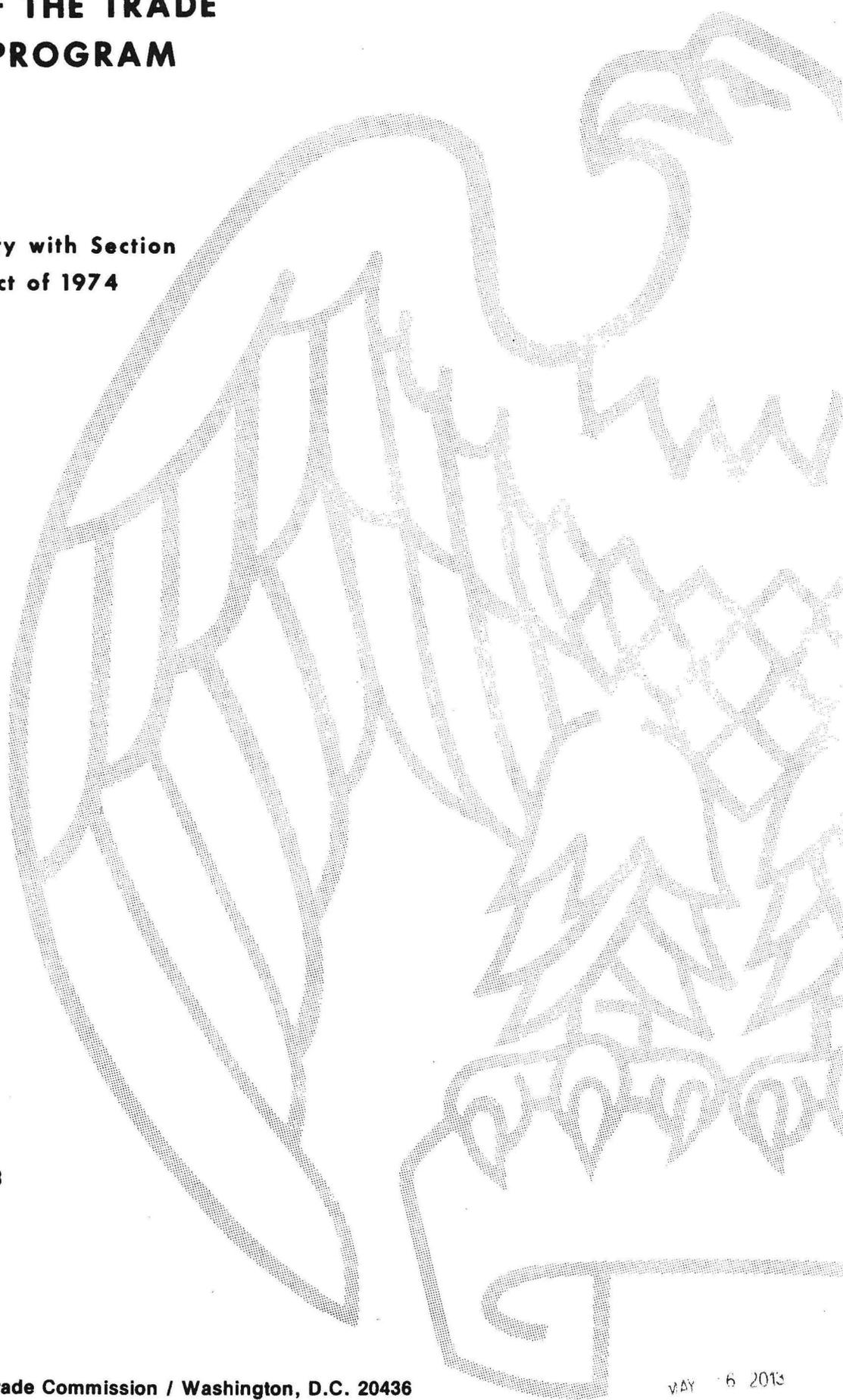


# OPERATION OF THE TRADE AGREEMENTS PROGRAM

28th REPORT  
1976

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

USITC Publication 848  
1977



C O N T E N T S

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## INTRODUCTION

This is the 28th annual report by the United States International Trade Commission on the operation of the Trade Agreements Program. It is made pursuant to section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) and covers events during calendar year 1976.

The world generally pursued a cautious strategy of recovery from recession in 1976. After the first few very strong months, economic growth tapered off significantly in most industrial countries and recovery was unusually gradual for the remainder of the year. Rather than risk a dramatic recovery that would escalate prices further, many countries sought to restore full employment gradually over a number of years and to wind down their high rates of inflation. But gradualism posed its own problems, most noticeably a lag in business investment. In a large number of countries, business investment was behind the phase of recovery because of lack of confidence stemming from shocks of the past few years, uncertainty over the future course of inflation, and the cautious steps that many governments took to revive their economies.

World trade in 1976 grew by 11 percent in volume, a sharp contrast with the 5 percent reduction in volume during 1975. The exports of 75 non-oil developing countries increased by more than \$20 billion and their current account deficit declined by \$12 billion. By the end of 1976, most of the industrial nations and many of the developing countries had overcome the twin shocks of escalated oil prices and a deep recession, although the rate of economic recovery was slow and GNP growth in many countries remained below earlier levels.

Section 163(b) of the Trade Act requires the Commission to submit to the Congress at least once each year a factual report on the operation of the Trade Agreements Program. This report was prepared by Magdolna Kornis, Patricia Marx, Anita Miller, Beth Ratliff, Eileen Slack, and Andrew Valiunas, from the Commission's Office of Economic Research.



## CHAPTER 1

### U.S. ACTIVITIES RELATING TO THE TRADE AGREEMENTS PROGRAM

#### Introduction

Yearend 1976 concluded the second year of operation of the U.S. trade agreements program under the Trade Act of 1974, which substantially revised safeguard provisions and in certain respects enlarged the role of the United States International Trade Commission. It was also the first year of operation of the U.S. system of generalized tariff preferences for developing countries provided for under that legislation.

Although most trade agreement obligations of the United States were carried out under provisions of the General Agreement on Tariffs and Trade, remnants of five remaining bilateral trade agreements concluded during the period between enactment in 1934 of the reciprocal trade agreements act and 1948, the first year of the GATT, were continuing in force. The partner countries of these five agreements were Argentina, El Salvador, Honduras, Paraguay, and Venezuela. The schedules of tariff concessions in the agreements with El Salvador, Honduras, and Paraguay were terminated in the early 1960's and only the general provisions, such as that for most-favored-nation treatment, remained. The very limited agreement with Argentina had been largely superseded by virtue of that country's accession to the GATT in 1967. The agreement with Venezuela, as supplemented in 1952, had been terminated in 1972, except for continuation of concessions on petroleum and shale oil.

The important bilateral agreement with Canada concerning trade in automotive products continued in force, and the United States was participating in several multilateral commodity agreements as well as the international arrangement regarding textiles. The U.S.-Philippine agreement of 1946, revised in 1955, had expired in 1974, but negotiations were continuing with the Republic of the Philippines directed toward reaching a new general bilateral treaty on trade and investment.

During the year the General Assembly of UNESCO adopted a protocol to the Agreement on the Importation of Educational, Scientific, and Cultural Materials, commonly called the Florence Agreement. This agreement, concluded in 1950, entered into force for the United States in 1966. The new protocol provides for extended coverage under this international agreement, which concerns the duty-free importation of such materials as books, works of art, articles for the use of handicapped persons, and scientific instruments, not produced in the importing country. For example, articles designed for the education, employment, and social advancement of handicapped persons other than the blind are not specified in the original agreement, but under the newly adopted protocol, contracting parties would undertake to list such items as communication devices for the deaf and devices for the locomotion of the orthopedically handicapped. This protocol was to be open for signature in 1977, and for the United States, would require implementing legislation before it could be ratified.

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

Relief from injury from import competition

U.S. trade law provides for relief for domestic industries from injury from increased imports; for adjustment assistance for workers, firms, and communities adversely affected by such imports; and for safeguarding national security from impairment in consequence of lower duties or other import restrictions.

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

Section 201 of the act provides that an entity, including a firm, trade association, or a group of workers, which is representative of an industry, may petition the Commission for eligibility for import relief. It also provides that the Commission investigate at the request of the President or of the Special Representative of the President for Trade Negotiations or upon resolution of either the House Committee on Ways and Means or the Senate Committee on Finance. In the event of an affirmative finding of injury the Commission is obliged to make a recommendation as to import restrictions and the appropriate forms of adjustment assistance for affected workers, firms, and communities, if it determines such assistance can remedy injury.

In 1976, the Commission reported to the President on 12 import-relief investigations initiated under section 201 of the Trade Act. The Commission found injury in seven cases, no injury in three cases, and cast an equally divided vote in two cases. The following table lists these investigations, together with the Commission's findings.

Table 1.--Import injury investigations completed by the  
U.S. International Trade Commission in 1976

Investigation no.	Commodity concerned	Commission vote on injury
TA-201-4	Asparagus-----	Tie <u>1/</u>
TA-201-5	Stainless steel and alloy tool steel-----	Affirmative <u>2/</u>
TA-201-6	Slide fasteners (zippers) and parts-----	Tie <u>1/</u>
TA-201-7	Footwear-----	Affirmative <u>3/</u>
TA-201-8	Stainless steel table flatware---	Affirmative <u>3/</u>
TA-201-9	Certain gloves-----	Negative

See footnotes at end of table.

Table 1.--Import injury investigations completed by the  
U.S. International Trade Commission in 1976--Cont.

Investigation no.	Commodity concerned	Commission vote on injury
TA-201-10	Canned mushrooms-----	Affirmative <u>3/</u>
TA-201-11	Ferricyanide and ferrocyanide blue pigments-----	Affirmative <u>4/</u>
TA-201-12	Shrimp-----	Affirmative <u>5/</u>
TA-201-13	Round stainless steel wire-----	Negative
TA-201-14	Honey-----	Affirmative <u>4/</u>
TA-201-15	Plant hangers-----	Negative

1/ The President accepted the views of the Commissioners who found no injury. In the case of slide fasteners he directed expedited adjustment assistance.

2/ An orderly marketing agreement was negotiated with Japan, the country supplying over 50 percent of the imports of the steel, and quotas were imposed on other suppliers for a period of 3 years from June 14, 1976. The President directed adjustment assistance for workers.

3/ The President directed expedited adjustment assistance for growers, canners, and their employees.

4/ Neither tariff relief nor adjustment assistance was deemed by the President to be in the national economic interest.

5/ The President directed expedited trade adjustment assistance.

Four investigations were instituted during the second half of 1976, but these were not completed before the end of the year. They concerned mushrooms, sugar, footwear, and television receivers and sub-assemblies. The Commission had completed previous investigations on mushrooms and footwear earlier in 1976, but subsequent investigations were opened at the request of the Special Representative for Trade Negotiations and the Senate Finance Committee, respectively.

Under one of the provisions of section 203 of the Trade Act, the Commission may at the President's request or on its own motion advise the President of its judgment as to the probable economic effect on concerned industries of extending, reducing, or terminating import relief already in effect; in addition, an industry may petition the Commission to undertake such a study. Two section 203 investigations were instituted during 1976. One was instituted at the request of the ceramic tableware industry; the Commission determined that termination of the protection would adversely affect the competitive position of the domestic industry producing earthen table and kitchen articles. An investigation concerning tool steel, requested by the Special Representative for Trade Negotiations, was not completed before yearend.

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

During 1976 the Department of Labor received 1,009 petitions requesting certification for workers and made determinations on 936 petitions covering an estimated 316,000 workers; 444 petitions were denied and 423 petitions covering an estimated 132,000 workers were approved. For the year, over \$150 million was paid in trade readjustment allowances for workers. A total of 75 petitions from firms requesting certification were received by the Economic Development Administration (EDA) of the Department of Commerce. The EDA approved the adjustment proposals of 12 certified firms and provided \$14 million in financial assistance. Trade adjustment assistance was only one of several available EDA programs for helping communities. In 1976, one community petitioned for certification but could not meet the criteria for a "trade-impacted area."

#### Safeguarding national security

Section 232 of the Trade Expansion Act of 1962, as amended by section 127 of the Trade Act, provides for taking actions to safeguard national security threatened to be impaired by imports. When the Secretary of the Treasury advises the President that a given article is imported in such quantities or under such conditions as to present a threat to national security, the President may act to control the entry of such article. The President must report to the Congress within 60 days on the action taken and the reasons therefor. During 1976, no cases regarding safeguarding national security were filed with or settled by the Secretary of the Treasury.

#### U.S. Actions For Relief From Unfair Trade Practices

U.S. trade and tariff law provides means for imposing special duties or other import relief where it is found that foreign governments engage in certain practices that have the effect of restricting U.S. commerce or reducing sales of U.S. products in foreign markets, or where it is determined that importers and sellers engage in unfair methods of competition in importing or selling in U.S. markets.

### Certain practices of foreign governments

Section 301 of the Trade Act authorizes the President to take appropriate retaliatory action against countries that impose "unjustifiable or unreasonable" restrictions against U.S. trade (both goods and services). In 1976, 11 petitions were before the President's Special Representative for Trade Negotiations, but agreement was reached in only two cases. These involved alleged discriminatory shipping practices of the Government of Guatemala against a U.S. shipping firm and Canadian quotas on eggs imported from the United States. In the case concerning shipping practices, agreement was reached and the complaint was withdrawn; in the case concerning eggs, extensive consultation and discussion, including those of a GATT working party, resulted in a substantial increase in the Canadian quota.

Several of the cases pending at yearend were the subject of consultations under GATT provisions and some were being considered by special GATT working groups to determine whether or not the practices complained of violated rules under the General Agreement. Except in the cases of trade diversion of Japanese steel and of the Republic of China's tariffs on home appliances, these alleged unfair trade practices arose from measures or restrictions of the European Community. The pending cases involved:

- EC restrictions on egg albumen
- EC minimum import prices on processed fruits and vegetables
- EC subsidization of malt exports
- EC subsidization of exports of wheat flour
- EC requirement for adding nonfat dry milk to livestock feed displacing U.S. soybeans, cake, and meal
- EC variable levy on sugar added in canned juices and fruits
- EC preferential tariffs on citrus products from certain Mediterranean countries
- Republic of China's tariffs on home appliances (such as refrigerators, air conditioners, and color television sets)
- Japanese steel diverted to the U.S. in consequence of an agreement between MITI and ECSC

### Countervailing duty cases

Section 303 of the Tariff Act of 1930 as amended requires the Secretary of the Treasury to levy a countervailing duty on imports when a "bounty or grant" is found to have been paid, directly or

or indirectly, by a foreign country on any imported merchandise manufactured or produced in such country. The purpose of this section is to protect U.S. producers from possible unfair advantage gained by foreign manufacturers as a result of governmental subsidies or other assistance. The amount of the countervailing duty shall be equal to the bounty or grant paid on such commodities by a foreign country.

The Trade Act imposed certain obligations and time limits on the Secretary of the Treasury with respect to countervailing duty cases. Preliminary determinations as to the existence of bounties or grants are to be made within 6 months, and final orders for assessment of the duties are to be issued within 1 year following receipt of petitions--unless adequate steps have been taken, or the prospects are good, for removing or reducing the subsidies. In consequence of this new legal provision, many decisions were signed near the close of 1975, but publication was not made until early in 1976. Decisions published in 1976 concerned:

Final determinations in the affirmative:

Carbon steel plate and high strength steel plates from Mexico 1/2/  
 Footwear from Korea  
 Footwear (rubber) from Korea 1/  
 Footwear from Taiwan  
 Cheese from Austria 1/  
     Finland 1/  
     Norway 1/  
     Sweden 1/  
     Switzerland 1/  
 Leather handbags from Brazil 1/  
 Castor oil products from Brazil  
 Screws from Italy  
 Glass beads from Canada  
 Float glass from Italy  
 Vitamin K from Spain  
 Boneless beef from the EC

Final determinations in the negative:

Consumer electronic products from Japan 2/  
 Footwear from Argentina  
 Float glass from Belgium 2/  
 Float glass from West Germany 2/  
 Processed asparagus from Mexico  
 Glazed ceramic wall tile from the Philippines  
 Ferrochrome from South Africa 2/

---

1/ Although the final determination was affirmative, assessment of countervailing duties was temporarily waived.

2/ At yearend 1976, the determination was under appeal in the U.S. Customs Court.

The 13 cases that were pending at yearend concerned:

Unwrought zinc from Spain 1/  
 Scissors and shears from Brazil 1/  
 Cotton yarn from Brazil 1/  
 Bicycles from Taiwan 1/  
 Nuts, bolts, and cap screws from Japan 1/  
 Handbags from Korea 2/  
 Leather wearing apparel from Korea  
 Cordage of manmade fiber from Korea  
 Fish from Canada 1/  
 Chains and parts from Italy  
 Canned tomatoes and tomato products from Italy  
 Silicon electrical steel from Italy  
 Handbags from Taiwan 1/

During the year, the Commission made its first determination under the recently amended provision of section 303 concerning duty-free merchandise--that an industry in the United States was not being or was not likely to be injured or prevented from being established by reason of the importation of zoris from the Republic of China. Under the U.S. system of generalized preferences for developing countries, 3/ zoris had become duty free at the beginning of 1976.

---

1/ A preliminary affirmative determination was made before yearend 1976.

2/ A preliminary negative determination was made before yearend 1976.

3/ See below, pp. 23-24.

Unfair practices in import trade

Section 337 of the Tariff Act of 1930, which was amended by section 341 of the Trade Act of 1974, authorizes the Commission to investigate complaints of unfair practices in import trade. Subject to Presidential review, the Commission may issue cease and desist orders and orders to exclude entry after it finds violation or reason to believe there is violation of section 337. Commission investigations under section 337 must be concluded within 12 months--18 months in complicated cases. If, for policy reasons, the President disapproves a Commission determination, such determination and any Commission-ordered remedy shall have no force or effect.

At the beginning of 1976, 18 section 337 investigations were in progress. Ten of these cases were, however, terminated before year-end. In two of the investigations completed, which concerned chain door locks and convertible game tables, findings of violation were made and orders were issued excluding imports until such time as the respective patents would expire, except for imports of subject articles produced under patent license. 1/ All of the seven new investigations instituted during the year were pending at yearend. The section 337 investigations before the Commission during calendar year 1976 are listed in the following table.

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1/ A so-called temporary exclusion order concerning convertible game tables had been in force since 1974.

Table 2.--Section 337 cases investigated by the U.S.  
International Trade Commission, 1976

Case	Finding
In progress at the beginning of 1976:	
Certain electronic pianos-----	<u>1/</u>
Convertible game tables-----	Violation
Expanded unsintered polytetrafluorethylene in tape form-----	No violation
Certain electronic audio and related equipment-----	No violation
Chain door locks-----	Violation
Certain eye testing instruments-----	No violation
Certain hydraulic tappets, II-----	No violation
Certain ultra-microtomic freezing attachments-----	No violation
Certain electronic printing calculators-----	<u>1/</u>
Liquid propane heaters-----	No violation
Certain high fidelity audio equipment-----	<u>1/</u>
Overlapping digital movements-----	<u>1/</u>
Certain Angolan Robusta coffee-----	<u>1/</u>
Record players incorporating straight-line tracking systems-----	<u>1/</u>
Glass fiber optic devices-----	<u>1/</u>
Certain bismuth molybdate catalysts-----	<u>1/</u>
Dry wall screws-----	<u>1/</u>
Monolythic catalytic converters-----	<u>1/</u>
Instituted in 1976:	
Reclosable plastic bags-----	<u>2/</u>
Certain color television sets-----	<u>2/</u>
Certain exercising devices-----	<u>2/</u>
Certain above-ground swimming pools-----	<u>2/</u>
Certain solder removal wicks-----	<u>2/</u>
Chicory roots-----	<u>2/</u>
Certain knitting machines and throat plates-----	<u>2/</u>

1/ Terminated during the year.

2/ Pending at yearend.

Antidumping cases

The Antidumping Act, 1921, as amended, provides authority to counter unfair competition involving price discrimination. Following determination by the Secretary of the Treasury that foreign merchandise is being, or is likely to be, sold in the United States or elsewhere at less than fair value (LTFV)--such as at prices below those in the exporting country's home markets--the U.S. International Trade Commission makes determination of injury, or the prospect of it, to the domestic industry concerned, or whether such an industry is prevented from being established. If an affirmative determination is made by both agencies, a finding of dumping is issued, and a special dumping duty--an amount equal to the difference between the LTFV price and fair market value--is assessed in addition to other duties on all unappraised imports covered by the finding. Treasury must complete its finding within 6 months (9 months in complicated cases), and the Commission must make its determination within 90 days.

