneakers with fabric uppers and rubber soles	Korea	Nonpatent.
337-TA-120	Certain silica-coated lead chromate pigments	Japan	Feb. 1, 1989
337-TA-137	Certain heavy-duty staple gun tackers	Taiwan	Nonpatent
337-TA-139	Certain caulking guns	Taiwan, Korea	Mar. 28, 1995
337-TA-140	Certain personal computers and components thereof	Taiwan, Hong Kong, Singapore, Switzerland	Jan. 23, 1996; July 17, 1998.
337-TA-143	Certain amorphous metal alloys and amorphous metal articles	Japan, West Germany	Sept. 9, 1997
337-TA-146	Certain canape makers	Taiwan	Mar. 28, 1997
337-TA-148 /169	Certain sausage casings	Spain	Nonpatent
337-TA-152	Certain plastic food storage containers	Hong Kong, Taiwan	Nonpatent
337-TA-161	Certain trolly wheel assemblies	Korea	Aug. 29, 1995
337-TA-167	Certain single handle faucets	Taiwan	Nonpatent
337-TA-170	Certain bag closure clips	Israel	Nov. 22, 1999; July 26, 2000.

See footnote at end of table.

Table B-24—Continued
Outstanding sec. 337 exclusion orders as of Dec. 31, 1987

Investigation No.	*Article*	*Country*	*Date patent expires*
337-TA-171	Certain glass tempering systems	Finland	Nov. 30, 1993
337-TA-174	Certain woodworking machines	Taiwan, South Africa	Aug. 28, 1990 Nov. 13, 1996; and Mar. 13, 2001.
337-TA-178	Certain vinyl-covered foam blocks	Hong Kong	July 7, 1987
337-TA-183	Certain indomethacin	Canada, Italy, Poland, Spain	Feb. 16, 1988
337-TA-184	Certain foam earplugs	West Germany Sweden, Japan	May 21, 1991
337-TA-194	Certain aramid fibers	Netherlands	Oct. 23, 1990
337-TA-195	Certain cloisonne jewelry	Taiwan	Nonpatent
337-TA-196	Certain apparatus for installing electrical lines and components thereof.	Canada	Oct. 12, 1988; Oct. 10, 1989.
337-TA-197	Certain compound action metal cutting snips and components thereof.	Taiwan	Nonpatent
337-TA-225	Certain multilevel touch control lighting switches	Hong Kong, Taiwan, Canada	Feb. 6, 1990
337-TA-229	Certain nut jewelry and parts thereof	Philippines, Taiwan	Nonpatent
337-TA-231	Certain soft sculpture dolls, popularly known as "cabbage patch kids," related literature, and packaging thereof.	None named in notice	Nonpatent
337-TA-237	Certain miniature hacksaws	Taiwan, Hong Kong	Sept. 4, 1990
337-TA-242	Certain dynamic random access memory chips, components thereof, and products containing same.	Japan	(1)
337-TA-260	Certain feathered fur coats and pelts	Korea, Greece, China	(1)
337-TA-266	Certain plastic film with profiles and opening means for bags	Singapore, Taiwan, Korea, Thailand, Hong Kong, Malaysia.	(1)

[1] Not applicable.

Source: U.S. International Trade Commission, Office of Unfair Import Investigations.

Table B-25
U.S. imports for consumption of leading GSP-eligible items, by descending value of GSP duty-free imports, 1987