By virtue of the Trade Act of 1974, a special provision was introduced in the antidumping legislation that authorizes the Commission to conduct 30-day preliminary inquiries during the course of certain investigations by the Secretary of the Treasury. If, under this provision, the Commission determines that there is no reasonable indication of injury the case will be terminated. The Commission conducted two such inquiries in 1976. A table showing the preliminary inquiries and full investigations completed by the Commission in 1976 follows.

Table 3.--Antidumping Cases: Findings of the U.S. International Trade Commission in preliminary inquiries and full investigations completed, 1976

Merchandise and country of origin	Date of finding	Finding
Preliminary inquiries:		
Multimetal lithographic plates from Mexico-----	May 21	1/
Monosodium glutamate from Korea-----	June 10	2/
Full investigations:		
Birch 3-ply doorskins from Japan-----	January 12	Injury
Butadiene acrylonitrile rubbers from Japan-----	March 29	No injury
Primary lead metal from Australia and Canada-----	April 21	No injury
Water circulating pumps from United Kingdom-----	May 27	Injury
Clear polymethyl methacrylate of pellet, powder, flake, granular or similar forms from Japan-----	June 21	No injury

See footnotes at end of table.

Table 3.--Antidumping Cases: Findings of the U.S. International Trade Commission in preliminary inquiries and full investigations completed, 1976--Continued

Merchandise and country of origin	Date of finding	Finding
Full investigations:--Continued		
Acrylic sheet from Japan-----	July 26	Injury
Hollow or cored ceramic brick and tile from Canada-----	July 29	No injury
Alpine ski bindings from Austria, Switzerland, and West Germany-----	August 27	No injury
Tantalum electrolytic fixed capacitors from Japan-----	October 22	No injury
Knitting machines for ladies seamless hosiery from Italy-----	November 24	No injury
Portland hydraulic cement from Mexico---	December 1	No injury
Melamine in crystal form from Japan-----	December 20	Injury

1/ The Commission determined "no reasonable indication of injury."

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

The investigations by the Department of the Treasury in progress at yearend concerned:

Digital scales from Japan  
 Clear sheet glass from Romania  
 Swimming pools from Japan  
 Monosodium glutamate from Japan  
 Pressure sensitive plastic tape from  
 Italy and West Germany  
 Steel drum plugs from Japan  
 Parts for dairy equipment from Canada  
 Railroad track maintenance equipment  
 from Austria  
 Saccharin from Korea and Japan

During the year, the Treasury terminated two of these cases on the ground that the complained of sales were not made at less than fair value: A.C. adapters from Japan and industrial vehicle tires from Canada.

A potential history-making complaint was handled by Treasury in 1976. It involved automobiles imported from Belgium, Canada, France, Italy, Japan, Sweden, United Kingdom, and West Germany, with a total value of about \$7 billion. It was dropped, however, after receipt of assurances by the foreign automobile manufacturers that future sales would be made at fair prices.

## United States-Canadian Automotive Agreement

The Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada provided that preferential tariff treatment be granted by each contracting party on automotive vehicles and parts imported from the other contracting party. This special bilateral agreement, signed by the two countries in 1965, was implemented by the United States through enactment of the Automotive Products Trade Act of 1965 (APTA).

In January 1976 a report on a study of the history, terms, and impact of this U.S.-Canadian agreement, made by the U.S. International Trade Commission at the request of the U.S. Senate Finance Committee, was published. 1/ The Commission reported that certain letters of undertaking thought to have expired were still in effect, 2/ and that the Canadians had not phased out the conditions and restrictions provided under the agreement for facilitating the transition of integrated production in Canada. During recent years, as the Canadian automobile industry became more competitive with the U.S. industry, the United States began to request removal of provisions. The tacit approval by the United States of the letters of undertaking was withdrawn in 1970.

Trade with Canada in automotive products has increased dramatically under the agreement; two-way trade rose to a new high of almost \$17 billion in 1976, from somewhat over \$1 billion in 1965. In 1976, Canada accounted for 57 percent of U.S. total two-way trade in automotive products of \$29.2 billion. For that year, the United States showed a deficit of \$1.2 billion in trade with Canada, according to data compiled from official statistics of the Department of Commerce. For each of the years 1968-74, the United States showed a deficit in this trade; in 1975, it showed a small surplus. These data are shown in table 4.

Intracompany transfers account for much of the automotive trade between the United States and Canada, leading to alternative methods of valuing the trade. In table 4, the U.S. import data are market values compiled for tariff purposes and the U.S. export data are market values compiled by relevant export categories. Canadian import statistics, which are transaction values furnished by major automobile manufacturers, can be substituted for U.S. export statistics when transaction values are preferred (table 5).

---

1/ Canadian Automobile Agreement, Committee on Finance, United States Senate, 94th Congress, 1st Sess., January 1976.

2/ Letters of undertaking from the Canadian affiliates of the major motor-vehicle manufacturers to the Ministry of Industry of the Canadian Government committed the affiliates to increase their Canadian production and the Canadian value added in each model year by an amount equal to 60 percent of the growth in the Canadian automobile market. These commitments continued in force and effect.

Table 4.--U.S. automotive trade: U.S. imports for consumption and U.S. exports of domestic merchandise; total trade and trade with Canada, 1964-76 <sup>1/</sup>

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

<sup>1/</sup> U.S. merchandise trade in terms of principal end-use category.

<sup>2/</sup> Partly estimated.

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

Table 5.--U.S.-Canada automotive trade, 1971-76

(In millions of U.S. dollars)			
Year	U.S. imports	U.S. exports <u>1/</u>	Surplus (+) Deficit (-)
1971-----	4,000	3,803	-197
1972-----	4,595	4,496	-99
1973-----	5,301	5,726	+425
1974-----	5,544	6,777	+1,233
1975-----	5,801	7,643	+1,842
1976-----	7,989	9,005	+1,016

1/ In terms of Canadian imports.

Source: U.S. Department of Commerce.

#### Arrangement Regarding International Trade in Textiles

The Arrangement Regarding International Trade in Textiles, the 4-year agreement usually referred to as the Multifiber Agreement (MFA) effective from January 1, 1974, was under fire in 1976. For several years, rates of growth in consumption had been slackening, and some of the major importing participants wanted tighter restraints, possibly based on imports instead of exports, and developing countries wanted to negotiate higher permissible levels of growth in their export markets. Like the predecessor arrangements that concerned only cotton, the MFA had been negotiated by the Textiles Committee of the GATT, whose members accounted for the bulk of world textile trade, and aimed to achieve orderly expansion of world textile trade without disrupting markets. The arrangement places great importance on furthering economic and social development of developing countries, providing them with export earnings by an orderly increase of their textile exports and increasing their share of world trade in textile goods.

During 1976, bilateral agreements negotiated pursuant to article 4 of the MFA were in effect between the United States and 18 trading partners. 1/ For the year 1976, aggregate limitations on U.S. imports, together with actual U.S. imports of these textiles, are shown by country in the table below.

1/ Section 204 of the Agricultural Act of 1956, as amended, authorizes the President to negotiate agreements with foreign governments limiting exportation to the United States of any agricultural product, including textiles or textile products, and to issue certain regulations governing warehouse entry and withdrawal.

Table 6.--U.S. textile imports: aggregate limitations negotiated under bilateral agreements pursuant to article 4 of the MFA and actual imports, by country, calendar year 1976. 1/

(In millions of equivalent square yards)

Country	Aggregate limitation	Actual imports
Brazil <u>2/</u> -----	101.8	65.2
China (Taiwan)-----	714.3	636.5
Colombia-----	94.0	56.8
Egypt <u>2/</u> -----	72.0	11.2
Haiti-----	61.0	46.0
Hong Kong-----	901.1	887.5
India <u>2/</u> -----	140.6	213.3
Japan <u>3/</u> -----	374.1	385.9
Korea-----	545.3	609.9
Macao-----	33.8	16.7
Malaysia-----	35.3	20.0
Mexico-----	248.5	164.9
Pakistan <u>2/</u> -----	130.4	142.0
Philippines-----	192.3	130.7
Poland <u>2/</u> -----	16.1	13.6
Romania <u>2/4/</u> -----	19.3	18.2
Singapore-----	218.3	87.7
Thailand-----	72.0	60.0
Total-----	3,970.2	3,566.1

1/ Except as indicated, these imports include cotton, wool and manmade fibers and manufactures thereof.

2/ Bilateral agreement concerns cotton only.

3/ The original MFA bilateral between the United States and Japan, dated September 27, 1974, established an aggregate limitation, prorated for the period Jan. 1, 1976 through Dec. 31, 1976, of 1,817.3 million square yards, but actual imports in all MFA categories during 1976 totaled 774.5 million square yards. Pursuant to subsequent modifying arrangements, however, the aggregate restraint level, prorated for 1976, totaled 374.1 million square yards. Actual imports of 385.9 million square yards represents total textile imports for 1976 in MFA categories continuing to be subject to restraint, although such limitations existed for only the first 9 months of the calendar year.

4/ In August 1976, imports of woven suits from Romania became a matter of concern for the United States. An interim arrangement between the United States and Romania was reached whereby imports from Romania of certain suits of wool and other suits of manmade fibers would be restrained for a year beginning Dec. 23, 1976.

Source of data on imports: U.S. Department of Commerce, U.S. General Imports: Cotton Manufactures, T.Q. 2010 (May 1977); U.S. Department of Commerce, U.S. General Imports: Wool Manufactures; T.Q. 2210 (May 1977); U.S. Department of Commerce, Man-Made Fibers and Manufactures, T.Q. 2310 (May 1977).

In addition to the agreements with these 18 countries, there were in effect bilateral agreements with seven other countries that provided for consultations only. These countries were Greece, Hungary, Malta, Peru, Portugal, Spain, and Yugoslavia.

Article 10 of the MFA obligated the GATT Textiles Committee to meet not later than a year before the expiration date of the arrangement to consider whether it should be extended, modified, or discontinued. Although in December 1976 the positions of major importing countries were uncertain, the Committee nevertheless agreed on the need for continuation of the arrangement beyond its expiration date, December 31, 1977.

#### International Commodity Agreements

In 1976 the United States restated its policy with respect to so-called international commodity agreements (ICA's)--attempts by governments to stabilize markets for particular raw materials or agricultural products through cooperative arrangements. Such arrangements range from simple agreements for exchanging information to complex mechanisms for market control. U.S. policy centered on the changing relationships between producing countries and consuming countries and reflected the need of "non-oil" developing nations to maximize export earnings from such commodities, as well as the need of developed countries for assurance of supplies. Developed countries accounted for most of the non-fuel commodities produced, but developing countries accounted for all of the world's output of coffee and cocoa and most of the world's exports of sugar and tin. In the different case of wheat, developing countries were generally providing markets, not supplies.

The integrated commodity program proposed by developing countries in UNCTAD IV at Nairobi, in May of 1976, called for a series of agreements within a general framework and a common fund for buffer stock financing.<sup>1/</sup> Although in general the United States continued to view international commodity agreements as not being in the best long-run economic interests of nations, it recognized the current critical condition of the external accounts of many developing countries and

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<sup>1/</sup> United Nations Conference on Trade and Development, Fourth Session, Nairobi, Resolution 93, Integrated Program for Commodities, TD/RES/93(IV), June 10, 1976.

was willing to cooperate in efforts to stabilize prices and markets of some commodities. In addressing the ministerial meeting of UNCTAD IV, Secretary of State Kissinger acknowledged that a piecemeal approach to commodity issues was not sufficient but declined acceptance of all elements of the proposed integrated program, indicating that the United States would consider moderating excessive price fluctuations on a case-by-case basis and buffer stock financing within the context of agreements for specific commodities.

During 1976, the United States ratified a new 6-year coffee agreement and a new 5-year tin agreement, both of which contained provisions for market control. It also ratified a protocol modifying and further extending the existing wheat convention, which provided for consultation and information exchange--all that remained of the International Wheat Agreement. Discussion of the proposal, made by the United States in 1975, for a coordinated system of national reserves of grain continued. In addition, the United States became an observer in sessions of the International Sugar Council and actively participated in preparatory work for a new agreement on sugar; it was not, however, signatory to the sugar agreement of 1968, the operating provisions of which expired in 1973. The United States also participated in the negotiations for the new agreement on cocoa that went into force provisionally in 1976, but chose not to become a signatory to this agreement in its existing form. The agreements on coffee, sugar, tin, and wheat are discussed below.

### Coffee

The United States on August 23, 1976, ratified the new 6-year International Coffee Agreement that went into force provisionally on October 1, 1976. This agreement is, as were the agreements of 1962 and 1968, administered by the International Coffee Organization (ICO), which in turn is governed by the International Coffee Council (ICC). It was a multilateral treaty arrangement, and during its third year of operation, each member was to specify its intention to continue participation or automatically cease to participate on October 1, 1979.

The 1976 agreement provided for export quotas in times of surplus supplies, such quotas to be introduced when prices decline to a predetermined level and suspended when prices rise sharply. In view of the high prices prevailing in 1976, it was not expected that quotas would be imposed until possibly 1979. Since mid-1975, various factors had combined to reduce world coffee production and raise prices. A severe frost in Brazil, the war in Angola, civil unrest in Ethiopia, floods in Colombia, and instability in Uganda all tended to reduce supplies. The frost in Brazil, the country producing over one-quarter of the world's output, affected plantations in the area of Sao Paulo and Parana, killing or damaging a large number of coffee trees.

Consequently, world production of coffee dropped well below world demand, and the price for green coffee jumped 200 percent during 1976. By the end of the year, producer stocks were only 16 million bags, compared with 36 million bags on hand on October 1, 1975. 1/

Recovery of Brazil's coffee production, together with an increase in the output elsewhere, was not expected to result in supplies sufficient to meet world demand until after July 1978. In the meantime coffee producing nations enjoy an enormous windfall, although some of the large coffee producers are concerned about the long-lasting impact of high prices on coffee drinkers.

### Sugar

Sugar prices were plummeting in 1976 and steps were being taken to negotiate a new agreement committed to market stabilization--to reach a consensus of large sugar producing nations and small ones. The International Sugar Agreement of 1973 was still in force in 1976, but unlike the predecessor agreements on sugar, contained no provision for stabilizing free market sugar prices. The United States was not a signatory to either the 1973 agreement or the 1968 agreement. The latter had been in effect during the period 1969-73 and represented the last of a series of attempts to control prices and stabilize markets that began with an agreement negotiated in 1937. The United States was being represented as an observer in the International Sugar Organization (ISO), based in London, which had continued as an international forum and instrument for data collection.

The preferential arrangements that existed regarding sugar trade were outside the international agreements--e.g., those of the United States under the U.S. Sugar Act, of the United Kingdom under the Commonwealth Sugar Agreement, and of the U.S.S.R. and other centrally planned economies with respect to markets for Cuba's sugar. Therefore, international sugar agreements historically affected only the relatively small residual free market. In 1974 this changed in consequence of a change in world markets; Short supplies brought high prices, most of the provisions of the U.S. Sugar Act of 1948 were allowed to expire, and the Commonwealth arrangements were soon to be superseded by provisions of a special protocol to the Lomé Convention. 2/ By mid-1975, however, supplies became more plentiful and prices started to decline rapidly. 3/ The decline in sugar prices that

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1/ A coffee bag contains 132 pounds of green coffee beans.

2/ For further reference to the Lomé Convention, see p. 71.

3/ In the United States, falling prices of raw sugar were causing many sugar beet and sugar cane producers to operate unprofitably, and in September 1976 the President acted to raise the duty on imported sugar from 0.625 cents per pound to 1.875 cents per pound. This was to be an interim measure that was to be reviewed after completion of an investigation of the domestic industry by the U.S. International Trade Commission under section 201 of the Trade Act, on which a report would be made in March 1977.

began in 1975 and accelerated in 1976 is evident from the data in the table below:

Table 7.--Sugar: New York average prices, duty paid by quarter, 1974-76

(In cents per pound)					
1974	:	1975	:	1976	
January-March	15.94	January-March	34.91	January-March	15.57
April-June	22.90	April-June	20.43	April-June	15.31
July-September	31.55	July-September	19.45	July-September	11.90
October-December	47.62	October-December	15.09	October-December	10.44

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

In 1976 the sugar producing nations held a number of meetings to study the changed world markets and to consider proposals for a new international agreement to be drafted in the ISO. The United States participated in this preparatory work, and negotiations for a new agreement were planned for early 1977.

#### Tin

In October 1976, the U.S. Congress ratified this country's participation in the International Tin Agreement, done at Geneva in 1975. This agreement, which had entered into force provisionally on July 1, 1976, was the fifth successive 5-year agreement concerning tin to have been negotiated during the last two decades, but the United States had not sought ratification of the four earlier agreements. <sup>1/</sup> Like its predecessors, the fifth agreement distinguishes between producing nations and consuming ones and is administered by the International Tin Council in London of which all participating governments are members. Much like the fourth agreement, it aims to limit excessive price fluctuations of and export earnings from tin through use of floor and ceiling prices, buffer stocks, and controls on tin exports.

The fifth agreement continued through 1976 to be in force only provisionally in consequence of Bolivia's not having notified ratification. Entry into force definitively was dependent upon acceptance by governments representing at least six producing countries and at least nine consuming countries, each group holding a required number of votes. The vote of Bolivia, the country ranking second in free-world mine production, was needed.

<sup>1/</sup> The cooperative arrangements of producing nations that predated World War II were carried out mainly through the efforts of the International Tin Committee.

The agreement calls for continuance of a buffer stock of 20,000 metric tons of tin metal--equal to about 10 percent of world output--or the equivalent in cash, to be established and maintained through mandatory contributions of producing countries; under certain conditions, consuming countries may contribute up to the same amount. Floor and ceiling prices are expressed in any currency decided on by the council.

In 1976, when world tin prices started to skyrocket and prices in New York approached the peak levels of 1974, metal from the buffer stock was disposed of in the market. Average annual prices for tin in New York are shown in the table below (in dollars per pound):

<u>Year</u>	<u>Annual average price per lb. (in New York)</u>
1967-----	\$1.53
1973-----	2.27
1974-----	3.96
1975-----	3.40
1976-----	3.75

The tin agreement also concerns national reserves and stockpiles. The sizable U.S. strategic stockpile, administered by the U.S. General Services Administration, has long been a significant stabilizing market force. The objective for a physical inventory of 203,774 long tons of tin metal, established in 1973, continued through 1976. Toward the end of the year, the stockpile objectives for tin and other strategic materials were, however, expected to be replaced by a set of goals designed to restructure the program along new lines. The goal for tin was to be lowered to 32,499 long tons. At yearend 1976 the new program, which was proposed by President Ford on advice of the National Security Council, had not received Congressional approval. During 1976 consumption of tin was declining in the United States, but despite soaring prices on international markets and disposals from the buffer stock, only a small quantity of tin from the U.S. stockpile was sold.

#### Wheat

During 1976, the International Wheat Agreement, 1971, was extended for another 2-year period, until June 30, 1978. During the 1976 sessions of the International Wheat Council, the United States continued its policy of seeking liberalization of world trade in grains and reiterated its proposal of a 30-million ton international grain reserve of wheat and rice to be held by producing nations, the cost to be shared by all member nations.

The wheat council estimated 1976 world wheat production at a record 411.5 million metric tons, an increase of 59.4 million tons over 1975 production and 42.5 million over the last previous record high in 1973. U.S. output during 1976 amounted to 58.4 million metric tons, of which 31.5 million metric tons were marked for export, accounting for 48 percent of the world's wheat exports, down from 52 percent in 1975. 1/

Wheat prices had been declining since reaching their peak during the 1974-75 period, as shown in the tabulation below:

Average prices per bushel of wheat received  
by U.S. farmers, 1973-74 through 1976-77

1973-74-----	\$3.96
1974-75-----	4.04
1975-76-----	3.55
1976-77-----	2.89

#### Section 22 of the Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act, as amended, directs the Secretary of Agriculture to advise the President when imports of an agricultural product interfere with price-support or other programs of the Department of Agriculture or threaten to reduce substantially domestic production. The President may then direct the U.S. International Trade Commission to conduct an investigation, reporting to him its findings and recommendations. After receipt of this report, the President may impose quantitative restrictions; increase the applicable tariff; or suspend, terminate, or change existing import restrictions. He may, however, take immediate action pending completion of the Commission's investigation.