Rank	TSUS item No.	Description	Total U.S. imports for consumption	GSP-eligible Value	GSP-eligible Share of total U.S. imports	Duty free under GSP Value	Duty free under GSP Share of total eligible imports	Duty free under GSP Leading GSP source	Mandatory and discretionary competitive-need exclusions
			1,000 dollars	1,000 dollars	Percent	1,000 dollars	Percent		1,000 dollars
1	685.90	Switchboard panels	$2,902,481	$1,172,829	40.4	$294,044	25.1	Hong Kong	$724,286
2	676.15	Accounting, computing, and other data processing machines.	2,216,808	1,035,050	46.7	274,082	26.5	Singapore	522,517
3	727.35	Furniture, wood, n.s.p.f	1,547,168	773,546	50.0	243,962	31.5	Mexico	499,397
4	774.58[1]	Articles of rubber	1,177,066	477,290	40.5	217,112	45.5	Korea	213,601
5	740.14	Jewelry, n.e.s., of precious metal	1,146,222	380,150	33.2	196,236	51.6	Thailand	143,083
6	661.20	Air-conditioning machines	590,806	269,036	45.5	184,670	68.6	Brazil	49,150
7	678.50	Machines, n.e.s.	4,148,345	1,486,489	35.8	177,994	12.0	Singapore	1,214,591
8	155.20	Sugar, syrup, and molasses	380,363	343,912	90.4	177,038	51.5	Mexico	105,854
9	684.58	Telephone sets and other terminal equipment and parts thereof.	1,166,682	603,857	51.8	167,468	27.7	Singapore	395,169
10	724.45	Magnetic recording media	1,300,790	358,852	27.6	161,702	45.1	Hong Kong	178,435
11	734.20	Game machines	700,386	187,910	26.8	141,161	75.1	Hong Kong	37,019
12	734.77	Golf equipment, n.s.p.f.	222,706	176,672	79.3	137,840	78.0	Taiwan	20,615
13	712.49	Electrical measuring instruments	1,745,226	252,403	14.5	131,790	52.2	Taiwan	0
14	683.32	Electro-mechanical appliances	323,394	199,869	61.8	127,569	63.8	Taiwan	50,245
15	740.15	Jewelry, n.s.p.f	384,948	305,005	79.2	127,023	41.6	Thailand	137,370
16	676.30	Office machines, n.s.p.f	6,366,257	1,352,357	21.2	125,225	9.3	Singapore	1,066,305
17	737.98[2]	Toys and parts	564,109	415,827	73.7	122,783	29.5	Korea	277,351
18	685.70	Electric sound or visual signaling apparatus and parts.	367,784	201,349	54.7	120,584	59.9	Taiwan	29,268
19	791.27	Leather, other than patent	146,766	140,202	95.5	118,558	84.6	Dominican Republic.	10,082
20	685.60	Radio navigation parts thereof	408,009	181,084	44.4	116,528	64.3	Korea	0
21	727.11	Furniture of unspun fibrous rattan materials and parts, n.s.p.f.	175,415	145,968	83.2	115,604	79.2	Philippines	22,210
22	685.39	Telephone answering machines	277,445	193,843	69.9	112,880	58.2	Singapore	67,204
23	685.24	Other tranceivers	300,464	144,317	48.0	110,286	76.4	Taiwan	0
24	657.25	Articles of iron or steel	704,527	253,846	36.0	108,689	42.8	Korea	124,091
25	740.70	Chains, etc, precious metal	133,342	132,042	99.0	105,406	79.8	Peru	0
26	772.51	Pneumatic tires, n.e.s.	2,118,630	401,407	18.9	104,387	26.0	Mexico	284,865
27	534.87	Earthenware or stoneware valued over $10 per dozen articles.	189,542	110,471	58.3	103,488	93.7	Taiwan	0
28	737.30	Stuffed toy animals	769,845	653,621	84.9	101,227	15.5	Taiwan	518,866
29	534.94	Nonbone chinaware or subporcelain	256,122	163,355	63.8	100,542	61.5	Taiwan	47,911
30	737.40	Toy animals, etc., n.s.p.f.	199,235	132,346	66.4	100,484	75.9	Taiwan	22,408
31	661.35	Refrigerator and refrigerating	384,490	135,552	35.3	96,281	71.0	Korea	28,127
32	107.48	Corned beef in airtight containers.	99,202	98,268	99.1	94,427	96.1	Argentina	0
33	660.67	Parts of piston-type engines	954,377	177,394	18.6	93,983	53.0	Brazil	62,951
34	692.32	Parts n.s.p.f., of motor vehicles	5,777,044	1,124,889	19.5	92,930	8.3	Korea	1,022,674

See notes at end of table.

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Table B-25—Continued
U.S. imports for consumption of leading GSP-eligible items, by descending value of GSP duty-free imports, 1987

Rank	TSUS item No.	Description	Total U.S. imports for consumption	GSP-eligible Value	GSP-eligible Share of total U.S. imports	Duty free under GSP Value	Duty free under GSP Share of total eligible imports	Duty free under GSP Leading GSP source	Mandatory and discretionary competitive-need exclusions
			1,000 dollars	1,000 dollars	Percent	1,000 dollars	Percent		1,000 dollars
35	737.93[3]	Toys having an electric motor	160,201	116,494	72.7	90,741	77.9	Hong Kong	15,469
36	688.04	Insulated electrical conductors	229,019	96,341	42.1	90,482	93.9	Mexico	0
37	727.29	Nonfolding chairs of wood other than teak.	386,996	259,069	66.9	86,595	33.4	Yugoslavia	169,682
38	688.18	Other insulated conductors.	546,980	393,893	72.0	86,187	21.9	Taiwan	276,007
39	732.52	Wheeled goods except skates	161,872	157,062	97.0	83,246	53.0	Taiwan	71,286
40	618.25	Bars, plates, sheet	716,038	88,666	12.4	82,380	92.9	Bahrain	0
41	680.17	Taps, cocks, valves, etc., of iron or steel.	223,142	88,291	39.6	82,011	92.9	Korea	0
42	740.38	Jewelry, and parts	191,683	162,470	84.8	81,888	50.4	Korea	77,971
43	682.60	Generator, motor	1,813,255	804,111	44.3	81,392	10.1	Korea	642,184
44	772.20	Containers for packing	285,647	130,355	45.6	81,347	62.4	Taiwan	0
45	654.25	Brass articles, wares	159,875	121,235	75.8	80,998	66.8	Taiwan	37,887
46	676.25	Other office machines	128,468	91,026	70.9	80,462	88.4	Taiwan	0
47	685.73	Bells, sirens, indicator panels	314,082	144,832	46.1	76,819	53.0	Taiwan	19,398
48	684.20	Portable electro-thermic kitchen and household appliances.	157,532	81,681	51.9	76,324	93.4	Hong Kong	0
49	389.61	Artificial flowers	268,058	143,594	53.6	75,954	52.9	Macao	65,149
50	727.70	Other furniture and parts n.s.p.f.	1,119,308	426,265	38.1	74,496	17.5	Mexico	345,128
		Total, above items	47,008,148	17,486,394	37.2	6,115,302	35.0	Taiwan	9,595,805
		Total, all GSP items	134,231,007	42,738,031	31.8	16,298,436	38.1	Taiwan	21,509,351

[1] Prior to July 1, 1987, trade for TSUS item 774.58 was reported under 774.55 (part).

[2] Prior to July 1, 1987, trade for TSUS item 737.98 was reported under 737.95 (part).

[3] Prior to July 1, 1987, trade for TSUS item 737.93 was reported under 737.95 (part).

Note.—Because of rounding, figures may not add to the totals shown.

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

Table B-26
Total U.S. imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard International Trade Classification (SITC), 1987