The only action taken in 1976 under section 22 was imposition by the President of an emergency import quota of zero pounds on certain dried milk mixtures, effective March 31, 1976. This quota

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1/ A 5-year agreement between the United States and the Soviet Union, for governing Soviet purchases of U.S. grain, became effective on October 1, 1976. The volume of such purchases had been varying widely in recent years, creating disturbances in grain markets, especially for wheat. This agreement stipulated that the Soviet Union purchase not less than 6 million metric tons of U.S. wheat and corn annually for 5 years and consult with the United States if such purchases were to exceed 8 million metric tons. Purchases and shipments were to be spaced throughout the year and semi-annual consultations were to be held by the signatories.

applied to mixtures of dried milk and other ingredients. On March 26, 1976, the President had directed the Commission to conduct an investigation of the feasibility of making the emergency quota permanent. The Commission reported in the affirmative in July 1976, and recommended continuance of the quota but with a changed product coverage that would take historical trade into account. The President took no further action before yearend. 1/

The quotas remaining in effect during 1976 included the following commodities: certain cheeses, certain dried milk, certain chocolate, shelled peanuts, and certain raw cotton.

#### Meat Restraint Program

In order to protect segments of the domestic livestock industry and to avoid possible invocation of import quotas on certain meats, the United States in 1976 continued to negotiate voluntary export restraint agreements with governments of meat exporting countries. The so-called Meat Import Act of 1964 provides that the President proclaim quotas on imports of certain fresh, chilled, or frozen beef, veal, mutton, and goat meat if the Secretary of Agriculture estimates that in any calendar year the ratio of imports to domestic production exceeds a stipulated base quantity adjusted for changes in domestic production. The act further provides that the President may, under certain conditions, suspend or increase the quota proclaimed.

For some recent years, imports of these meats were expected to be somewhat higher than permissible levels, and the President both proclaimed quotas and suspended them because of "overriding economic interests." In October 1976 the Secretary of Agriculture indicated that, if not restrained, imports would exceed the so-called trigger level. The President proclaimed a quota of 1,232.9 million pounds; actual imports for the year totaled someless than that quantity.

Bilateral agreements for voluntary restraints on the exportation of certain meats to the United States during 1976 were negotiated with 11 meat exporting countries. The quotas allocated by country were as follows (in millions of pounds):

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1/ On January 19, 1977, the President signed a proclamation making the quota, with a changed product coverage, permanent.

Australia----	632.2	Guatemala-----	34.3
New Zealand--	259.8	Dominican Rep.--	14.4
Costa Rica---	53.7	El Salvador-----	11.4
Mexico-----	52.0	Panama-----	2.6
Nicaragua----	48.9	Haiti-----	1.9
Honduras-----	35.8	Other <u>1/</u> -----	86.0

### U.S. Generalized Preferences for Developing Countries

The United States instituted a system of generalized preferences (GSP) for developing countries effective January 1, 1976. Under the Trade Act of 1974, the President was authorized to provide duty-free treatment for selected products of designated beneficiary countries for a period of 10 years from January 1, 1975, the effective date of the act. The United States was the 19th industrialized non-Communist nation to implement a GSP. The EC's common system was instituted in 1971, following a decision taken by the contracting parties to the GATT to waive the most-favored-nation provision of the General Agreement so as to permit developed countries to join in extending tariff advantages to developing countries. The developed countries viewed their systems as being unilateral concessions, however, and the United States reserved for itself the right to revise its system without holding negotiations and even to withdraw or suspend GSP in whole, or in part, if it saw fit to do so.

Before taking any action under U.S. statutory provisions for GSP, the President was obligated to consider--

- (1) The effect such action would have on furthering the economic development of developing countries;
- (2) The extent to which other major developed countries were undertaking a comparable effort to assist developing countries by granting generalized preferences with respect to imports of products of such countries; and

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1/ A number of meat-exporting countries, including Canada, Ireland, Belize, and the United Kingdom, were not party to such restraint agreements.

- (3) The anticipated impact of such action on U.S. producers of like or directly competitive products.

Domestic industries injured by duty-free imports under GSP can seek import relief under provisions of the Trade Act, and in the context of the GSP, the President can determine any article to be import-sensitive, thereby excluding it from eligibility. Moreover, under the statute, textiles and apparel subject to textile agreements; watches; some electronic, steel, and glass products; and particular types of footwear were specifically excluded.

At the beginning of 1976, when the system went into effect, 98 countries and 39 territories were designated beneficiary developing countries. The original product list comprised 2,729 articles, valued at \$2.5 billion in terms of 1975 trade from eligible countries (about 2.6 percent of total U.S. imports). This product list is subject to regular review and revision. Following the first review made in early 1976, 78 products from 35 countries, with a value of \$147 million in imports in 1975, were found to exceed competitive need limitations and consequently were removed from the GSP list. <sup>1/</sup> At the same time, 77 products from 24 countries, with a value of about \$200 million in 1975 imports, were added to the eligible list; although these imports had exceeded the limits established for 1974, they were below those set for 1975 and were reinstated.

A review held by the Trade Policy Staff Committee (TPSC) of petitions received from interested parties requesting changes in the GSP product eligibility list took place in March 1976, followed by hearings. A total of 41 petitions were received, 9 seeking addition of products and 32 requesting removal because of the alleged adverse effect of their duty-free status on U.S. industries. The President, after review and advice from the TPSC, approved five requests, four for removal from the GSP list, and one for addition, effective October 1, 1976. Five requests were referred to the U.S. International Trade Commission for study.

Additional hearings were held in December by the TPSC regarding 48 new petitions received since the last hearings held in March. Their outcome is expected in 1977.

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<sup>1/</sup> Under the competitive need provision of the Trade Act, the President must suspend eligibility of an article imported from a particular country if in any one year imports of that article exceed \$25 million (adjusted annually in proportion to changes in the GNP of the United States) or accounted for 50 percent of total U.S. imports of that article during the previous calendar year. In 1976 the competitive need limitation was adjusted upward, to \$26.6 million.

U.S. Trade With Communist Countries 1/

Section 410 of the Trade Act of 1974 requires the U.S. International Trade Commission to monitor U.S. trade with the Communist countries and to publish a detailed summary of the data on this trade not less frequently than once each calendar quarter. During 1976 the Commission submitted quarterly reports number 5 through 8 to the Congress and to the East-West Foreign Trade Board. These reports, besides detailing leading imports and exports between the United States and the Communist countries, analyzed the importation of products of Communist countries that have had a growing significance in U.S. markets. The Commission also published in July 1976 a separate report on prospective Soviet imports of manufactured goods from the industrial Western countries.

In 1976 U.S. imports from the Communist countries increased by 27 percent, from \$1.1 billion in 1975 to \$1.4 billion in 1976. In this same period U.S. exports to these countries increased by 15 percent to \$3.9 billion. Although the volume of U.S. trade with the Communist countries increased during the year, the share of this trade relative to total U.S. trade remained the same as it had been in 1975, 2.3 percent (see table 8).

The United States maintained a positive trade balance with most of the Communist countries during 1976; the aggregate positive trade balance was \$2.5 billion. Among the larger Communist countries, only Yugoslavia and the People's Republic of China managed to avoid deficits in their trade with the United States.

Yugoslavia achieved its trade surplus with the United States by greatly expanding its exports and cutting imports by 10 percent. A strong U.S. demand for Yugoslav nonferrous metal products accounted for much of the increase in shipments during the year. At the same time, U.S. exports to Yugoslavia of machinery and crude materials were smaller in 1976 than in 1975.

During 1976 the People's Republic of China enjoyed its first trade surplus with the United States since 1971. Chinese exports to the United States increased by 24 percent at the same time that Chinese purchases of U.S. goods were declining by 55 percent. While China imported less of most products compared to the previous year, the important decreases were in Chinese imports of U.S. aluminum, cotton fiber, and machinery. United States imports from China increased across a broad front and included larger shipments of antiques, fireworks, cotton textiles, bamboo handicrafts, pig bristles, feathers, down, and food products.

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

Table 8.--U.S. trade with the Communist countries, 1970-76

(In millions of U.S. dollars)

<u>Year</u>	<u>U.S. imports</u>	<u>U.S. exports</u>	<u>Trade balance</u>
1970	309	519	210
1971	320	557	237
1972	480	1,045	565
1973	737	2,717	980
1974	1,228	2,562	1,334
1975	1,114	3,405	2,291
1976	1,419	3,927	2,508

Source: U.S. International Trade Commission, East-West Trade Statistics Monitoring System.

In 1976 only three communist countries--Poland, Yugoslavia, and Romania--were receiving most-favored-nation status from the United States. In 1976 U.S. imports from this trio increased markedly and accounted for over 63 percent of total U.S. imports from the Communist countries. The year 1976 marked the first full year of most-favored-nation status for Romania. United States imports of Romanian textiles and footwear, two products that previously had been subject to higher column 2 tariff rates, escalated rapidly in 1976. Agricultural products dominated U.S. imports from Poland; canned hams accounted for 37 percent of imports from that country.

United States exports to the Communist countries were dominated again by large grain shipments. About \$1.9 billion of grain was shipped to these countries in 1976, up from \$1.4 billion in 1975. The major recipient was the Soviet Union, which imported \$1.3 billion of grain. In all, 11.3 million metric tons of grain were shipped to the U.S.S.R., the largest amount of U.S. grain shipped to that country since 1973 when 14.3 million metric tons were exported. Grain will continue to be a very important item of export to the Communist countries over the next several years because the United States has established grain agreements with three of the Communist countries. A five-year agreement with the U.S.S.R. went into effect in the fall of 1976, committing the Soviets to the purchase of a minimum of 6 million metric tons of grain per year. Poland has agreed to purchase about 2 million metric tons of grain per year for five years. In November 1976, the United States and the German Democratic Republic reached an understanding whereby the GDR will purchase between 1.5 million and 2.0 million tons of U.S. feedgrain annually through 1980. <sup>1/</sup>

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<sup>1/</sup> Although these commitments to purchase are small in relation to total U.S. grain exports, which amounted to 80 million metric tons in 1976, they represent a substantial portion of U.S. exports to the Communist countries.

Two of the more important meetings on commercial issues during 1976 between the United States and the Communist countries involved Romania and the U.S.S.R. In November the third session of the Joint American-Romanian Economic Commission met in Bucharest. The participants examined the current stage and prospects of U.S.-Romanian commercial relations and signed a Long-Term Agreement on Economic, Industrial, and Technical Cooperation. This ten-year agreement provides a framework for cooperation in industry, banking, and agriculture through contractual arrangements between firms, companies, and economic organizations in the two countries. In another action affecting U.S.-Romanian commercial relations, the Congress permitted the U.S.-Romanian bilateral trade agreement to remain in force for another year, thus continuing most-favored-nation status for Romania.

In December 1976 a meeting of the U.S.-U.S.S.R. Trade and Economic Council took place in Moscow. At the meeting the two countries discussed the possibility of increasing the use of compensation arrangements and lease financing as a means of revitalizing commercial relations which were generally stagnant during 1976.

There were no substantive changes in the commercial relations between the United States and other Communist countries during 1976. The United States maintains the higher column 2 tariff rates on imports from the U.S.S.R., China, Mongolia, Hungary, Czechoslovakia, Bulgaria, Albania, the German Democratic Republic, and Laos. In addition, trade embargoes remain in force against the Communist countries of Cuba, North Korea, Vietnam, and Democratic Kampuchea.

## CHAPTER 2

## THE GENERAL AGREEMENT ON TARIFFS AND TRADE

## Introduction

Operation of the General Agreement on Tariffs and Trade during 1976 reflected the continued dispersion of economic strength throughout the world and the lessening of American predominance among developed countries. Recent activities under the GATT have been dominated largely by developing countries' demand for special and differential treatment in world trade and the cohesive position of EC members vis à vis the United States position on agriculture, not only in the arena of the ongoing seventh round of multilateral trade negotiations in Geneva, but also in carrying out standing obligations under the Agreement. Issues were being considered as much in terms of political values as economic ones, and because of the increased number and economic diversity of contracting parties--originally 23 governments, but 83 governments in 1976--consensus in working groups and other GATT forums was often not attainable. It was acknowledged that fiscal and monetary aspects of trade and balance-of-payments adjustments affecting trade were still within the GATT purview, but the separate roles of the GATT and the IMF remained uncoordinated. Except for the concurrent trade negotiations, GATT activities largely concerned matters of short-term trade policy.

The basic goals of nondiscrimination and most-favored-nation treatment were unquestioned, despite existence of the Arrangement Regarding International Trade in Textiles, the Generalized System of Preferences, and the Protocol Relating to Trade Negotiations Among Developing Countries. The GATT had become recognized as an instrument more for the surveillance and management of international trade than for liberalizing it; contracting parties were undertaking to "reform" the Agreement in response to changed relationships between developed and developing nations, the need for access to supplies as well as to markets, and pressures for specific codes of conduct and for more recourse to safeguard provisions.

In opening the 32d Session of GATT Contracting Parties, held in November 1976, the chairman, Ambassador G.L. Easterbrook Smith of New Zealand, expressed his belief that the GATT would have a role of ever-increasing importance in monitoring, regulating, and encouraging the continuing evolution of international trade.

## Participation in GATT

In 1976, the 83 contracting parties to the General Agreement included five of the nonmarket-economy countries of Europe. Provisional membership was being continued for Colombia, a participant by invitation in the work of the contracting parties, the Philippines, and Tunisia. Twenty-four other countries--former territories that became independent states after 1948--were applying provisions of the Agreement on a de facto basis, pending decisions as to their commercial policy. Six of these 24 countries--Angola, Cape Verde, Mozambique, Papua New Guinea, São Tomé and Príncipe, and Surinam--became independent during 1975. The population of these six ranged from about 80,000 (São Tomé and Príncipe) to 9.3 million (Mozambique). The 110 independent states that were subscribing to the GATT in 1976 were:

Contracting parties

Argentina	Ghana	Norway
Australia	Greece	Pakistan
Austria	Guyana	Peru
Bangladesh	Haiti	Poland
Barbados	Hungary	Portugal
Belgium	Iceland	Rhodesia
Benin	India	Romania
Brazil	Indonesia	Rwanda
Burma	Ireland	Senegal
Burundi	Israel	Sierre Leone
Cameroon	Italy	Singapore
Canada	Ivory Coast	South Africa
Central African Empire	Jamaica	Spain
Chad	Japan	Sri Lanka
Chile	Kenya	Sweden
Congo	Korea, Republic of	Switzerland
Cuba	Kuwait	Tanzania
Cyprus	Luxembourg	Togo
Czechoslovakia	Madagascar	Trinidad and Tobago
Denmark	Malawi	Turkey
Dominican Republic	Malaysia	Uganda
Egypt	Malta	United Kingdom
Finland	Mauritania	United States
France	Mauritius	Upper Volta
Gabon	Netherlands	Uruguay
Gambia	New Zealand	Yugoslavia
Germany, Federal Republic of	Nicaragua	Zaire
	Niger	
	Nigeria	

Acceded provisionally

Colombia	Philippines	Tunisia
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Countries that maintained de facto application of the GATT

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

Developing countries predominated in the GATT membership list, but the list did not include most of the major oil producing countries-- Saudi Arabia, Iran, Iraq, Libya, Venezuela, and Mexico. <sup>1/</sup> Some important "oil" countries were, however, among the following 19 countries that were neither contracting parties nor former dependencies applying the Agreement on a de facto basis but were participating in the seventh round of multi-lateral trade negotiations (MTN) taking place in Geneva:

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

One of the negotiating objectives of the United States under the Trade Act of 1974 was to enter trade agreements with developing countries that would promote mutual economic growth and mutual expansion of market opportunities. In 1976, according to official U.S. trade statistics (f.a.s. values), the developing countries accounted for about 35 percent of total U.S. exports and 44 percent of total U.S. imports. Developing countries that were not oil-exporting countries accounted for 22 percent and 20 percent, respectively, of U.S. exports and imports and for a \$2.3 billion surplus in the U.S. trade balance.

The original Agreement was envisaged as governing trade relations of market-economy countries and provided for state trading only with respect to state-trading enterprises maintained by such countries, not for the trade of nonmarket-economy countries. Furthermore, some 17 years

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<sup>1/</sup> Of these countries, only Mexico was not an OPEC member.

later, Part IV was adopted without a suggested provision for expanded trade between developing countries and contracting parties with centrally planned economies. The protocols of accession of Hungary, Poland, and Romania all provided for periodic consultations to review the development of reciprocal trade with other contracting parties. Expanding such trade posed a problem for these countries, however, when as in 1976 they were taking measures to reduce their trade deficits. No such consultations on trade were held, but Poland advised that it had introduced a customs tariff based on the Brussels Tariff Nomenclature. <sup>1/</sup> In November 1976, at the first meeting of the 32d Session of Contracting Parties, the delegate from Hungary stated that his government considered itself a full contracting party and intended to use its rights, including the right to conclude free-trade agreements under article XXIV. At this same meeting the U.S. delegate stated that in his view article XXIV had been drawn up with market economies in mind, implying that this represented an area for reform of the Agreement.

#### The Seventh Round of Multilateral Trade Negotiations

The multilateral trade negotiations (MTN) seemed to be marking time during 1976. After nearly two years--the MTN had been officially opened in late 1973 at Tokyo but substantive negotiations were delayed until 1975--this seventh GATT round of full-blown multilateral trade talks had produced no final actions and few major decisions. Progress was constrained not only by the complexity of trade issues but also by the world-wide economic slowdown, by the political uncertainties of national elections in major trading countries, including the United States, and by impending change in the membership of the EC Commission (the EC institution empowered to negotiate the MTN).

The negotiations were affected by such serious trade issues as EC and U.S. resistance to Japan's export drive, imposition of U.S. quotas on specialty steel, the pending U.S. court decision on whether rebates to export of certain Japanese and EC taxes constituted export subsidies, and the prospect that the EC would institute a steel program along the lines of the proposed Simonet Plan. Moreover, the EC was continuing firm in its position that the Common Agricultural Policy (CAP) was not negotiable, whereas the U.S. legislative authority called for a negotiating package that related to both industrial and agricultural products. Concurrently, the developing nations and the developed nations were in strenuous debate over various trade issues in the GATT and in other

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<sup>1/</sup> Poland and Romania had been accorded MFN treatment by the United States, and Romania was a beneficiary country under the U.S. system of generalized preferences for developing countries.

forums, particularly in UNCTAD and the Conference on International Economic Cooperation (CIEC).

Delegations recognized that the results of the MTN could not be fully effective before the end of the decade but looked to a successful conclusion for a much-needed salutary effect on world trade. Such an outcome was not possible, however, unless the trade problems of agricultural products and primary products could be solved. The fear of some contracting parties, as expressed by GATT's Director-General, Mr. Olivier Long, was "that, in response to existing adjustment problems, employment problems, and current account imbalances, the trading world would slide back into a disorder like that of the 1930's, when each country's attempt to solve its economic difficulties through the use of restrictions created a situation in which everyone lost." Representatives of the developed countries, the EC, developing countries, and nonmarket-economy countries all urged concrete actions in 1977 that would advance trade liberalization, offer resistance to protectionist pressures, and stimulate economic development.

Under the guidance of the Trade Negotiations Committee, the negotiations continued to be systematically structured by working groups and subgroups that corresponded to the substantive objectives spelled out in the Tokyo Declaration. In September 1976, the membership of the Committee, which included all MTN participants, comprised the EC and the following 97 countries, of which 25 were not contracting parties and three were provisional contracting parties:

*Algeria	Cuba	Hungary
Argentina	Czechoslovakia	Iceland
Australia	Denmark	India
Austria	Dominican Republic	Indonesia
Bangladesh	*Ecuador	*Iran
Belgium	Egypt	*Iraq
Benin	*El Salvador	Ireland
*Bolivia	*Ethiopia	Israel
*Botswana	Finland	Italy
Brazil	France	Ivory Coast
*Bulgaria	Gabon	Jamaica
Burma	Germany, Federal	Japan
Burundi	Republic of	Kenya
Cameroon	Ghana	Korea, Republic of
Canada	Greece	Luxembourg
Chile	*Guatemala	Madagascar
**Colombia	Haiti	Malawi
Congo	*Honduras	Malaysia
*Costa Rica		*Mali

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\* Not a contracting party.

\*\* A provisional contracting party.

Mauritius	Portugal	Togo
*Mexico	Romania	*Tonga
Netherlands	Senegal	Trinidad and Tobago
New Zealand	Singapore	**Tunisia
Nicaragua	*Somalia	Turkey
Nigeria	South Africa	Uganda
Norway	Spain	United Kingdom
Pakistan	Sri Lanka	United States
*Panama	*Sudan	Uruguay
*Papua New Guinea	*Swaziland	*Venezuela
*Paraguay	Sweden	*Vietnam
Peru	Switzerland	Yugoslavia
**Philippines	Tanzania	Zaire
Poland	*Thailand	*Zambia

\* Not a contracting party  
\*\* A provisional contracting party.