SITC No.	Description	Total U.S. imports for consumption	GSP-eligible: Value	GSP-eligible: Share of total U.S. imports	Duty free under GSP: Value	Duty free under GSP: Share of total eligible imports	Duty free under GSP: Leading GSP source	Mandatory and discretionary competitive-need exclusions
		Millions of dollars	Millions of dollars	Percent	Millions of dollars	Percent		Millions of dollars
00	Live animals chiefly for food	540	0	0.0	0	(1)	(1)	0
01	Meat and meat preparations	2,779	112	4.0	105	93.7	Argentina	0
02	Dairy products and birds' eggs	420	2	0.6	2	91.0	Taiwan	0
03	Fish, crustaceans, and mollusks	5,584	126	2.3	98	78.3	Mexico	0
04	Cereals and cereal preparation	593	9	1.5	6	65.7	Mexico	2
05	Vegetables and fruit	4,267	661	15.5	170	25.7	Mexico	396
06	Sugar, sugar preparations, and honey	783	463	59.2	276	59.6	Mexico	106
07	Coffee, tea, cocoa, spices	4,675	92	2.0	86	93.6	Brazil	0
08	Feeding stuff for animals	208	2	0.9	1	71.7	Argentina	0
09	Miscellaneous edible products	404	117	28.9	106	90.9	Mexico	0
11	Beverages	3,257	281	8.6	70	24.8	Mexico	199
12	Tobacco and tobacco manufactures	711	65	9.1	25	38.8	Mexico	0
21	Hides, skins, and furskins, raw	300	(2)	0.1	(2)	0.5	Brazil	0
22	Oil seeds and oleaginous fruit	58	1	0.9	(2)	66.8	Turkey	0
23	Crude rubber (including synthetic)	1,125	(2)	(3)	(2)	100.0	Mexico	0
24	Cork and wood	3,398	(2)	(3)	(2)	55.6	Brazil	0
25	Pulp and wastepaper	2,088	0	0.0	0	(1)	(1)	0
26	Textile fibers and their waste	542	9	1.7	9	95.2	Uruguay	0
27	Crude fertilizers and crude minerals	721	47	6.5	26	55.1	Mexico	15
28	Metalliferous ores and metal stones	2,170	72	3.3	49	67.6	Mexico	0
29	Crude animal and vegetable materials	1,070	223	20.8	79	35.7	Taiwan	97
32	Coal, coke, and briquettes	186	0	0.0	0	(1)	(1)	0
33	Petroleum, petroleum products	39,362	1	(3)	1	97.0	Venezuela	0
34	Gas, natural and manufactured	2,497	0	0.0	0	(1)	(1)	0
40	Special U.N. category	21	0	0.0	0	(1)	(1)	0
41	Animal oils and fats	24	1	4.5	1	94.6	Panama	0
42	Fixed vegetable oils and fats	507	39	7.7	38	97.0	Brazil	0
43	Animal and vegetable oils	32	7	20.4	6	96.7	Philippines	0
51	Organic chemicals	4,473	241	5.4	193	80.1	Mexico	13
52	Inorganic chemicals	2,859	109	3.8	73	66.9	Mexico	23
53	Dyeing, tanning, and coloring	1,063	28	2.7	15	54.0	Mexico	8
54	Medicinal and pharmaceutical products	2,334	275	11.8	45	16.4	Mexico	167
55	Essential oils and perfume materials	961	115	12.0	96	83.1	Taiwan	3
56	Fertilizers, manufactured	794	(2)	(3)	(2)	59.8	Brazil	0
57	Explosives and pyrotechnic products	107	2	2.2	2	92.0	Israel	0
58	Artificial resins and plastic	1,883	415	22.0	218	52.5	Mexico	168
59	Chemical materials and products	1,256	128	10.2	99	77.8	Brazil	0
61	Leather, leather manufactures	1,054	559	53.1	326	58.2	India	196
62	Rubber manufactures, n.e.s.	2,920	619	21.2	202	32.7	Taiwan	397
63	Cork and wood manufactures	2,171	671	30.9	311	46.3	Taiwan	335

See notes at end of table.

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Table B-26 —Continued

Total U.S. imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard International Trade Classification (SITC), 1987