#### Progress in 1976

Substantive bargaining continued to be roughly divided between tariff matters and nontariff measures but with the following four areas designated for separate negotiation: 1) reduction of barriers in particular economic sectors, such as steel and copper; 2) formulation of an acceptable multilateral code on safeguards; 3) liberalization of barriers on agricultural products, negotiations to be coordinated with groups on tariffs and nontariff measures as possible within the context of the differing positions of the United States and the EC; and 4) agreement on tropical products, a "special and priority sector" under the Tokyo Declaration. 1/

In November 1976, the Trade Negotiations Committee approved formation of a seventh group, known as the Framework Improvement Group, to consider proposals for the long-run improvement of the trading rules, possibly including proposals for replacing the General Agreement itself. A fifth subgroup was set up under the Nontariff Measures Group to negotiate on government procurement, giving consideration to an OECD draft code for government purchasing. No decisions were made with respect to setting up subgroups on antidumping systems and minimum import prices (including variable levies). The LDC's favored special MTN negotiations on anti-dumping practices, but developed countries, including the United States,

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1/ The functional organization of the MTN is shown in USITC, Operation of the Trade Agreements Program, 27th Report, pub. 791, p. 41.

maintained that the existing GATT standing committee was the most effective means for examining the relevant rules. The issue of minimum pricing was considered by the United States and other trading partners of the EC to be an appropriate and urgent matter for the MTN, but it was unlikely that agreement on this could be reached.

### Tariffs

In 1976, the Tariffs Group of the MTN moved from discussing criteria for judging alternative tariff-cutting formulas to considering actual proposals. Submissions were made by the United States, Canada, the EC, Japan, and Switzerland. Analyses of these proposals for lowering tariffs on most of the developed countries' merchandise trade took place in government and other trade circles around the world but did not lead to the compromise and agreement that had been expected at the beginning of the year. Nor was agreement reached on two elements of tariff negotiation--the rules and procedures for exceptions (i.e., product coverage) and for special and differential treatment for developing countries. The LDC's were standing for nonreciprocity in bargaining with developed countries and against the tariff escalation, which they viewed as inhibiting growth in their processing industries. The LDC's and such countries as Australia found the proposals for tariff-cutting submitted by highly industrialized countries unsatisfactory for generalized application.

All the proposals except that of Canada, which was described as a "proposal of words," were mathematical and contained elements for harmonizing (cuts proportionately related to current rates--the higher the rate, the deeper the cut). The United States and the EC heavily criticized each other's proposals. The EC formula was to apply only to industrial products and only to a portion of its schedule, whereas the proposal of the United States covered all products and all rates within the authority provided under the Trade Act of 1974 and emphasized cuts in duties applying to most developed countries' trade, duties falling within the 5 through 15 percent range. Thus the US-EC impasse on negotiating industrial products together or separately was reflected in dissimilar approaches to tariff-cutting. Japan's and Switzerland's proposals were designed for industrial products, but could be modified so as to apply to agricultural products.

A comparison of the rates that would result from applying each of the four principal formulas submitted was developed in the Tariffs Group as follows (in percent ad valorem):

Initial rates	Lowest Final Rates			
	U.S.	E.C.	Japan	Switzer- land
1	0.5	1.0	1.0	0.9
2	0.9	1.8	2.0	1.8
3	1.4	2.7	3.0	2.5
4	1.8	3.4	4.0	3.1
5	2.1	4.1	5.0	3.7
10	4.0	7.0	6.5	5.8
15	6.0	8.9	8.0	7.2
20	8.0	10.3	9.5	8.2
25	10.0	11.2	11.0	9.0
30	12.0	11.9	12.5	9.6
40	16.0	12.7	15.5	10.4
50	20.0	12.9	18.5	10.9

For example, under each formula, a duty of 10 percent would be reduced as follows:

	New Rate	Percentage Reduction
United States-----	4.0	60
Switzerland-----	5.8	42
Japan-----	6.5	35
EC-----	7.0	30

These overall tariff rates and the percentage reductions, depicted in figures 1 and 2, are based on the following equations (Y = resulting rate, X = initial rate):

United States	$Y=1.5X + 50$ to maximum reduction of 60%
EC	$Y=X$ iterated 4 times
Japan	$Y=.3X + 3.5$ where X is greater than 5%
Switzerland	$Y= \frac{14X}{14 + X}$

In general, the U.S. formula compared with the other three would result in larger percentage reductions for the items with low tariff rates and smaller percentage reductions for the items with higher tariff rates.

#### Nontariff measures

Negotiations to reduce barriers other than tariffs made some headway in 1976. At the same time, some export markets were being threatened by new restrictive actions, despite renewal of the 1974 pledge of OECD members to avoid new restraints on imports and new subsidies directly related to deficits induced by rising energy costs.

Figure 1.--Proposed tariff reduction formulas: initial rates and resulting new rates

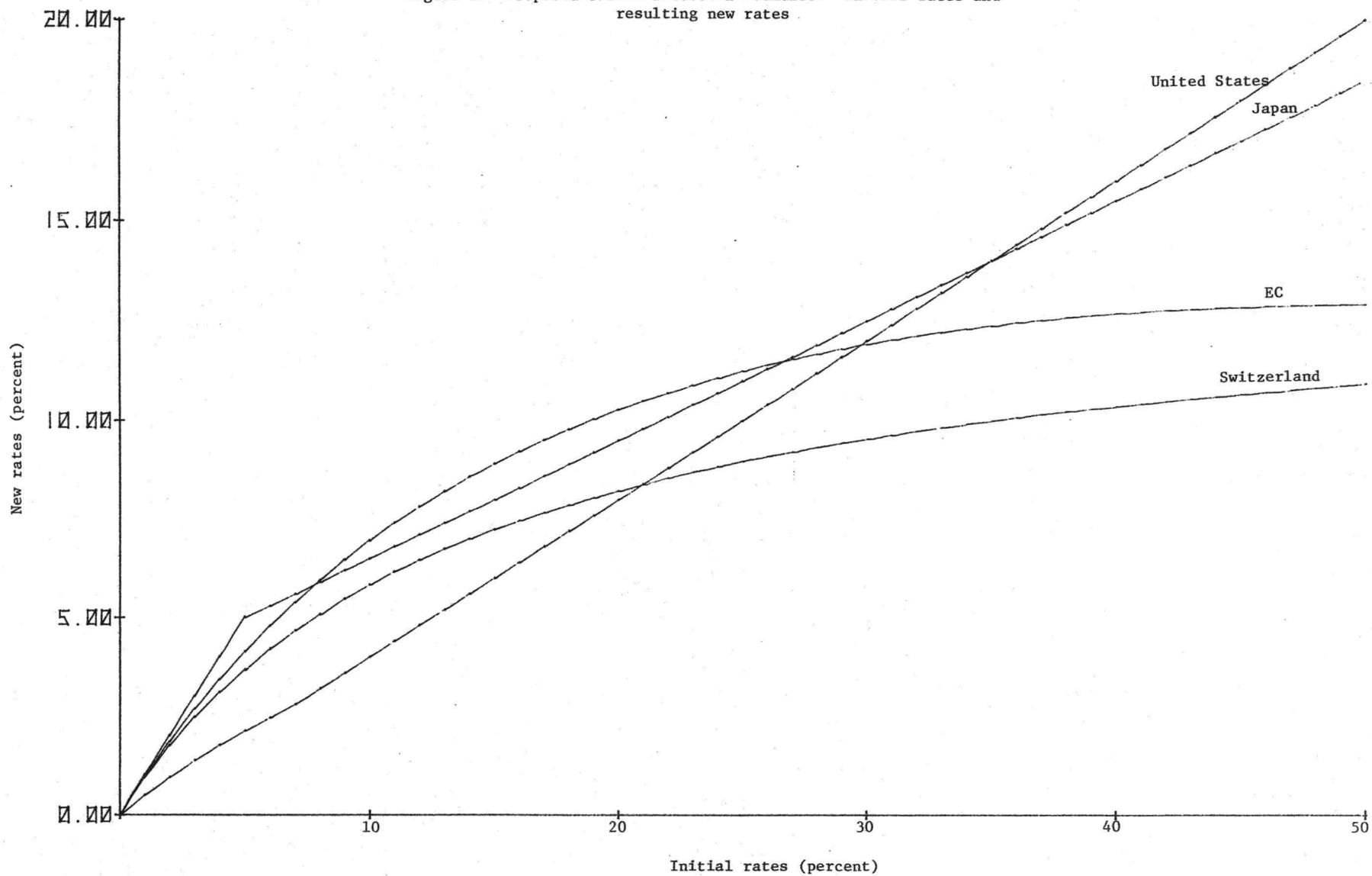
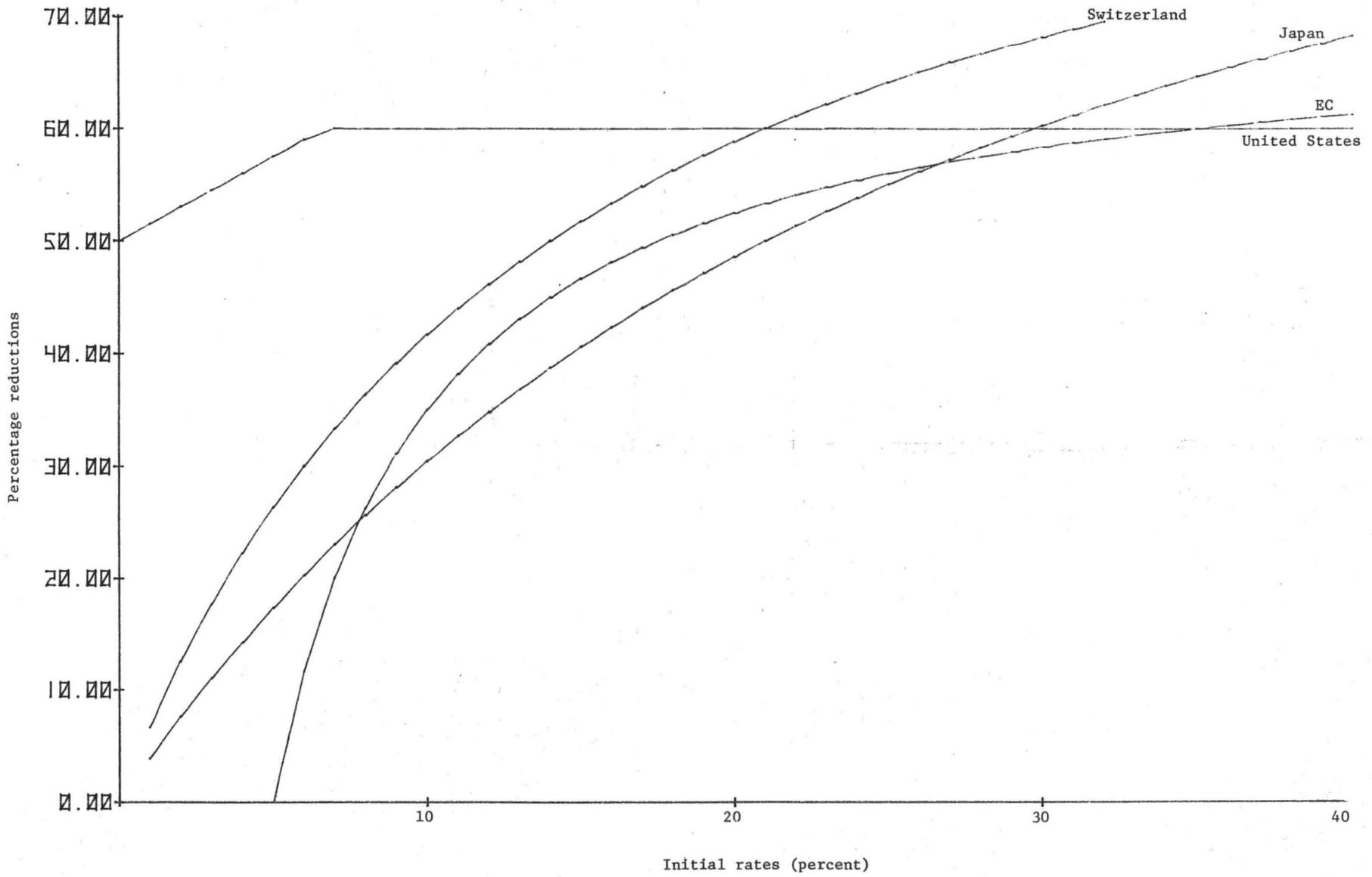


Figure 2.--Proposed tariff reduction formulas: initial rates and percentage reductions



Customs matters.--Negotiating a uniform world customs valuation system, which was being attempted in one of the nontariff subgroups was considered by the United States to be an important objective of the seventh round. In the U.S. view different systems did not necessarily constitute a nontariff measure, and the United States was willing to consider changes in its valuation system only on the basis of reciprocity. All products, including textiles and agriculture, were to have been within the scope of these negotiations.

Quantitative restrictions.--Negotiations lagged on the matter of liberalizing restrictions on volume (of imports or exports), largely in consequence of the continuing stalemate between the United States and the EC regarding agricultural products. The EC, Japan, and Canada even questioned whether a multilateral solution was a realistic possibility; in contrast, some countries felt a target date should be set for eliminating such restrictions. The United States persisted in its view that both agricultural and industrial products should be considered and that bilateral consultations on specific restrictions--with special attention given to LDC exports--should proceed and be completed before multilateral solutions to differences were considered. Although the EC favored the bilateral approach, the Communities would not agree to this subgroup's considering agricultural restrictions, holding that all agricultural matters should be the concern of the MTN group on agriculture.

Standards.--The subgroup on technical barriers considered its draft code on standards ready for review by the groups negotiating on agriculture and tropical products, although it had not yet agreed on some definitions, proposed amendments, and provision for special and differential treatment for LDC's. One fundamental issue was, however, far from settlement--that of obligating federal or central governments to enforce compliance by local governments.

Subsidies and countervailing duties.--Following a productive year in 1975, <sup>1/</sup> the subgroup responsible for negotiating in the urgent area of subsidies and bounties, and the imposition of offsetting duties, seemed to be stymied. The positions of the United States, the EC, and the developing countries were disparate. This sensitive area involved reaching agreement on what constituted subsidies, particularly export subsidies; variable levies based on subsidized world market prices, the treatment of border tax adjustments; and whether or not injury should be a precondition. The United States had proposed a code in 1975, but this had not yet been accepted as a negotiating basis, and the EC was holding

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<sup>1/</sup> USITC, Operation of the Trade Agreements Program, 27th report, Pub. 791, pp. 50-51.

to its position that agricultural subsidies and variable levies were the concern of the Agriculture Group.

### Sectors

The concept of reducing barriers by particular industrial sector implied addressing structural problems of international industries in an attempt to brake restrictive trade practices globally and to curb dumping and use of export subsidies. Consideration by the special MTN group on sectors of the feasibility of such an approach began with discussion of a Canadian proposal for the copper industry. Interested in the problems of resource-based industries, Canada expanded this proposal so as to include other nonferrous metals industries and forest products. The United States announced an intention to submit a proposal for the steel sector, but this was not done before the end of the year. The EC and Japan were not in favor of considering any proposal for steel. 1/

Many delegations were reluctant to pursue study of the sector approach, but efforts to acquire the necessary data for a number of important industries was to continue, supported by spokesmen for many U.S. industries, including steel and chemicals. Some developing countries pressed the group to study national tariffs and import schemes that affected handcrafts, with a view to negotiating these products as a sector. Further substantive study on sectors was in prospect.

### Multilateral safeguards

One of the principal U.S. negotiating objectives was "to obtain internationally agreed upon rules and procedures, in the context of harmonization, reduction, or elimination of barriers to, and other distortions of, international trade, which permit the use of temporary measures to ease adjustment to changes occurring in competitive conditions in the domestic markets of the parties to an agreement resulting from such negotiations due to the expansion of international trade." 2/ Furthermore, part of the U.S. mandate to seek reform of the General Agreement included authority to seek revision of article XIX "into a truly international safeguard procedure which takes into account all forms of import restraints countries use in response to injurious competition or threat of such competition." 3/

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1/ Subsequently, in June 1976, the United States imposed import quotas on certain specialty steels. Consultations would be held under provisions of article XXII, but retaliation under GATT disputes procedures seemed unlikely.

2/ Public Law 93-618, approved Jan. 3, 1975 (Trade Act of 1974), sec. 107.

3/ Ibid., sec. 121

The matter of a satisfactory "escape" procedure had long been under study in the GATT. In 1959 a GATT working party concluded that "there were political and psychological elements to the problem which made it doubtful that GATT members would rely solely on the standard GATT safeguards and give up the special methods they had been using to dampen the rise in certain imports...." <sup>1/</sup> Modernizing the GATT safeguard provisions was clearly necessary for negotiating further trade liberalization since MFN treatment was subject to the "no-injury principle."

Before the end of 1976 the Safeguards Group had made some progress in this difficult area. Proposals were made by the United States and some developing countries for establishing a set of rules to govern the use of restraints in cases of injurious imports. The United States proposed not only to strengthen article XIX but also to supplement it with a code covering all safeguard measures, including so-called voluntary export restraints. This code would embrace other forms of import relief permissible under the GATT, such as renegotiating for modification or withdrawal of a concession. Adjustment assistance was an element of this proposal in that safeguard actions would have to be accompanied by domestic adjustment actions.

No decisions were reached in the group, but it seemed clear that further discussions would center on the U.S. proposal, which had been patterned after U.S. domestic legislation. However, the EC questioned whether the United States would follow international standards, and there was concern on the part of other delegations, including that of Japan, that the concepts of the United States proposal did not provide for retaliation or compensation for safeguard actions taken. The threat of retaliation might deter safeguard actions. On balance, Japan was not in favor of revising article XIX.

### Agriculture

GATT attempts to open trade in agricultural products have historically bogged down. In the MTN, agricultural products continued to resist negotiation and the Agriculture Group met only once in 1976. It managed to reach some agreement on procedures for discussing bilateral restrictions on products not covered in the three subgroups negotiating on grains, meats, and dairy products. Little if any progress was made in the specialized work of these subgroups, however, beyond examining particular trade measures of the countries willing to furnish data on their farm programs.

The GATT Consultative Group of Eighteen was concerned about the problem of world trade in agriculture but deferred extensive study of it since most of the specific issues in this area were being taken up in the MTN. The deadlock between the United States and the EC with respect

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<sup>1/</sup> U.S. Senate, Committee on Finance, Executive Branch GATT Studies, Committee Print, March 1974, p. 127.

to agricultural producers was deep rooted, however, and it was unlikely that the EC would modify its position on negotiating its minimum levy system under the CAP.

### Tropical products

At yearend the GATT announced that some 44 developing countries had submitted requests to 11 developed countries for tariff and nontariff concessions covering about 290 tariff headings and a number of tariff items under each heading. Concessions of Australia, the EC, Finland, Norway, Sweden, New Zealand, and Switzerland, which were made largely under GSP, were to take effect from January 1, 1977. Austria, Canada, and Japan were expected to put their concessions in effect sometime during 1977. These concessions were described as being the "first concrete results" of the MTN, but an overall agreement on implementing concessions on tropical products was not reached in 1976, as had been anticipated, and there was plenty of dissatisfaction on the part of the LDC's with developed-country offers.

The United States could not offer concessions on tropical products under its GSP scheme, because it was not negotiable. However, within the limits of its negotiating authority, the United States offered to make concessions on nearly 150 tariff items on the basis of contributions from LDC beneficiaries consistent with their economic and financial needs. These were to be permanent, bound MFN concessions, which could not be canceled unilaterally.

The matter of trade in tropical products has had a long history in the GATT. In 1962, the GATT Council set up a special group on trade in tropical products--initially including cocoa, coffee, tea, vegetable oilseeds and oils, and tropical timber--to consider ways of overcoming difficulties confronting the countries that exported these products and to make appropriate proposals. In the LDC view, tropical products would account for a larger proportion of their export earnings if export markets were not overlaid with special measures, such as packaging, health, and sanitary regulations, as well as with tariffs and quotas. In subsequent years, prices and revenues in export markets and tariffs and trade measures relating to a long list of tropical products (including processed and semiprocessed forms) of interest to developing countries were studied in the GATT.

These products were designated as a special and priority sector in the MTN, and in 1975 a special group for tropical products was set up under the TNC. One of the stumbling blocks in these negotiations was the matter of tariff escalation, which the LDC's wanted eliminated on a

most-favored-nation basis. For example, the developing countries had long pressed for a larger share in the world's exports of oils and fats. The competitiveness of some tropical products with temperate products was also an issue.

### Trade and Development

The so-called North-South dialog--the long-term relationship between the industrial nations and the developing nations throughout Africa, Asia, and Latin America--was vigorous in the GATT in 1976, within the MTN and in the standing Committee on Trade and Development. The General Agreement as a contractual and multilateral instrument for nondiscrimination in trade was under fire. The more than one hundred countries of the third and fourth worlds, often referred to cohesively as the developing or less developed countries (LDC's), were generally agreed that the developed world should accord them differential treatment. The concept of more favorable treatment for developing countries had been the historical basis for drafting Part IV of the Agreement, which went into force in 1966. Ten years later, however, some LDC's were standing for an entirely new international trade set-up, not merely for modifications of the current one. In the LDC view, the stated principles and objectives of Part IV and the declared aims of the ongoing round of multilateral negotiations provided for this. In fact, some LDC's felt that permission for the GSP and for the trade concessions for expanding trade among developing economies, which were departures from the principle of nondiscrimination, should be incorporated in the Agreement and not treated as exceptions implemented by waiver.

In 1976, specific issues in rich-nation, poor-nation relations were being aired in international assemblies convened for that purpose. At the quadrennial session of the United Nations Conference on Trade and Development (UNCTAD IV), held at Nairobi in May 1976, resolutions were adopted as a start toward implementing the New International Economic Order that had been agreed to in May 1974 at the Sixth Special Session of the U.N. General Assembly. But many of the issues between North and South, particularly the question of access to supplies, were expected to be grappled with by the Conference on International Economic Cooperation (CIEC), the new major forum that began meeting in Paris at the end of 1975 and was preparing for its second ministerial-level session planned to be held early in 1977.

The positions of both developed country and LDC members of the GATT Committee on Trade and Development appeared to be irreconcilable and the committee looked to the highest level GATT consultative body--the Group of Eighteen--which was completing its first year of work, to resolve

some of them. The LDC members were sanguine about the Trade Negotiations Committee's decision to form a special group in the MTN to consider proposals for revamping the framework for conducting world trade. They viewed this as a pragmatic step toward reaching a firm decision on the extent to which the Agreement could be modified or even on whether or not it should be replaced.

#### Implementation of Part IV

The LDC's continued to emphasize the ineffectiveness of Part IV of the General Agreement. Some LDC members of the Trade and Development Committee said Part IV should be strengthened so as to permit unquestionable LDC use of measures to promote exports, including export subsidies, and preferential treatment beyond the GSP with respect to access to developed-country markets. They felt that import restrictions should not be applied to their products, including those eligible for GSP, and that LDC's should be permitted to continue to use a wide variety of fiscal and other measures to promote export sales, compensate for external distortions, and protect their balance-of-payments positions. For example, use of import surcharges for balance-of-payments purposes would be permissible for LDC's, but LDC products would be exempted from such charges in developed country markets.

Some LDC's reported the GATT to be totally unresponsive to their needs in a period of growing deficits, particularly for countries dependent on foreign sources for fuels. In 1976, the prices of many primary commodities had weakened, and access to markets for LDC manufactures had not improved. The debt burden of many of the LDC's was mounting and there was concern about the effect of debt servicing on economic development.

In contrast, developed countries generally found the GATT to have served all contracting parties well during periods of great economic difficulties. Developed countries--other than EC members--brought into question the GATT criteria for customs-union creation and for free trade areas and the effects of the Lomé Convention on third countries. On the

other hand, many LDC's considered the Lomé arrangement between the EC and numerous African, Caribbean, and Pacific (ACP) states, with its innovative features, to be an implementation of Part IV and in conformity with the Tokyo Declaration. For them, this convention was a model for arrangements for expanding trade among themselves and with developed countries in a new institutional relationship, a big step toward integrating the small and weak in the international economic system.

#### Trade expansion among developing countries

The protocol to the GATT permitting preferential trade among developing countries appeared to be operating to the satisfaction of many LDC's. Eighteen countries were signatories and several new accessions were in prospect. This arrangement for promoting trade through an exchange of tariff and trade concessions entered into effect in 1973 following a decision made in late 1971 by the contracting parties that the GATT rules for MFN be waived with respect to this arrangement for expanding intra-LDC trade. This decision was subject to reconsideration before the end of ten years.

#### The LDC's and the MTN

At the 32d Session of Contracting Parties, the LDC's--with several exceptions--applauded progress in the MTN on tropical products but decried it in many other areas of the negotiations. They were intensely concerned about what they construed as a lack of commitment on the part of the developed countries to across-the-board procedures for differential treatment of their needs, including the special needs of the least developed of the developing countries. Special and differential treatment had become a LDC shibboleth in the MTN.

The LDC's also applauded the enlargement of and improvements that had been made in the donor schemes under the GSP, which had been sanctioned under GATT in 1971 for a 10-year period. The United States scheme had been instituted at the beginning of 1976, providing duty-free treatment on eligible products of designated beneficiary countries. However, the U.S. scheme excluded OPEC members and members of any other arrangement to withhold supplies of vital commodities that cause serious disruption to the world economy, a caveat which prompted one of the oil-exporting countries to appeal in the GATT for disinvocation. Unlike the U.S. scheme, which could impose ceilings on imports, the EC scheme introduced in 1971 provided for preferential treatment in the form of tariff quotas. Beginning in 1977, the EC planned to institute measures to reduce tariffs on about 150 tropical products covered by its GSP and to suspend nonpreferential rates for all countries on 22 products.

Many LDC's were concerned about the possible erosion of the one-way GSP preferences that could result from MTN concessions on manufactured and semimanufactured products. Some LDC delegations wanted these preferences bound in special schedules so as to eliminate their non-contractual and temporary nature. Developing countries were, however, far from a consensus with respect to potential gains in moving from GSP to negotiated tariff reductions. Among the reasons cited were differences in donor preference schemes and in conditions of export markets for particular products.

#### The GATT and UNCTAD

Closer cooperation between GATT and UNCTAD was inevitable in 1976, particularly in light of the Integrated Program for Commodities adopted at UNCTAD IV. It called for negotiating a series of separate agreements for the agricultural and industrial raw materials that accounted for most of the LDC commodity trade, with buffer stocks to be financed from a common fund. One of these commodities, jute and jute products, was cited as an example on which an effort to remove all tariff and non-tariff barriers could be made. The resolution adopted by the UNCTAD IV conference reaffirmed the need to secure additional benefits for LDC's as a major objective of the MTN and recognized the advantages to these countries of a successful conclusion of the negotiations by the end of 1977.

#### Trade Restrictions and Other Measures

As in other recent years, most trading nations confirmed their endeavors to avoid using restraints, but political pressures arising out of economic conditions in 1975 led not only to temporary emergency measures imposed for short-term results--particularly to correct balance-of-payments problems--but also to some important measures intended to yield long-run adjustments. During 1976, the GATT council adopted reports on some recently imposed restrictions and held consultations on others, a number of which had been longstanding.

#### Measures taken for balance-of-payments purposes

The council adopted reports on consultations held with the following countries, which they considered to have fulfilled their obligations for 1975 under article XVIII:12(a), the article that provides for

consultation when new restrictions are applied or the general level of existing restrictions is raised:

Argentina	Indonesia
Egypt	Pakistan
India	Sri Lanka

The council was notified concerning the temporary import deposit schemes and temporary surcharges on imports introduced by Portugal, South Africa, and Spain, and adopted reports on the import deposit schemes of Brazil, Finland, and New Zealand. The GATT Committee on Balance-of-Payments Restrictions considered the trade control system of Korea to be complex and the import restrictions of Peru to be stringent but necessary to forestall further declines in monetary reserves.

Export subsidies: Tax practices and export insurance schemes

Tax practices.--Among the many forms of export subsidies, government practices that exempt exporters from taxes have increasingly become of great concern because of the differences in national tax systems and the drive to export. Under GATT rules the exemption of an exported product from duties or taxes borne by the like product for home consumption, or the remission of such duties or taxes on exports, was not considered to be a subsidy. However, the degree to which any measure or technique relating to tax treatment was used by governments required special analysis, and in 1973 the GATT council set up four panels to examine each of the following fiscal measures:

U.S. legislation providing for Domestic International Sales Corporations (DISCS)

Income tax practices of Belgium, France, and the Netherlands

In 1976, these panels reported the following conclusions: These measures should all be regarded as subsidies and in conflict in some respects with GATT article XVI:4--the provision for phasing out subsidies that result in lower prices for export sales than for domestic sales--as well as constituting prime facie cases of nullification or or impairment of benefits provided for under article XXIII. Analyses of the trade effects of these practices had not been completed, however, and no consultations were held.

Export insurance schemes.--The question of the extent to which government-sponsored export insurance schemes include subsidies arose following introduction in 1975 by the United Kingdom of an insurance program designed to protect exporters against costs rising in consequence of inflation. Several other European nations had instituted, or were about to institute, such programs, and the matter was being examined in both the EC and the OECD. A GATT working party was set up in 1976 to study the effects on international commerce of these and other measures, direct and indirect, that are used to compensate for the effects of inflation. Its report was not completed before the year ended.

Emergency actions concerning particular products

During the year, the following complaints or reports on emergency actions by individual countries were made in council meetings:

Australia--

Restrictions introduced at the end of 1974 and early 1975 on products of the EC: the EC had entered into consultations on quota restrictions introduced on certain items bound in the GATT.

Tariff quotas, introduced as an emergency action under article XIX, on imports of cold rolled iron and steel sheet and plate were objected to by Japan.

Tariff quotas imposed and expanded on certain textile products were found by Japan to have a restrictive effect similar to quantitative restrictions and to nullify the objectives of the MFA.

Canada--

Import quotas on eggs and egg products under Canada's supply management program for eggs were found by members of a working party (except for the United States) to conform with the provisions of article XI that permitted import restrictions on agricultural or fisheries products necessary to enforce certain governmental measures operating to restrict supply.

Restrictions on beef and veal introduced under article XIX prompted requests for consultation by Australia and New Zealand regarding in-transit shipments that had been refused entry.

## EC--

Import deposits and purchasing requirements affecting nonfat dry milk and certain animal feed proteins were to be examined by a panel set up at the request of the United States. Consultations had been unsatisfactory and the United States reported that the EC scheme impaired the bindings on soybeans, soybean meal and cake, and other feed stuffs, adversely affecting U.S. exports of such products. Under the scheme, some 400,000 tons of nonfat dry milk would be incorporated in mixed livestock feed, and deposits would be required on imports of vegetable proteins for animal feeds.

The United States considered the EC system of refunds on exports of malted barley to be subsidies and requested consultations.

Import licenses and surety deposits for certain processed fruits and vegetables and minimum import prices for tomato concentrates introduced in 1975 were to be examined by a panel set up in late 1976 at the request of the United States and several other contracting parties. Consultations had not been satisfactory.

A new system of linked sales for frozen beef and veal was announced in early 1976; consultations were held as provided for in article XXII, the general provision for consultations regarding any matter affecting operation of the General Agreement. Argentina and Australia voiced concern about the entire EC market for meat, stimulation of meat production through increasing guide prices, and the requirement for importers of beef for processing to place security deposits.

## Greece--

Restrictions on frozen meat were reintroduced in August 1976 because of an abnormal accumulation of stocks; the measures were to be temporary, nondiscriminatory, and in conformity with article XI.

Increase in certain bound duties were the subject of consultations with Austria.

## Italy--

Monetary measures for purchase of foreign currencies were being examined in a special working party in light of the provisions for exchange arrangements under article XV. These measures, including a 90-day deposit requirement of 50 percent for purchase of foreign currencies, had been authorized by the EC Commission because of the serious condition of Italy's exchange market and the need to stabilize the lira. In the view of the council, exchange matters were of legitimate GATT concern.

## United Kingdom--

The council took note of the concern about the following measures, and some contracting parties reserved their rights under the GATT and, when relevant, under the MFA:

- Licensing of television sets and tubes;
- Quotas on cotton yarn from Spain and Portugal and on synthetic fibers from Portugal;
- Restraints on exports of men's suits by Czechoslovakia, German Democratic Republic, Hungary, Poland, and Romania;
- Restraints on exports of leather shoes by Czechoslovakia, Poland, and Romania.

## United States--

Restrictions on specialty steel met with dissatisfaction. Representatives of the EC, Sweden, Canada, and Austria supported Japan in its concern about the U.S. International Trade Commission's recommendation that quotas be imposed on imports of certain steels, since in their view, the difficulties of the U.S. industry stemmed from falling demand. After the President's decision to introduce such quotas for a period of 3 years from June 14, 1976, these contracting parties reserved all their rights under the GATT.

Restrictions on meat were complained of by Australia and New Zealand. New Zealand sought early consultations under article XXII for clarification of the legal and economic justification and assurances of prompt removal. The United States had notified these restrictions without reference to a GATT article; quotas were set at the same level as had been contemplated under the previous voluntary restraint agreements.

### Textiles Restraints

In 1976 textiles restraint was a matter of grave concern. The Arrangement Regarding International Trade in Textiles, usually referred to as the multifiber agreement (MFA), would expire at the end of the next calendar year, having gone into force for a 4-year period from January 1, 1974. Problems that would arise from extending or replacing it were mounting.

Under provisions of the MFA, the GATT Textile Committee was obligated to submit an annual report to the GATT council reviewing operation of the arrangement, and during the third year, to undertake a major review of textile matters. The MFA also provided for preparation of special studies. Near the close of 1976, the committee considered reports on production and trade in clothing and other textiles during the 1974-76 period, on adjustment assistance measures and the extent of efforts made by developed countries to move into more viable lines of production or into other sectors of their economies, and a report on implementation of the arrangement furnished by the Textile Surveillance Body.

Since the signing of the MFA, industrialized countries' imports of apparel and other textiles had escalated and were accounting for larger shares of domestic markets in the United States and some EC members. Efforts to strengthen restraint mechanisms could be expected to raise new problems and to exacerbate relations with developing countries. According to GATT data, developed countries not only continued to be the largest exporters of textiles, but their share had somewhat increased. Furthermore, the overall textile policy the EC had developed during the period since 1974, which was intended to obviate unilateral national action, was not in harmony with the views of some member states, particularly those of the United Kingdom and France. Declining demand in developed countries' export markets, trade in textile machinery and other related investment goods, and imbalances on external accounts of developing countries were among the issues that would be considered during ensuing deliberations on the future of the arrangement.

### Antidumping Surveillance

The eighth report of the standing Committee on Antidumping Practices, which related to the period October 1975 to October 1976, was adopted by the GATT council. It had been an active period for the committee, with important highlights that greatly concerned most members because of their implications in the MTN negotiations on reducing trade barriers.

Pleas were made for strict compliance of national antidumping systems with the GATT Antidumping Code and for increasing the number of adherents to the agreement to implement GATT article VI and the code that supplemented the agreement. 1/

There was particular concern about the recent revisions that had been made in U.S. legislation and implementing regulations. Canada and the EC, as well as Japan, registered dissatisfaction over the lack of conformity between U.S. practice and the provisions of the international code. They regarded the multiple investigations of imports of television receivers from Japan, being made by the United States Treasury and the United States International Trade Commission, as constituting obstacles to trade. These investigations concerned not only dumping but allegations of subsidization under U.S. countervailing duty law. Several committee members viewed some of the U.S. investigations--including preliminary investigations and 30-day inquiries--of the same product as "harassment of international commerce." The committee found, however, the decision reached by the United States to drop the case on automobiles that had been initiated in 1975 to have been satisfactory.

Besides examining the revised U.S. regulations, the committee examined the antidumping laws of Greece, Hungary, and Australia. It agreed that any member had the right to revert to particular aspects of national legislation of these countries in light of the practical application of that legislation by the competent authorities. Work on developing an inventory of antidumping problems and issues was to be continued.

The committee examined the reports submitted by member countries on the administration of antidumping laws and regulations. A number of members--Austria, Czechoslovakia, Finland, Hungary, Japan, Malta, Portugal, Spain, Sweden, Switzerland, and Yugoslavia--notified no antidumping cases pending or initiated during the reporting year beginning January 1, 1975. The committee summarized the cases notified as follows:

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1/ Beside the United States and the EC and its member states, parties to this Agreement were: Australia, Austria, Canada, Czechoslovakia, Finland, Greece, Hungary, Japan, Malta, Norway, Portugal, Spain, Sweden, Switzerland, and Yugoslavia.

	: Aus- : tralia	: Canada	: EC	: Greece	: Norway	: United : Kingdom	: United : States
Cases pending as of July 1975-----	: -	: 6	: -	: 12	: 1	: 4	: 12
Investigations opened---:1/	: 34	: 15	: 5	: -	: -	: 14	: 27
Cases on which provi- sional action taken---	: 8	: 12	: -	: -	: -	: 1	: 15
Cases on which final decisions reached:	: :	: :	: :	: :	: :	: :	: :
Antidumping duties imposed-----	: -	: 6	: -	: -	: -	: 1	: 2
Cases settled through "arrangements"-----	: 7	: -	: 1	: -	: -	: 2	: 2
Cases terminated-----	: 20	: 4	: 3	: -	: 1	: 5	: 8
Revocation of anti- dumping duties-----	: 4	: -	: -	: -	: -	: 2	: 4
Cases pending as of July 1, 1976-----	: 7	: 11	: -	: 12	: -	: 10	: 28

1/ Australia, which had recently acceded to the agreement to implement GATT article VI and the GATT Antidumping Code, reported all cases including preliminary contacts with complaining industries and other cases before prima facie injury had been established.

#### Waivers of GATT Obligations

In 1976 decisions were made to approve or extend waiver of GATT obligations as follows:

##### India--

Extension of waiver until June 30, 1977, to allow auxiliary customs duties on certain items on which duties had been bound; the revenue to be used for essential development needs.

Waiver to allow adjustment of duties on certain items on which duties had been bound, necessitated by the country's decision to apply the Brussels Tariff Nomenclature.

##### Indonesia--

Waiver to allow replacement of tariff schedule by a new schedule without application of provisions of article XXVIII.

##### Uruguay--

Extension until June 1978 of waiver to allow, for balance-of-payments reasons, continuance of certain import surcharges in excess of bound duties.

Reports required under existing waivers were submitted during the year by Australia concerning that country's treatment of products of Papua New Guinea and by the United States concerning elimination of duties on imports of automotive products from Canada and concerning restrictions under section 22 of the Agricultural Adjustment Act. The ninth U.S. report on automotive products from Canada, which covered the year 1974, was merely noted by the GATT council.

As in the past, the report submitted by the United States on its agricultural restrictions prompted concerned discussion both in the council and during the November session of contracting parties, although as the U.S. representative pointed out, only three commodities (or commodity groupings) remained under U.S. restriction. The United States had taken the position that restrictions on agricultural products should be liberalized through the MTN and that the problems of international marketing in dairy products were well beyond the scope of the waiver and warranted a thorough discussion in the MTN. Countervailing duties imposed on imports of subsidized agricultural products, however, should be treated as a separate issue.

#### Customs Unions and Other Integration Agreements

Arrangements for integrating trade among groups of nations usually contravene the GATT MFN principle. They are nevertheless permissible under provisions of article XXIV and have become an increasingly important feature of the international economy, although historically the framers of GATT set their sights for achieving long-term gains from the eventual elimination of preferential arrangements. The United States continued to maintain that integration arrangements should not be allowed to proliferate. In the United Nations, on the other hand, preferential trading arrangements among developing countries were being encouraged as an instrument of economic development.

Since the time when the association agreements between the EC members and their former territories were drafted, new economic and political policies have led to new moves toward integration among developing countries and different relationships with "first world" countries. The EC began to look to an overall relationship with the countries bordering the Mediterranean, the reverse preferences of the association agreements started to change, and as leadership in developing countries strengthened, one-way preferential trade for developing countries became general. In addition to the regional free trading arrangements--such as the Latin American Free Trade Association, the Andean Group, the Central American Common Market, and the several groupings of African countries--other arrangements whose developments were followed in the GATT included those

between Finland and four nonmarket economies of Europe; between Finland and EFTA countries; between New Zealand and Australia; among Egypt, India, and Yugoslavia; and among Iran, Pakistan, and Turkey. Among the recently launched integration efforts was the Association of Southeast Asian Nations (ASEAN). 1/

The GATT provides that proposals for integration be examined so as to anticipate their trade effects and to determine whether or not trade among the constituents could be facilitated without barriers being raised between them and other contracting parties. The Agreement also provides for periodic reporting on all existing or interim agreements for integration. In 1976, a number of arrangements were the subject of completed reports or study by special working parties; many of these arrangements related to expanding EC-developing country relations. Working parties were set up to examine and report on the trade provisions of the following agreements:

Bangkok Agreement signed by--  
 Bangladesh  
 India  
 Republic of Korea  
 People's Republic of Laos  
 Philippines  
 Sri Lanka  
 Thailand

This agreement, which had been ratified by four of the seven signatories, entered into force in June 1976. It was reported as being the first preferential arrangement among Asian developing countries and provided for tariff and non-tariff concessions, industrial cooperation, and special treatment for the less advanced developing countries.