SITC No.	Description	Total U.S. imports for consumption	GSP-eligible		Duty free under GSP			Mandatory and discretionary competitive-need exclusions
			Value	Share of total U.S. imports	Value	Share of total eligible imports	Leading GSP source	
		Millions of dollars	Millions of dollars	Percent	Millions of dollars	Percent		Millions of dollars
64	Paper, paperboard, and article	7,380	486	6.6	285	58.6	Mexico	171
65	Textile yarn, fabrics, made-up	6,073	217	3.6	109	50.2	Korea	91
66	Nonmetallic mineral manufactures	8,907	966	10.8	695	71.9	Taiwan	164
67	Iron and steel	9,000	191	2.1	119	62.1	Taiwan	64
68	Nonferrous metals	7,844	678	8.6	289	42.6	Mexico	359
69	Manufactures of metal, n.e.s.	8,073	2,383	29.5	1,283	53.8	Taiwan	865
71	Power generating machinery	9,688	1,551	16.0	366	23.6	Brazil	1,025
72	Machinery specialized for particular industries	11,461	559	4.9	261	46.7	Taiwan	211
73	Metalworking machinery	3,022	227	7.5	109	47.8	Taiwan	101
74	General industrial machinery	10,416	1,816	17.4	786	43.3	Taiwan	715
75	Office machines and automatic data processing equipment.	18,401	2,874	15.6	536	18.7	Singapore	1,862
76	Telecommunications and sound	19,824	4,859	24.5	1,211	24.9	Singapore	3,010
77	Electrical machinery, apparatus	24,194	6,523	27.0	1,809	27.7	Taiwan	3,729
78	Road vehicles	74,417	1,241	1.7	148	11.9	Korea	1,066
79	Other transport equipment	5,687	268	4.7	75	28.2	Taiwan	159
81	Sanitary, plumbing, heating	781	572	73.3	253	44.2	Taiwan	298
82	Furniture and parts thereof	4,575	2,034	44.5	699	34.4	Mexico	1,276
83	Travel goods, hangbags	1,853	48	2.6	25	51.0	Korea	22
84	Articles of apparel and clothing	20,551	740	3.6	355	48.0	Taiwan	357
85	Footwear	7,224	18	0.3	6	34.7	Taiwan	11
87	Professional, scientific	4,540	829	18.3	424	51.2	Taiwan	57
88	Photographic apparatus, equipment	5,370	579	10.8	261	45.1	Korea	261
89	Miscellaneous manufactures articles	19,138	7,550	39.5	3,440	45.6	Taiwan	3,510
93	Special transactions, n.e.s.	9,807	4	(3)	4	93.6	Taiwan	0
94	Animals, live, n.e.s.	39	7	18.9	7	95.7	Indonesia	0
95	Armaments	303	25	8.2	7	28.4	Peru	0
97	Gold	1,621	0	0.0	0	(1)	(1)	0
	Total	400,388	42,738	10.7	16,298	38.1	Taiwan	21,509

[1] Not applicable.
[2] Less than $500,000.
[3] Less than 0.05 percent.

Note.—Because of rounding, figures may not add to the totals shown.

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

Table B-27

Total U.S. imports for consumption and imports eligible for GSP treatment, by import categories based on the Standard Industrial Classification (SIC), 1987