EC-Portugal Interim Agreement

This agreement, signed in 1976, was part of a free-trade agreement concluded in 1972.

EC agreements with--  
 Algeria  
 Morocco  
 Tunisia

Three separate agreements for economic and social cooperation were reported to the GATT in June 1976. The agreements between the EC and the Maghreb countries contained provisions for financial aid and free access for industrial goods and privileged access for important agricultural products in EC markets.

Reports were reviewed by the GATT council on the following:

EC-Greece 2/  
 EC-Malta )

Protocols to association agreements concluded to cover trade with Denmark, Ireland, and the United Kingdom, countries that joined the EC in 1973.

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1/ ASEAN, the association of Singapore, Malaysia, Philippines, Thailand, and Indonesia, is discussed below in chapter 3.

2/ Negotiations for Greece's full membership in the EC appeared imminent.

## EC-Israel

This new agreement between the EC and Israel, signed in 1975, provided for reciprocal trade concessions and was considered to be a first step in the EC's coordinated approach to relations with countries bordering the Mediterranean.

EC and some 50 developing states of Africa, the Caribbean and Pacific areas (ACP). The 46 original ACP signers, 21 of which had formerly been associated with the EC, were:

## Africa--

Botswana, Burundi, Cameroon, Central African Republic, Chad, Congo-Brazzaville, Dahomey, Equatorial Guinea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Kenya, Lesotho, Liberia, Malagasy Republic, Malawi, Mali, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Upper Volta, Zaire, and Zambia.

## Caribbean area--

Bahamas, Barbados, Grenada, Guyana, Jamaica, and Trinidad and Tobago.

## Pacific region--

Fiji, Tonga, and Western Samoa.

In 1976, Comoro Island, Seychelles, and Surinam signed.

This landmark agreement in "North-South" relations was concluded in 1975 following expiration of the Yaoundé Convention and Arusha Agreement. Known as the Lomé Convention, it provided for: Preferential trade arrangements for ACP exports to the EC markets; stabilization of ACP earnings from exports of 12 basic products (STABEX); industrial, financial, and technical cooperation intended to contribute to the economic and social development of the ACP states; and for establishing institutions to carry out commitments, including settling of disputes. It also provided for EC purchases of ACP sugar at guaranteed minimum prices and EC purchases of beef and veal.

For the most part, the GATT council merely adopted the reports of the working parties, since members of the working parties themselves were not able to agree on whether or not these trade commitments were compatible with the provisions and objectives of the Agreement. There was, however, general concern on the part of non-participants in these arrangements.

## Reform of the GATT

The need for deliberate change in the General Agreement was acknowledged in 1976 through the Trade Negotiations Committee's decision to set up a special MTN group to deal with reform. How far-reaching such reform was intended to be was not clear, however. The GATT needed updating if the contracting parties were to keep the rules, and one of the aims of the Tokyo Declaration was "improvement of the international framework for the conduct of world trade." The basic principle of MFN treatment seemed not to be serving the interests of many nations, as indicated by the vast EC customs union and its network of preferential arrangements; new free trade areas; the so-called voluntary quantitative restrictions that were not technically in violation of GATT, including the textile restraints; and the prospect of more international commodity agreements.

The decision to set up separate machinery for reform was not easily made. A formal proposal was not forthcoming until December 1975. It was opposed on the ground that introducing a new area would dissipate the overall effort of the MTN, that revision should take the form of finding solutions to practical problems without applying abstract principles, and that the work of existing working parties and committees, particularly the Committee on Balance of Payments Restrictions, would be duplicated.

In 1973 the Executive Branch, at the request of the Senate Finance Committee's Subcommittee on International Trade, completed studies of thirteen aspects of the GATT and submitted a resolution to the Senate in 1975 for initiating negotiations, within the framework of the MTN or within other negotiations, in order to develop "an appropriate code of conduct and specific trading obligations among governments." One of the stated purposes of the Trade Act was to establish through trade agreements affording mutual benefits, "fairness and equity in international trading relations, including reform of the General Agreement on Tariffs and Trade." Moreover, the U.S. negotiating mandate provided for revising the decisionmaking procedures in the Agreement "to more nearly reflect the balance of economic interests." However, the United States was not advocating complete overhaul of the GATT. The developed countries as a whole were far from agreement about an approach to the issue.

During 1976, the GATT Consultative Group of Eighteen (G-18) discussed reform at length, in light of its responsibility for the role of GATT in the international trading system and its relationship to other international groups, including work being done on restructuring the economic and social sectors of the U.N. system, the IMF, and the CIEC. The group

drew attention to the special importance of GATT as a contractual instrument, both in relations between contracting parties and between the GATT and other international institutions.

Among the problems G-18 identified as not being adequately provided for in the GATT in its present form were:

1. Inflation;
2. Commodities and the structure of international prices;
3. Relations between developed and developing countries;
4. Dispute management;
5. Trade measures for balance-of-payment purposes:  
reform of inter alia articles XII and XVIII
  - a. Consultation procedures,
  - b. Working relationship between the GATT and the IMF,
  - c. Asymmetry in existing provisions, e.g., no requirement that countries with balance-of-payments surpluses eliminate or relax restrictions inconsistent with GATT.

In November 1976, the chairman of the TNC proposed the following five points as a program of work for the new MTN group on reform:

1. The legal framework for differential and more favorable treatment for developing countries in relation to GATT provisions, in particular the MFN clause;
2. Safeguard action for balance-of-payments and economic development purposes;
3. Consultations, dispute settlement, and surveillance procedures under articles XXII and XXIII;
4. For the purpose of future trade negotiations: applicability of the principle of reciprocity in trade relations between developed and developing countries and fuller participation by the developing countries in an improved framework of rights and obligations under the GATT that takes into account their development needs;
5. An examination of existing GATT rules concerning the application of restrictions at the border that affect exports, taking into account the development needs of developing countries.

The decision to set up the MTN Framework Group had arisen out of a proposal made by Brazil that was aimed at improving the prospects for developing countries. Mr. Maciel of Brazil, the newly elected Chairman of the Contracting Parties, closed the 32d session on November 23, 1976, with the hope that he would be the last Chairman of the Contracting Parties to the GATT in its present form.

## CHAPTER 3

## DEVELOPMENTS IN MAJOR TRADING AREAS

The European Community 1/

Progress toward a Federal Europe almost came to a halt in 1976, in sharp contrast to the European Community's high hopes of the 1950's and the establishment of the common market in the 1960's. The major achievement of the seventies was the Community's enlargement in 1973. By mid-1974 political and economic difficulties--most notably the energy crisis--made it progressively harder to implement the integration policy that had been formulated in the early seventies.

Through the end of 1976 the customs union remained the single undisputed major achievement of the Community. By its very existence the customs union may have prevented a spread of protectionism among European countries in the 1974-75 recession and its aftermath. Yet, the lack in recent years of meaningful political and economic developments toward integration dimmed the hopes for a strong Community in the foreseeable future. Three years after the energy crisis the Community was not much nearer to a common energy policy. The long-debated reform of the common agricultural policy (CAP) had not taken place, although the mountains of food in stock continued to grow. The economic and monetary union, originally envisaged for 1980, became a remote objective. No meaningful progress has been made in the monetary area for years; the abandonment by France of the European monetary cooperation (so-called "snake") in March 1976 2/ can be viewed as a step backward. Only four of nine EC members were left in the system 3/ which is considered the nucleus of the European economic and monetary unification process. The vast differences in the economic performance and monetary stability of EC countries constituted the principal obstacle to progress in this area. Mounting difficulties, caused by the recession, compelled EC governments to become more inward looking than they had been since World War II. On most major issues the European point of view was sacrificed to short-range national interests.

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1/ The European Community consists of three entities: the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community. Frequent reference is made in the context to two EC institutions--the Commission and the Council. The Commission is the administrative branch of the EC and the initiator of the general policies of the communities. The Council reviews the Commission's decisions and has the power to reject or approve policies suggested by the Commission.

2/ The first time France left the "snake" was in 1974.

3/ The remaining four EC members were: West Germany, Denmark, Belgium, and the Netherlands. Two non-EC countries, Sweden and Norway, are also participating.

A comprehensive study commissioned by the European Council on the state of the Community acknowledged in early 1976 the crisis of European integration. As the year progressed, popular disenchantment with the Community became more and more obvious, and it is widely believed now that the step-by-step approach to European integration may have reached its limits. The view is frequently expressed that the impasse can be broken only by the willingness of all EC countries to subordinate certain national interests to the goal of economic convergence between members, and ultimately of European integration.

External relations have been a more successful area of EC functioning in recent years. In 1976 the Community reached agreements of economic affiliation with a number of countries. The Lomé Convention, concluded in 1975 with 49 African, Caribbean, and Pacific (ACP) countries, entered into force during the year. In Geneva, at the GATT, the Community continued to present a unified position on issues of trade liberalization. The Community began official negotiations in 1976 on the accession of Greece as the tenth EC member. At the international conference on the law of the sea, held in New York during the year, the Nine spoke with one voice. In the fall, the Community declared a 200-mile wide zone on its Atlantic and the North Sea shores as a common EC fisheries zone.

#### Report on the European Union

In 1974 the European Council commissioned then Belgian finance minister (later prime minister) Leo Tindemans to undertake a comprehensive survey of the state of the Community. He said in his report, submitted early in 1976, that European integration was passing through a crisis. The report emphasized that drastic measures were needed to complete the structure of the Community, even to save what had already been achieved. Tindemans claimed that economic difficulties experienced in member countries weakened the will of the governments involved to seek European supra-national solutions. In his words:

... we plunged into a crisis and are experiencing rates of inflation and unemployment the likes of which have never been seen by the present generation. It is therefore hardly surprising if the Community is crumbling beneath the resurgence, which is felt everywhere, of purely national preoccupations. Especially as the Community, in its present state, is unbalanced: in some fields it has been given far-reaching powers, in others nothing, or practically nothing, has been done, very often because our States were too weak to undertake anything new: the fragile nature of Europe in some ways also reflects the powerlessness of our States.

An unfinished structure does not weather well: it must be completed, otherwise it collapses. Today Community attainments are being challenged. 1/

Tindemans emphasized the need for a greater political will to develop joint Community platforms in specific areas and saw the solution in stronger Community institutions. To set the deadlocked European economic and monetary cooperation in motion again, Tindemans recommended a two-tier Community, which would allow a faster pace of integration for stronger members and would permit the weaker ones to catch up over time. Tindemans emphasized that failure to proceed with plans towards an economic and monetary union was tantamount to the abandonment of European integration.

Leading political figures in different EC countries commented, mostly critically, on Tindemans' proposals. The French appeared reluctant to transfer additional decision-making power to European institutions, especially in the foreign policy area. West Germany seemed unwilling to proceed with economic and monetary integration as long as the weak EC members did not have their own economies under control. The idea of a two-tier integration apparently did not appeal to anyone; some pointed out that the proposed system would cause a dangerous division between members.

Official reaction of Community authorities to the report was guarded. The EC Council agreed with the broad principles expressed, such as the need for greater solidarity between the Nine and for stronger EC institutions, but did not adopt Tindemans' major specific proposals.

#### Completion of the single market

EC members made their scheduled moves during the year in completing the enlarged industrial customs union. On January 1, 1976, the United Kingdom, Denmark, and Ireland made a third step in aligning their national tariffs on industrial imports from third countries with the Common External Tariff (CXT) of the original six members. With this act 80 percent of the alignment had been implemented (two previous moves were made in 1974 and 1975). On the same date the still remaining intra-Community customs duties were further reduced: the original six EC members cut their CXT and the three new members, their national tariffs in mutual industrial trade. With this fourth 20-percent cut (there were three previous ones in prior years) the cumulative reduction of the parties' pre-merger duties vis-à-vis each other amounted to 80 percent. The abolition of virtually all remaining duties in mutual trade, as well as the full alignment of the nine members' external tariffs, was scheduled for July 1, 1977.

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1/ Leo Tindemans, "European Union", Bulletin of the European Communities, Supplement 1, 1976, p. 11.

Progress in 1976 in eliminating nontariff barriers to trade included a package of 18 directives for harmonizing industrial standards between EC members, involving items such as automobile lights and signals, tractor seats, measuring instruments, and industrial boilers. The new directives are expected to simplify both intra-EC trade and Community trade with third countries.

There was also some progress during the year toward more uniform indirect taxation throughout the Community. The different tax burdens falling on a particular product in different EC countries impeded the product's free movement through intra-EC frontiers. EC members reached agreement in December 1976 to harmonize their basis of assessment for the value-added tax (VAT). In the late 1960's, when the EC economic and monetary union seemed to be within easy reach, the Community planned to abolish all intra-Community tax frontiers. The first step in this direction was the adoption of an identical indirect tax system, 1/ the VAT throughout the Community. The VAT had the effect of a retail tax, but was collected on the value added to a product at each stage of production or processing before reaching the consumer. Further progress required that the products on which the VAT was assessed should be the same in each EC country and that the rates should be identical. At their December 1976 meeting EC members agreed on the details of a uniform base of assessment in terms of the products to be taxed, but did not discuss the harmonization of their tax rates.

From January 1, 1978, one percent of the VAT revenues will go to the Community as a "direct source" of financing the EC budget, replacing the current "indirect financing" through contributions from the national treasuries of EC members. However, other current direct sources--customs duties and other levies on imports--will remain the major source of Community financing.

#### Common Agricultural Policy

In 1976 the Common Agricultural Policy (CAP) continued to be the most controversial area of Community policy. The 10-year old system shields European (mostly French) farmers from the hazards of world trade--protects them with high trade barriers from competing imports and subsidizes their exports. By setting food prices above market levels the CAP keeps a large number of marginal small farmers in operation and bestows significant benefits on large grain farmers. The system is burdensome in terms of consumer and budgetary costs and complicated to administer.

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1/ In Europe taxes on goods and services (indirect taxes) are generally higher than in the United States in terms of their share of the GNP; direct taxes (on income and profits) are roughly comparable.

Despite shortcomings, the CAP is widely defended on various political and social grounds. It probably has been the most concrete achievement towards European unity and has appeased the very vocal and powerful European farming interests. It prevented a rapid exodus of farmers from the countryside to the cities which may have been socially and demographically unsettling. Although the share of persons employed on farms has steadily declined in the Community, it is still more than 10 percent, compared with 4 percent in the United States.

In 1976 the worst drought in a century had a serious effect on Community farming. In September the EC Commission announced that for the 1976/77 winter, critical shortages could be expected in the supply of animal feed and certain vegetables, especially potatoes. Bad harvests increased the Community's import requirements of corn, barley, fodder, soybeans and cake, and necessitated the importation of items such as potatoes, in which the Community previously had been self-sufficient. The European potato shortage created an export boom for the United States, increasing significantly the traditionally low share of exports in total U.S. potato sales. The EC suspended duties applicable to potato imports from third countries until the end of 1976 (potatoes are not subject to the CAP). The Community also lifted import duties for a number of weeks on certain vegetables, including peas, carrots, and cabbage, to ensure cheaper supplies.

The drought also reduced the volume of crops available for export, such as wheat and sugar, and sharply cut the profitability of beef and veal producers. Fodder shortage and rising feed prices caused excessive slaughtering of animals in EC countries. The skrinkage of the cattle herd, in turn, reduced future production capacity of meat and dairy items.

Despite the exceptional drought, milk deliveries and stocks of dairy products increased again in 1976. The Community tried again to reduce its stock of skimmed milk powder, more than a million tons. It instituted a program in March to partially replace the use of imported soybean meal in animal feed with skimmed milk powder. For every ton of soybean meal purchased, EC-based feed compounders were requested to buy 50 kilos of milk powder from Community stock. Under the plan, feed compounders obtained the milk powder at significantly lower prices than the Community paid to dairy farmers, although the prices of imported soybeans, which they preferred, were lower still. The United States objected to this plan. Furthermore, the program touched off vociferous opposition from feed industry and farm groups within the Community and triggered a motion of censure against the EC Commission at the European Parliament in Strasbourg. The milk powder disposal plan was discontinued in the fall.

The EC Commission also developed a comprehensive plan during the year to restructure the dairy market in order to balance supply and demand by 1980. It included measures such as premiums to farmers for converting dairy herds to beef herds, eradication of certain diseases by slaughter, incentives for the use of dairy fats in certain products, and exploring new markets for dairy products. Most importantly, the Commission proposed the abolition of most subsidies for dairying, except in hill-farming and disadvantaged areas. The measures were intended to take effect in 1977, subject to approval by the Council.

In March the EC Council agreed on an average 7.7 percent increase in the common agricultural prices for 1976/77. In recent years a number of other decisions had to be taken at the same time in order to make the annual determination of farm prices meaningful. Because of the rapidly changing EC parities in an era of floating currencies, the "common prices" established in EC units of account translated into a wide variety of farm prices in terms of the national EC currencies. The Community, desirous of preserving the single EC agricultural market, designed a system of compensatory taxes and payments to counterbalance the difference in prices between EC members. These were applied to the "green rates" of each EC currency used in farm transactions. <sup>1/</sup> In periods of rapid parity changes the "green rates" themselves needed adjustments from time to time. The amount of compensatory payments, or taxes, also had to be adjusted in accordance with the changing "green rates." These adjustments frequently triggered disagreements among EC members, because the countries who were net importers of farm products benefited from keeping their "green rates" overvalued, whereas the net exporters benefited from keeping their rates undervalued. Failure to make the necessary adjustments would result in increasing the compensatory amounts paid from the EC farm budget.

In 1976 monetary events continued to have particularly marked effects on the functioning of the CAP. The rapid depreciation of the Italian, French, British, and Irish currencies required adjustments in the "green rates" of these countries and in the compensatory payments. The United Kingdom refused to devalue the "green pound" in the fall, prolonging thereby the de facto subsidization of British food imports by the Community. This required the EC to provide additional monetary compensation to other countries exporting to the U.K. markets. In October, the EC Commission proposed a mechanism for an automatic adjustment of the "green rates" and compensatory payments. The Council had taken no decision on this matter by the end of the year.

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<sup>1/</sup> The "green rate" is the average exchange rate used in various farm transactions for a given currency.

### Common Fishing Policy

The Community made some progress during 1976 in establishing a joint EC fishing policy. In November the Council of Ministers declared the 200-mile wide North Sea and Atlantic coast lines of EC members as an exclusive EC fishing zone, effective January 1, 1977. This resolution complemented the prevailing system of national coastal zones with sovereign rights, scheduled to be in effect through December 31, 1982. Under that system EC nations generally had exclusive fishing rights within 6 miles of their coastal lines. The new resolution means that waters of the Atlantic and North Sea beyond these immediate coastal zones but within a 200-mile zone will be open to all EC members but to no third countries unless specifically provided for.

The Council also agreed that, beginning in 1977, member governments will transfer to the EC Commission their authority to negotiate new fishing agreements with non-EC States. Third countries will deal directly with the EC Commission concerning their rights and limits in Community waters, and EC rights in their own waters. This new Commission mandate implies that the U.S.S.R. would also have to negotiate directly with the Community on reciprocal fishing rights, thus creating a diplomatic dilemma for the Soviet Union which had in the past consistently refused to recognize the Community. The Soviet Union has major fishing interests in North Atlantic EC waters, whereas the Community holds only marginal interests in Soviet waters. The two other major non-EC fishing countries in Europe are Iceland and Norway; both have reciprocal interests with the Community in each other's waters. The new mandate also involves direct negotiations on fishing rights between the Community and the United States. The Community has substantial fishing interests off the U.S. Atlantic coast, but the United States does no fishing of note in EC waters.

The Community still has a long way to go in establishing a comprehensive EC fishing policy. The new Council resolution does not cover the Baltic and Mediterranean coastal areas of EC members. More importantly, it does not resolve conflicts of intra-EC fishing in the newly established EC zone of the North Sea and the Atlantic waters, because the 200-mile wide zone does not provide enough fish to allow unlimited access to all EC members. Therefore, intra-member negotiations are still needed to allocate the principal varieties of fish among EC members by establishing annual catch quotas for each. Special national or regional interests heavily dependent on fishing for their livelihood, such as those of Ireland and the north of the United Kingdom, would have to be satisfied. The Council resolution of November included a pledge to Ireland that its annual catch would be allowed to double by 1979. Ireland had requested a 50-mile exclusive coastal zone within the 200-mile Community zone; without special concessions, Ireland would have blocked the passage of the Council's resolution.