SIC No.	Description	Total U.S. imports for consumption	GSP-eligible: Value	GSP-eligible: Share of total U.S. imports	Duty free under GSP: Value	Duty free under GSP: Share of total eligible imports	Duty free under GSP: Leading GSP source	Mandatory and discretionary competitive-need exclusions
		Millions of dollars	Millions of dollars	Percent	Millions of dollars	Percent		Millions of dollars
01	Agricultural products	7,442	620	8.3	131	21.1	Mexico	368
02	Livestock and livestock products	999	10	1.0	8	87.7	Indonesia	(1)
08	Forestry products, n.s.p.f.	933	(2)	(3)	(2)	100.0	Korea	(1)
09	Fish, fresh, chilled, or frozen	5,025	106	2.1	74	69.4	Mexico	(1)
10	Metallic ores and concentrates	1,130	16	1.4	10	64.2	Bolivia	(1)
12	Coal and lignite	56	0	0.0	0	(1)	(1)	(1)
13	Crude petroleum and natural gas	29,393	0	0.0	0	(1)	(1)	(1)
14	Nonmetallic minerals, except fuel	1,585	35	2.2	18	50.6	Mexico	15
20	Food and kindred products	13,162	1,423	10.8	847	59.5	Brazil	414
21	Tobacco manufactures	90	41	45.1	13	31.6	Dominican Republic.	0
22	Textile mill products	4,697	126	2.7	72	57.1	Korea	42
23	Apparel and related products	21,492	682	3.2	222	32.6	Taiwan	437
24	Lumber and wood products	5,958	933	15.7	499	53.5	Taiwan	391
25	Furniture and fixtures	4,574	2,139	46.8	639	29.9	Mexico	1,444
26	Paper and allied products	9,460	495	5.2	279	56.3	Mexico	160
27	Printing products	1,583	107	6.8	94	88.0	Taiwan	3
28	Chemicals and allied products	14,379	1,004	7.0	592	59.0	Mexico	241
29	Petroleum refining and related products	13,079	3	0.0	2	82.6	Venezuela	0
30	Rubber and miscellaneous plastics	6,331	1,955	30.9	833	42.6	Korea	988
31	Leather and leather products	9,927	644	6.5	356	55.3	Taiwan	248
32	Stone, clay, glass, and concrete	5,548	1,092	19.7	759	69.5	Taiwan	243
33	Primary metal products	19,253	1,365	7.1	604	44.2	Mexico	680
34	Fabricated metal products	9,561	2,694	28.2	1,322	49.1	Taiwan	1,071
35	Machinery, except electrical	44,804	5,847	13.0	1,860	31.8	Taiwan	3,012
36	Electrical machinery, equipment	46,564	11,842	25.4	3,212	27.1	Taiwan	6,969
37	Transportation equipment	84,336	2,198	2.6	312	14.2	Taiwan	1,827
38	Measuring, analyzing instruments	11,504	1,436	12.5	687	47.9	Taiwan	346
39	Miscellaneous manufactured products	14,615	5,849	40.0	2,818	48.2	Taiwan	2,593
99	Other imports	12,906	75	0.6	32	43.1	Venezuela	2
	Total	400,388	42,738	10.7	16,298	38.1	Taiwan	21,509

[1] Not applicable.
[2] Less than $500,000.
[3] Less than 0.05 percent.

Note.—Because of rounding, figures may not add to the total shown.

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

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Table B-28
U.S. imports for consumption from the world and from the Caribbean Basin, 1985-87

Item	1985	1986	1987
Imports from the world (1,000 dollars)	343,553,150	368,656,594	402,066,002
Imports from the Caribbean Basin (1,000 dollars)	6,849,928	6,186,826	6,178,052
Ratio of imports from Caribbean Basin to imports from the world (percent)	2.0	1.7	1.5
Dutiable value of imports from Caribbean Basin (1,000 dollars)	3,525,447	2,530,803	2,861,850
Imports under items 806.30 and 807.00 (1,000 dollars)	239,761	261,755	337,399
Ratio of 806.30 and 807.00 imports to dutiable imports (percent)	6.8	10.3	11.8
Ratio of 806.30 and 807.00 imports to total imports (percent)	3.5	4.2	5.4
Duty-free value of imports from the Caribbean Basin (1,000 dollars)	3,324,481	3,656,023	3,316,202
Imports under TSUS items 806.30 and 807.00 (1,000 dollars)	547,682	612,526	757,552
Ratio of 806.30 and 807.00 to duty-free imports (percent)	16.5	16.8	22.8
Ratio of 806.30 and 807.00 imports to total imports (percent)	8.0	9.9	12.2
GSP duty-free imports from Caribbean Basin (1,000 dollars)	540,992	487,718	318,721
Ratio of GSP duty-free imports to duty-free imports from the Caribbean Basin (percent)	16.3	13.3	9.6
Ratio of GSP duty-free imports to total imports from the Caribbean Basin (percent)	7.9	7.9	5.2
CBERA imports from Caribbean Basin (1,000 dollars)	497,645	689,776	906,144
Ratio of CBERA imports to duty-free imports from the Caribbean Basin (percent)	15.0	18.0	27.3
Ratio of CBERA imports to total imports from the Caribbean Basin (percent)	7.3	11.2	14.7

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

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