### Economic conditions and policies

In the Community, as in other industrial areas of the world, the economic upswing that began in 1975 slowed down in the second half of 1976. For the year as a whole, the Community's real gross domestic product (GDP) rose by about 4.3 percent <sup>1/</sup> compared with a decline of 2.3 percent in 1975. Recovery in the EC lagged somewhat behind the rest of the industrial world and was not sufficient to absorb the unemployed. In fact, the yearly rate of unemployment increased from 4 percent in 1975 to 4.6 percent in 1976 as the labor force expanded rapidly during the year. Toward the end of December there were about five and one-half million unemployed in EC countries. Inflation also continued to be a serious problem. Consumer prices rose by about 10 percent in 1976, compared with 12.6 percent in 1975.

Economic recovery was hampered by weakness in private consumption and in private investment activity. There were also external constraints such as a limited demand for the export products of some EC countries, rising prices of imports (especially for oil), and a need for additional farm imports caused by the severe drought of 1976. The Community's balance on current account showed a deficit of nearly \$10 billion, compared with a surplus of \$600 million in the recession year of 1975. The deficit was almost entirely accounted for by a worsening position of those EC members which were already in deficit.

A wide disparity in the economic performance of EC members persisted during the year, as shown in table 9. West Germany continued to fare well in 1976 on most counts: its real GDP increased by 5.4 percent, its rate of inflation (4.5 percent) was lowest among EC members, its unemployment rate (4.1 percent) was among the lowest, its balance of trade was in substantial surplus. On the other hand, the United Kingdom performed poorly in virtually all economic aspects: economic growth was minimal and unemployment reached record levels by U.K. standards; the pound slid from about \$2 in March to about \$1.54 in December; and huge public debt made it necessary for the government to accept the stringent conditions of a \$3.9 billion emergency loan, approved by the International Monetary Fund (IMF).

In Italy and France economic growth was above the Community average in 1976, but problems persisted in Italy, and to a lesser extent in France, with inflation, currency depreciation, and a deteriorating payments position. In early 1976 the deterioration of the Italian lira threatened economic disruption; the government responded with a restrictive monetary and fiscal policy and certain protective trade measures, including an import deposit scheme <sup>2/</sup> and a special surcharge on purchases of foreign exchange. Some of these measures had to be cleared with the Community,

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<sup>1/</sup> Data for 1976 are the estimates of the EC Commission. (table 9)

<sup>2/</sup> In most transactions which required the purchase of foreign exchange, a deposit equal to 50 percent of the amount involved was required.

Table 9.--Divergent economic performance of EC countries; various indicators, 1975 and 1976 <sup>1/</sup>

Country	Real gross domestic product		Consumer prices		Effective exchange rates <sup>2/</sup>		Rate of unemployment <sup>3/</sup>		Balance of current account		Balance of trade	
	Change over preceding year											
	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	(Billions of U.S. dollars)		(Billions of U.S. dollars)		
Denmark-----	-1.0	4.8	8.8	8.5	3.4	2.2	5.0	5.0	-0.5	-1.8	-1.6	-3.3
Federal Republic of Germany-----	-3.3	5.4	6.1	4.5	1.9	5.8	4.1	4.1	3.6	3.0	15.8	14.3
France-----	-1.3	5.0	11.4	9.3	9.9	-3.6	4.1	4.6	-0.1	-5.4	-2.0	-8.6
Ireland-----	-0.5	3.5	21.3	18.0	-5.5	-10.2	8.0	9.5	0	-0.4	-0.6	-0.6
Italy-----	-3.7	5.8	17.4	17.0	-4.1	-17.0	3.3	3.7	-0.6	-3.4	-3.6	-6.5
Netherlands-----	-0.9	3.6	10.5	9.4	2.6	2.8	4.3	4.6	1.6	2.4	-0.7	-1.2
Belgium-----	-2.0	3.5	12.1	8.3 :)	1.5 :)	2.1	4.5	6.1	0.3 :)	-0.3 :)	-2.0 :)	-2.5
Luxembourg-----	-7.7	2.9	10.7	9.8 :)	1.5 :)	2.1	0.2	0.4	0.3 :)	-0.3 :)	-2.0 :)	-2.5
United Kingdom-----	-1.3	0.9	23.1	15.5	-8.1	-14.7	3.9	5.2	-3.8	-3.5	-9.5	-9.7
Community-----	-2.3	4.3	12.6	10.0	-	-	4.0	4.6	0.6	-9.4	-4.1	-18.4

<sup>1/</sup> Nineteen seventy-six data are estimates, except for balance of trade data.

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

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

Source: Commission of the European Communities, Summary Account and Degree of Convergence of the Economic Policies Pursued in the Member States in 1976, COM (77) 63, Tables 1 and 5; Organization for Economic Cooperation and Development, Statistics of Foreign Trade, Series A, April 1977.

as intra-EC trade was also affected. The Community (and, on a bilateral basis, West Germany) helped to finance Italy's external deficit. In France, inflationary pressures caused the French franc to leave the "snake" (the European monetary cooperation system) in March and to depreciate considerably thereafter. France had the largest trade deficit among EC members during the year, but unlike the situation in the United Kingdom and Italy, the French Government's public debt remained manageable and France could continue to draw upon the private international money markets.

#### Economic and Monetary Union

The divergent economic performance of EC members during the year frustrated any further progress toward the Economic and Monetary Union (EMU) of the Community. The wide variation in the rates of inflation among EC countries ruled out the consolidation of the European monetary cooperation system (the so-called "snake"), and further weakened it as a Community institution. In March France withdrew for the second time from the "snake," as it became too burdensome for the Central Bank of France to maintain its exchange rate within the prescribed 2.25 percent margin in terms of other participating currencies. After leaving the "snake" in January 1974, France had reentered in July 1975, ostensibly as a gesture of European solidarity.

European monetary cooperation is considered the base on which eventually a monetary and economic union can be built. <sup>1/</sup> However, with four of the nine EC members absent from the "snake" (collectively accounting for over half of the community's aggregate GNP) it was considered unlikely that EMU could be accomplished by 1980, as originally foreseen. In 1976 even the surviving part of the "snake" continued to be difficult to sustain and required frequent intervention by central banks. In October the "snake" currencies were realigned through the appreciation of the German mark by 2 to 6 percent in terms of other participating currencies.

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<sup>1/</sup> The EC monetary exchange system was established in April 1972 with the original six Community members participating. Its purpose was to limit the fluctuation of EC currency exchange rates in terms of each other to a margin of 2.25 percent, while stabilizing EC currencies in terms of the dollar and other foreign currencies within a margin of 4.5 percent ("snake in the tunnel"). The 4.5 percent margin ("tunnel") was abandoned during the world currency crisis in March 1973. Since then, the group of participating currencies ("snake") has freely floated against the dollar. With the accession of the three new members to the Community, and the failure of some old and new EC members to stay in the arrangement without interruption, the number of EC participants changed from time to time. Two non-EC countries, Norway and Sweden, joined as associates in 1972. Switzerland applied to join in 1975, but was not accepted.

In July 1976 a new scheme was introduced to keep the "snake," and the hope of the economic and monetary union alive. The Dutch finance minister and EC Council president, Willem Duisenberg, recommended that the Community develop medium-term economic guidelines to accommodate joint policy matters and that each EC member draft its own matching medium-term economic program. Adherence to these programs would guarantee that the exchange rates of "snake" participants would stay within the prescribed margin. For EC members outside the "snake" economic discipline would limit currency fluctuations to specified "target zones," while efforts for economic discipline would make them eligible for Community credit to assist them in rejoining the "snake."

Duisenberg's proposals got a sympathetic hearing in the Council, but were not adopted during the year. The strongest opposition came from West Germany, who apparently was concerned that the cost to the Community of implementing the recommendations would be too high, and would ultimately burden the national budget. West Germany, economically the strongest of the Nine, has already contributed heavily through the years to Community goals such as the support of the CAP and the rescue of the "snake." The government recently became reluctant to commit additional reserves to bail out EC partners which couldn't live up to their "snake" commitment, and objected to any costly scheme to force the EMU. Instead, West Germany insisted that economic integration must be preceded by efforts of the weaker EC members to stabilize their economies.

A medium-term (1976-80) EC economic policy program, developed by the Commission, was discussed by the Council in November. It was geared to the following principal objectives for the Community as a whole: an annual 4.4 to 5 percent rate of growth, gradual restoration of full employment, and a significant reduction in public expenditures. The program included a number of proposals for coordination among members, but none on the institutional or political changes that the EMU would have required. Nevertheless, the Commission emphasized that the EMU must be pursued in addition to the proposed medium-term policy program. The program, as well as Duisenberg's monetary recommendations were scheduled for further consideration by the Council in 1977.

#### Enlargement

With the accession of Denmark, Ireland, and the United Kingdom in 1973, the original Community of the Six was enlarged for the first time. The possibility of a further enlargement has been envisaged for some time, as several countries indicated an interest in membership. 1/

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1/ Under article 237 of the Treaty of Rome, "any European State may apply to become a member."

Greece filed a formal application, but the official negotiations which began in July 1976 produced no substantive results before the end of the year. Greece has been an associate member of the Community since the early sixties. Turkey, another early EC associate, also expressed interest in full membership. Negotiations between the Community and Turkey concerning the update of their association agreement were scheduled for 1976, but were twice postponed and then failed to take place during the year. The apparent cause was Turkey's dissatisfaction with the trade concessions the Community offered on its farm exports, as well as with the opportunities and working conditions of Turkish workers and their families in EC countries. In 1976, Spain reiterated its wish to join the Community, and Portugal announced plans to apply soon.

The Community's position on a second round of enlargement has become more guarded in recent years. The first enlargement seriously increased the chances of disagreement on policy issues and broadened the range of variation in the members' economic performance. It was believed that further enlargement would compound these problems, especially as new candidates were significantly poorer than the existing members. Many feared that the additional burden of poor partners would render progress towards an EC economic and monetary union even more remote. Some expressed worry on specific matters, such as competition from the Mediterranean farm products which constitute the principal export items of the new candidates and the effect of that competition on French and Italian farming interests. According to prevailing views, EC worries notwithstanding, there is a good possibility of the accession of Greece by 1980. The Greek economy has grown fast in the last two decades, and Greece's per capita income is presently about the same as Ireland's, the poorest of the Nine. Portugal, Spain, and Turkey are presently believed to be more remote prospects for accession.

#### Preferential agreements

The preferential trade agreements the Community concluded successively with third countries have created a vast EC trade bloc, covering Western Europe, the Mediterranean, most of Africa, and some of the Caribbean and the Pacific area. Some of these trade agreements included additional provisions of economic affiliation and were labeled "association agreements." <sup>1/</sup> Certain association agreements carried the option of full membership.

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<sup>1/</sup> An association agreement, as provided for in article 238 of the EEC Treaty, creates a relationship exceeding a trade agreement, but falling short of full membership. For practical purposes, no clear definition exists to differentiate between an association agreement and some other agreements. Frequently the wish of the signatories determines how a particular agreement is labeled rather than its content. For example, LDC signatories of the Lomé Convention and Maghreb countries (see later in this section) objected to the use of the term "associate member."

The EC trade bloc developed originally from the historical, economic, and political ties of EC members with various countries, mostly LDC's. However, advanced industrial countries, such as Sweden and Switzerland, are now also part of the bloc as a result of the bilateral industrial free trade agreements the EC concluded with members of the European Free Trade Association (EFTA). The Community's policy of offering preferential deals to any Mediterranean country is also reflected in the composition of the trade bloc.

In April 1976 the Lomé Convention, signed in February 1975 with former Commonwealth and other countries, came into force. The 29 signatories--46 original and 3 subsequent ones who acceded in the summer of 1976--cover almost all of independent black Africa and include selected Caribbean and Pacific countries (jointly referred to as ACP countries). The Lomé Convention includes provisions granting free access to EC markets for many ACP industrial goods, financial and technical aid from the Community, and a scheme for stabilizing ACP export earnings (STABEX). 1/ STABEX pays compensation for losses suffered due to a fall in prices below a given level, or for adverse effects of natural disasters on production. Beneficiaries must repay the assistance under specified, more favorable circumstances. STABEX does not attempt to stabilize the prices themselves, as price stabilization schemes do, and hence does not interfere with market forces. In 1975 when STABEX was established, a ceiling of 375 million units of account (EUA's) was set for EC expenditures under this provision. In 1976, STABEX transfers to 17 ACP countries amounted to 72 million EUA's. Other programs under the Lomé provisions also were successfully implemented during the year. However, there were signs that the expectations of ACP countries had not been fully realized, as they objected to the slowness of the Community in approving specific projects or in disbursing funds.

In April 1976 the Community signed trade and commercial cooperation agreements with the Maghreb countries (Algeria, Morocco, and Tunisia), concluding negotiations which began in 1973. 2/ The agreements represented further progress in the implementation of the overall EC Mediterranean policy. (In 1975, the Community had signed a similar agreement with Israel, another Mediterranean country.) The agreements with the Maghreb countries provide for virtually free access of the

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1/ For a summary of the Lomé provisions see Operation of the Trade Agreements Program, 27th Report, pp. 80-81.

2/ The Community had earlier preferential agreements with Morocco and Tunisia, concluded in 1969. There was no previous EC-Algerian agreement; Algeria maintained prior privileged agreements with France only.

three countries' non-farm products to EC markets. Petroleum products constitute the only major exception; they will be subject to ceilings until the end of 1979. For agricultural products the agreement grants generous, if not free, access to the Community; tariff concessions on them range from 20 to 100 percent. For example, wine and citrus received an 80 percent reduction of existing EC duties, although these, as many other farm exports of the Maghreb countries, compete with produce from the southern regions of EC members. The agreement includes provisions for EC financing of investment and training programs in the Maghreb countries and improvements in working conditions of the Maghreb migrant workers in the Community. The trade part of the agreements became operative in July, but the cooperation part awaits the completion of ratification procedures. The agreements are of unlimited duration, subject to periodic reviews.

The Community held negotiations in 1976 for preferential agreements with still other Mediterranean countries: Egypt, Syria, and Jordan. <sup>1/</sup> The treaties with these countries have provisions similar to those signed with the Maghreb countries, such as free access of industrial exports, concessional access for agricultural exports to the EC market, and aid and technical assistance.

Portugal, a European and Mediterranean country, was one of the non-acceding EFTA members which concluded a free trade agreement with the Community in 1972. In 1976 the EC ordered the European Investment Bank to provide loans for Portugal to prop up its economy and also began to discuss additional trade concessions and other forms of assistance. Portugal expressed its intent to apply for Community membership.

#### Relations with other LDC's

During the year the Community conducted or concluded negotiations on trade and economic relations with a number of LDC's in Asia and Latin America outside the preferential EC bloc.

As in prior years, the Community extended in 1976 the preferences offered to LDC's in the framework of the Generalized System of Preferences (GSP), and announced an especially marked increase (43 percent) in the trade value of such preferences for 1977. The Community was first (1971) in the industrial world to grant generalized tariff preferences for industrial and processed farm products of the LDC's.

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<sup>1/</sup> Egypt, Syria, and Jordan, as well as Lebanon (which did not negotiate with the EC in 1976) are jointly referred to as the Mashrek countries; only Egypt was already linked to the Community by a preferential agreement, which had been concluded in 1972.

One long-standing criticism of the scheme is that it includes offers that will never be taken up by the LDC's. For example, according to the EC Commission, the trade value of concessions offered by the Community for 1977 (i.e., the total value of possible preferential imports) amounts to about \$8 billion, yet the Commission estimated that actual imports under GSP may amount to significantly less than half of this value. Despite the system's underutilization, however, actual EC imports under GSP have shown a marked increase in recent years.

#### Trade relations with the United States

The long-range trend in US-Community trade, based on U.S. statistics, is shown in table 10 and Figure 3. In 1976, the traditional trade surplus of the United States vis-à-vis the Community was \$7.6 billion, the largest on record. <sup>1/</sup> U.S. exports to the Nine rose by 11 percent in current dollars, due principally to larger sales of certain farm products, organic chemicals, plastics, and computers. However, there was no meaningful increase in U.S. exports to the United Kingdom and Italy, two EC countries with serious economic problems during the year. The Community's share of overall U.S. exports was 22 percent in 1976, although since 1960 the Community's relative importance as a U.S. export market has declined.

After a sharp decline in 1975, U.S. imports from the Community increased by 7 percent in current value. Imports rose for a wide range of consumer goods, particularly whiskey, gem diamonds, clothing, automotive parts, electric home appliances. In some of these items larger imports reflect higher prices rather than increased volumes of imports. Import values also increased significantly for nuclear fuel materials and nonferrous metals. In contrast, steel imports declined for the second year from their peak in 1974. U.S. imports expanded less from the Community than from Japan or Canada. The EC's share in overall U.S. imports continued to decline from its high point of 25 percent in 1968 to 15 percent in 1976, faster than the EC's share in overall U.S. exports.

Following a sluggish performance in 1975, U.S. farm exports to the Community increased in 1976 by 15 percent in current value. Larger deliveries of corn, soybeans, and animal feed more than offset the reduced exports of wheat and tobacco.

Liberal trade in farm products has generally conflicted with the EC objective to maintain some measure of self-sufficiency in agriculture and to safeguard the interests of a sizable group of small farmers. The Common Agricultural Policy (CAP) frequently has been criticized by U.S. farm interests and has given rise to a number of trade disputes.

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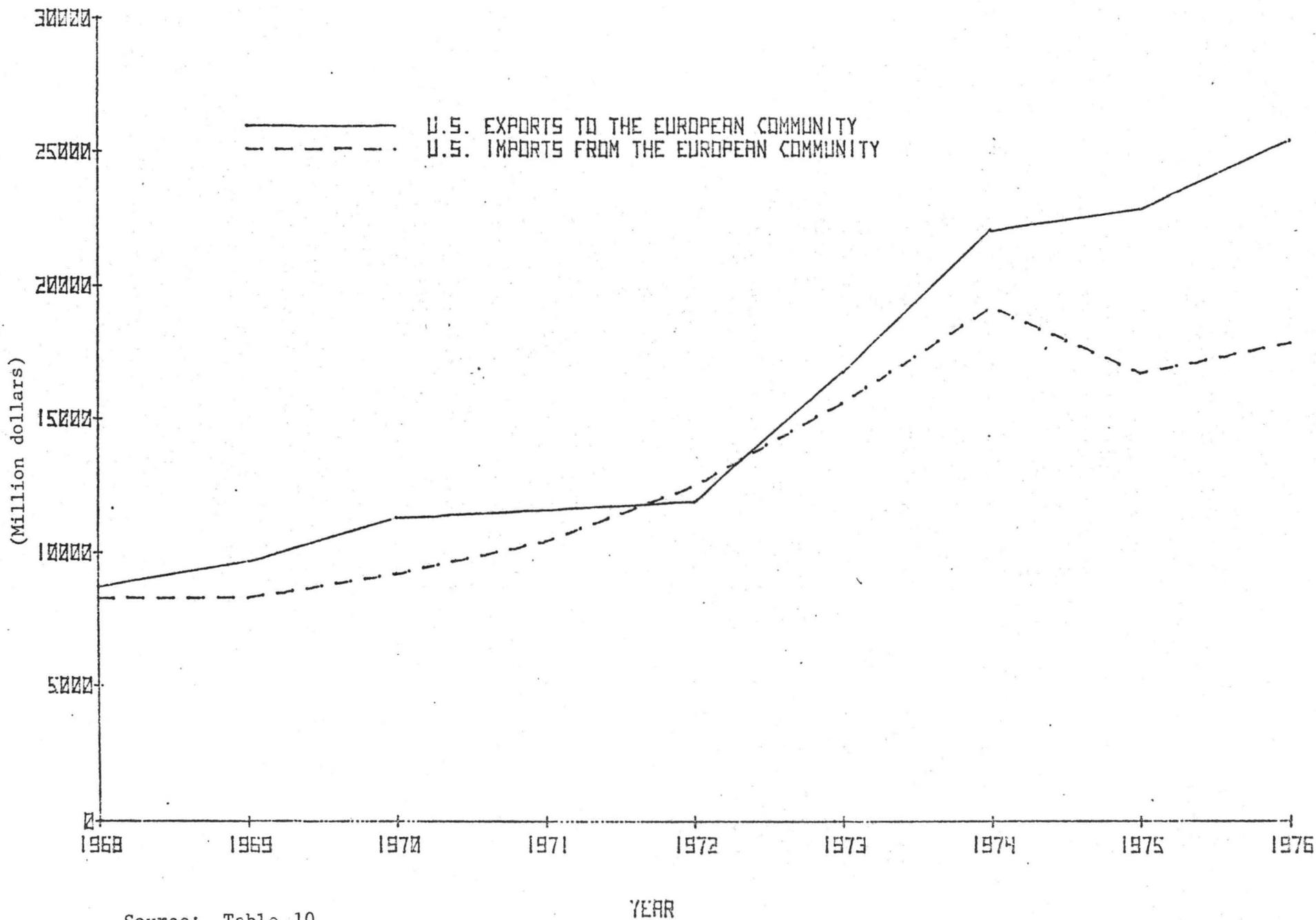
<sup>1/</sup> Nineteen seventy-two was the only year when the United States had a trade deficit with the Community.

Table 10.--U.S. trade with the European Community, 1958-76

Year	: U.S. exports to		: U.S. imports from		: Balance
	: the EC		: the EC		
	: Value	: Share	: Value	: Share	: of
	: U.S.	: in all	: U.S.	: in all	: U.S.-E.C.
	: exports	: U.S.	: imports	: U.S.	: trade
	: Million	: Percent	: Million	: Percent	: Million
	: dollars		: dollars		: dollars
1958-----	: 3,906.8	: 21.8	: 2,631.6	: 20.6	: 1,275.2
1960-----	: 5,649.6	: 27.5	: 3,382.2	: 23.1	: 2,267.4
1965-----	: 7,144.4	: 26.0	: 4,931.7	: 23.1	: 2,212.7
1968-----	: 8,709.6	: 25.1	: 8,271.2	: 24.9	: 438.4
1969-----	: 9,661.8	: 25.4	: 8,299.8	: 23.0	: 1,362.0
1970-----	:11,298.4	: 26.1	: 9,221.6	: 23.1	: 2,076.8
1971-----	:11,141.3	: 25.2	:10,430.9	: 22.9	: 710.4
1972-----	:11,900.4	: 23.9	:12,489.3	: 22.5	: -588.9
1973-----	:16,745.1	: 23.5	:15,604.9	: 22.5	: 1,140.2
1974-----	:22,068.0	: 22.5	:19,034.0	: 19.0	: 3,034.0
1975-----	:22,865.0	: 21.3	:16,611.0	: 17.3	: 6,254.0
1976-----	:25,406.0	: 22.1	:17,848.0	: 14.8	: 7,558.0
	: :	: :	: :	: :	: :

Source: The Department of State, U.S. Trade with the European Community, 1958-1975, Special report, No. 24, March 1976, and U.S. Department of Commerce, Trends in U.S. Foreign Trade for 1976, March 1977.

Figure 3.--U.S. Trade with the European Community, 1968-76



Source: Table 10.

YEAR

between the United States and the Community. U.S. criticism of the CAP has been answered by the Community with similar charges against U.S. farm protectionism; an example from a 1976 statement by the EC Commissioner for Agriculture:

We have the impression that America is purposely treating agricultural trade as a one-way flow. You preach free trade when it comes to other people's internal markets, but you practice rigid protection at home. For us Europeans, America has become the most protected farm market in the world. Each time our traders discover some growth in an American market, measures are taken against them. 1/

During the year the Community's grievances centered on cheese, canned ham, and brandy. The EC considered the U.S. protection of these EC export items excessive, especially in view of the significant U.S. surplus in agricultural trade with the Community (\$5.2 billion in 1976). The EC continued to criticize the U.S. quotas in effect for cheese. It resented the U.S. request that EC subsidies facilitating the exports of canned ham should be phased out. (At the beginning of 1976 the United States determined that subsidies existed, but waived countervailing duties provided the subsidies would be withdrawn.) EC objections were most vocal against the partial restoration of U.S. duties on imported brandy, effective December 1976. These U.S. duties were raised in response to the Community's failure to ease import restrictions on poultry to the EC market. The dispute was a flare-up of the so-called "chicken war" of 1963, involving the same two items. 2/

Soybeans, the principal U.S. farm export to the EC, also encountered problems in 1976. The United States claimed that the Community's milk powder disposal scheme instituted in March 3/ violated the EC commitment under the GATT to provide guaranteed duty-free access to U.S. soy exports. The Community countered that sharp fluctuations in soy prices had an unsettling effect on the incomes of European farmers.

Industrial trade relations between the two areas were subject to minor strains during the year. U.S. business and labor interests raised various complaints involving imports from Europe. Most significant among these was the charge that automobiles originating in the Community

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1/ Petrus J. Lardinois, in an address at Delmonte Lodge, Monterey, California, before the National Soybean Processors Association, Aug. 24, 1976.

2/ U.S. duties imposed on brandy in 1963 were reduced in 1974 in an effort to encourage the EC to remove import restrictions on poultry.

3/ See above, Common Agricultural Policy.

(as well as Canada, Japan, and Sweden) were sold at less-than-fair-value (LTFV) on the U.S. market. In May 1976, the Department of the Treasury discontinued its investigation of this charge on the assurance of exporters to avoid LTFV sales. Another important decision of the year involved nonrubber footwear. U.S. producers charged that greatly increased imports from Europe (and to an even greater extent from Asian exporters) was a substantial cause of serious injury to the domestic industry. The U.S. Government did not take import restrictive action against EC countries in this case, although it agreed with the industry on the seriousness of its injury and on imports being a substantial cause. EC officials praised U.S. Government action in both the automobile and the footwear cases. However, they expressed misgivings when the President proclaimed quotas on imports of certain specialty steels for three years, effective June 14. <sup>1/</sup> In general, however, EC sources agreed that the United States showed restraint during the year in applying remedial measures against industrial imports from Europe.

#### Trade relations with Japan

During the year serious trade problems surfaced between the Community and Japan. The European Council, <sup>2/</sup> meeting in November 1976, expressed concern in a strongly worded statement over Japanese export and import practices. The statement called for remedial action by Community institutions and substantial progress toward alleviating the problems before the European Council's next meeting in 1977.

An EC trade deficit with Japan appeared for the first time in 1967 and widened thereafter with each passing year, amounting to over \$4 billion in 1976. As economic recovery slowed in Europe during the last half of 1976, concern over Community trade with Japan increased. Although Japanese officials promised measures geared to improve the EC trade position, the European Council deemed in November that protective action by the Community itself may be necessary.

Japanese exports to the EC market are concentrated in steel, electronics, automobiles, and ships. At the beginning of 1976 Japan voluntarily agreed to stabilize the sales of the six largest steel producers to the Community. However, such restraint proved insufficient to curb Japanese steel exports, as smaller producers vigorously increased their sales. Penetration of Japanese television and radio

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<sup>1/</sup> The Presidential proclamation imposed quotas on all suppliers. The amount of the quotas applicable to imports from Japan had been negotiated with that country in an "orderly marketing agreement." Similar negotiations took place, but failed, between the United States and the Community.

<sup>2/</sup> Meetings by heads of governments of EC members are generally referred to as sessions of the European Council.

products into the Community presented a lesser problem, as some EC members already had taken measures to stem such imports. France and Italy instituted stringent quotas several years ago, and the UK obtained a voluntary agreement from Japanese firms in November 1976 that they would limit sales to 10 percent of the British color television market in 1977. A major EC grievance involved trade in shipbuilding. Japan's share of the world market grew from 22 percent in 1960 to over 50 percent in 1975, replacing mostly European shipbuilders. In 1976 Japan had the overwhelming majority of the world's shipbuilding orders. The Community pressed for Japanese consent to share the world market on an equal basis and indicated that it would take unilateral action in the absence of an agreement.

The Community also charged Japan with various unfair export and import practices. European manufacturers claimed that Japanese ball bearings and tapered roller bearings were dumped on the European market at margins ranging from 26 to 52 percent. <sup>1/</sup>

In recent years, the Community has tried to mount an export drive to Japan but has found that various nontariff barriers stand in the way. Towards the end of 1976, Japanese authorities agreed to ease some of these measures, especially with respect to automobiles in view of a significant EC deficit in automotive trade. The Japanese agreed that from April 1, 1977, they would test cars in Europe rather than after their entry to Japan, and to test them on the basis of the technical standards that existed in Japan at the time of the imported cars' manufacture so that subsequent changes in standards could not bar the entry of the product. Similarly, with respect to pharmaceutical imports, Japan agreed to accept the results of certain pre-clinical tests conducted in Europe. At the end of the year the Community also requested Japan to liberalize its nontariff measures that impeded the imports of footwear, tobacco, and various processed agricultural products from Europe.

#### EC Foreign Trade

EC trade resumed its growth during the year, following a recession-induced decline in 1975. Economic recovery in 1976 stimulated a faster growth of imports than of exports, and the EC's trade deficit increased from \$2.3 billion in 1975 to \$17.4 billion in 1976. (See table 11).

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<sup>1/</sup> In February 1977 the Community decided to impose a temporary anti-dumping duty of 20 percent on most imports of ball and roller bearings from Japan, in addition to the regular duty of 9 percent.

Table 11.--EC foreign trade: Trade flows and balances with selected trading areas, and intra-EC trade

	Exports		Imports		Balance of trade	
	1976		1976		1975	1976
	<u>Billion</u>	<u>Percent</u>	<u>Billion</u>	<u>Percent</u>	<u>Billion U.S. dollars</u>	
	<u>:U.S. dollars:</u>		<u>:U.S. dollars:</u>			
Aggregate EC trade-----	325.0	100.0	343.4	100.0	-	-
Trade with third						
countries of which--	157.5	48.5	174.9	50.9	-2.3	-17.4
EFTA-----	37.4	11.5	28.4	8.3	8.2	9.0
U.S.-----	18.1	5.6	27.4	8.0	-8.4	-9.2
Canada-----	3.1	1.0	4.9	1.4	-1.2	-1.8
Japan-----	3.0	0.9	7.0	2.0	-3.1	-4.0
OPEC countries <u>1/</u> -----	26.2	8.1	46.8	13.6	-18.3	-20.6
ACP countries <u>1/</u> -----	10.9	3.4	11.4	3.3	-0.4	-0.5
Far East-----	7.9	2.4	10.4	3.0	-0.2	-2.5
Nonmarket economies--	15.5	4.8	13.6	4.0	4.8	1.9
Intra-EC trade-----	167.5	51.5	-	-	-	-

1/ Statistical Office of the European Communities, External Trade of the Community in 1976 (Statistical Telegram); Monthly External Trade Bulletin 3-1977; Commission of the European Communities, External Community Trade in 1975, table 16. Data available in Eur.-s (EC statistical accounting unit) have been converted into U.S. dollars at the following rates: in 1975, 1 Eur=1.32\$, in 1976, 1 Eur=1.269999\$.

Source: Organization for Economic Cooperation and Development, Statistics of Foreign Trade, Series A, Paris, April 1977, unless otherwise specified (see footnote 1.).

All EC countries except West Germany registered trade deficits, and several countries, especially France, experienced sharp declines in their trade balances. A deterioration in the terms of trade (including the rise of oil prices) and the severe European drought in the summer of 1976 were aggravating circumstances.

The Community had trade deficits with all countries and blocs shown in table 11, except with the EFTA countries and nonmarket economies. Although the deficit was largest with the OPEC countries, that deficit did not increase as rapidly as changes in the trade balance with nonmarket economies and Far East countries.

Intra-EC trade constituted nearly 52 percent of aggregate EC exports in 1976. After the establishment of the customs union in 1957, trade among the Six grew rapidly. However, in 1974 and 1975 intra-union trade lost ground and in 1975 it dipped below half of aggregate EC foreign trade. A vigorous growth in intra-EC trade in 1976 pushed its share once more over the half-way mark.

## Canada

### Economic conditions

Real economic growth in Canada amounted to 4.6 percent in 1976, up from 0.2 percent in 1975, but the Canadian economy continued to experience inflation, unemployment, energy problems, and the deterioration of foreign trade performance in manufactures. <sup>1/</sup> Despite a trade surplus of \$600 million in 1976, the current account deficit reached record levels because of growing deficits in service payments caused by high overseas borrowings.

The Government implemented an anti-inflation program at the beginning of the year, consisting of income and profit controls, government spending restraints, and federal jurisdiction over certain economic segments. As a result, the consumer price index registered its lowest increase in three years. Consumer prices rose by only 8 percent in 1976, compared with 11 percent in 1975. The target for 1977 was set at 6 percent.

### The Canadian dollar

To compensate for the heavy outflow of foreign direct investment during 1976 and to help provide the \$16 billion necessary to complete the huge James Bay hydroelectric project in Quebec, Canada delivered

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<sup>1/</sup> In 1972 the Canadian trade deficit was \$4.8 billion in manufactured goods; in 1976 the deficit had more than doubled to \$10.2 billion.

### Foreign Investment

U.S. direct investment in Canada has been substantial for many years, and prompted the Canadian Government to establish a Federal Foreign Review Agency to protect Canadian business from U.S. domination by screening such inflows. During 1976, however, the inflow of U.S. direct investment reversed itself, as shown in the following tabulation:

U.S. net capital movements of  
direct investment in millions of dollars

1971-----	+599
1972-----	+457
1973-----	+423
1974-----	+615
1975-----	+535
1976-----	-576

The level of foreign investment in Canada has decreased because of high Canadian labor costs, the implementation at the beginning of 1976 of Phase II of the Foreign Investment Review Act which stipulates review of all foreign investment proposals to determine whether such proposals meet the test of being of "significant benefit" to Canada, and the negative influence of the Canadian anti-inflation program on corporate profits. By the end of 1976, however, Canada was attempting to reverse this trend and attract new U.S. investment to stimulate the economy.

Proposed changes in the Canadian Bank Act.--In August 1976 the Government announced changes in the Bank Act, to expire June 30, 1977, which will include allowing foreign financial institutions to become chartered banks (i.e. participate in the Canadian nation-wide payments system). The limitations on foreign banks' size have not been formalized. Thirty of the approximately 60 foreign financial institutions operating in Canada are U.S. financial institutions which would become chartered banks under the proposed revisions.

### Trade restrictions

Beef quotas.--In August 1975 both the United States and Canada agreed to remove mutual import quotas on beef, veal, and pork. However, formal import quotas were again proclaimed by the United States on October 9, 1976, because significant quantities of Australian beef exported to Canada were being diverted into the United States. On December 22, a new agreement on voluntary meat import restraints was reached between the United States and the governments of major

meat exporting countries to govern U.S. import trade in meat, mainly beef, during 1977. Canada, which has not been a participant in previous restraint programs, will be covered by the 1977 arrangement but the terms of Canada's participation, which will cover the two way U.S.-Canadian trade in meat, had not been formalized by year end.

During 1976, Canadian shipments of beef to the United States amounted to 83.7 million pounds valued at \$54.2 million, up substantially from 1975 when such shipments totaled 21.2 million pounds valued at \$12.5 million.

U.S.-Canadian bilateral resolution on eggs.--As a result of of extensive bilateral consultations with U.S. representatives seeking removal of the restrictive effect of the quota on U.S. exports of eggs to Canada, the Canadian Government agreed to enlarge its annual U.S. quota to 100,000 cases of 30 dozen. This bilateral resolution ended action on a petition filed under Section 301 of the Trade Act of 1974 alleging unfair trade practices by Canada against U.S. commerce in eggs.

During 1976, the United States shipped approximately 248,988 cases of eggs to Canada. Of this amount 100,000 cases entered under the import quota. To overcome a shortage of Canadian supplies, 148,988 cases of eggs were granted supplementary entry.

Turkey quotas.--As was the case with eggs, Canadian turkey imports in 1976 rose far above the global import quota level of 4.0 million pounds because of supplementary import licensing. Approximately 8.6 million pounds of turkey meat were allotted supplementary import permits in 1976, representing a quantity slightly over 2 times the basic quota. During 1976, U.S. shipments of turkeys to Canada amounted to 12.4 million pounds, up 224 percent from 1975 when such shipments totaled 3.8 million pounds.

Consumer Packaging and Labeling Act.--Phase II of the federal Consumer Packaging and Labeling Act, requiring bilingual and metric labeling of all packaged food products sold in the Canadian market, became effective March 1, 1976. Phase I, applicable to prepackaged non-food products, went into effect September 1, 1975.

#### Canadian safeguard actions

During 1976, the major Canadian action under Article XIX of the GATT affecting U.S. exports was Canada's global quotas on imports of apparel and double-knit fabrics. Together these two actions affected U.S. exports that were valued in 1976 at nearly \$80 million. Canada's global quotas on wearing apparel and double-knit fabrics will be set at 1975 import levels and represent a

cutback from 1976 import levels of 34 and 10 percent, respectively. Assuming trade items of interest to the United States are affected in the same manner as global imports, the expected loss to U.S. export interests would be approximately \$25 million.

The United States is attempting to secure appropriate compensation from Canada; consultations between the two countries began in November 1976. If the Canadians refuse to compensate, the United States may take retaliatory action under the GATT. Other industries such as footwear, electronics, and chemicals are seeking additional protection in the form of restraints, surcharges, and quotas.

Wearing apparel.--Canada announced on May 29, 1976, that clothing imports during the 13 months from November 30, 1976, to December 31, 1977, will be limited by quotas set at 1975 levels of approximately 185 million garments. The quota levels represent about a 34 percent decrease from anticipated 1976 imports of 281 million garments. The action was taken pursuant to GATT Article XIX, providing for the temporary imposition of import restrictions when a domestic industry is suffering injury as a result of increased imports resulting from a GATT concession. The U.S. supplied 11 percent of total imports, valued at \$71 million during 1976.

Double knit fabrics.--Canada announced a six-month quota on double knit fabrics, limiting imports during the 6 months from October 7, 1976, to April 7, 1977, to approximately 4.5 million pounds. This is an interim action taken in accordance with a finding that such imports cause or threaten serious injury to Canadian production of those fabrics. The U.S. supplied about 41 percent of total imports by weight, which amounted to approximately 3.3 million pounds valued at \$9.5 million during 1976.

Textile or leather work gloves.--The Canadian Government notified the GATT of the imposition of a 3-year global quota on imported textile or leather work gloves having an export price of \$7.00 or less per dozen. The action is being taken under GATT Article XIX, pursuant to a determination of import injury by the Canadian Textile and Clothing Board. In the first year, the quota level will be 1,350,000 dozen pairs, with a sub-quota for 100 percent cotton work gloves, based on actual imports during 1975. The U.S. supplied 10 percent of total imports, which were valued at approximately \$1 million during 1976.

Textured polyester filament yarn.--Canada also notified the GATT that a temporary surtax is being applied to textured polyester filament yarn of denier count 199 and less exported to Canada at less than a specified value per pound. The surtax, which will have no long-term

effect on U.S. trade is imposed under GATT Article XIX and follows a Textile and Clothing Board finding of import injury to Canadian production.

Antidumping actions against the United States

During 1976, the Canadian Antidumping Tribunal made 1 likelihood of injury decision, 2 injury decisions, and 5 decisions of no injury on products imported from the United States. Formal findings of dumping were issued in the cases in which material injury was found, and imports of the articles concerned became subject to special dumping duties. The following tabulation summarizes the antidumping investigations made in 1976 concerning products from the United States:

<u>Article</u>	<u>Date of finding</u>	<u>Finding</u>
Yeast, live or active	January 29	No injury
Mirror tile, 12" x 12"	April 15	No injury
Steam cookers	June 21	Likelihood of Injury
Chain saws	August 10	Injury
Cat food	August 24	No injury
Gymnasium equipment	September 14	Injury <u>1/</u>
Aluminum awnings	December 10	No injury
Pipeline steam controls	December 31	No injury

1/ Exceptions: No injury--wood pommels, horse and beam body recoverings, vaulting bucks and trampolines; no injury but likelihood of material injury--ring stands and ring frames.

The Antidumping Tribunal completed the following reviews of dumping findings in 1976:

<u>Article</u>	<u>Date of Original Finding</u>	<u>Date of Request for Review</u>	<u>Finding</u>
Caulking and sealing compounds from the U.S.	August 14, 1973	December 30, 1975	Rescinded December 17, 1976
Needles and syringes from the U.S. and Japan	March 31, 1971	January 9, 1976	Rescinded December 22, 1976

### Trade developments

Total Canadian exports for 1976 increased in value 15 percent over 1975, to a total of \$38,078 million. Most of the gain was attributable to higher prices for natural gas and sharp increases in shipments of automobiles, forestry products, and metal ores. Total Canadian imports increased 8 percent to a total of \$37,433 million. Canadian imports from the United States increased, but imports from several other sources declined with the major factor being a 4 percent drop in imports from the EC.

U.S.-Canadian trade.--During 1976, two-way trade between Canada and the United States totaled more than \$50 billion. The United States accounted for approximately 68 percent of Canadian exports and imports in 1976. (See table 12). U.S. exports to Canada were up 11 percent from 1975, with automotive products, machinery, and equipment the significant factors in the rise. U.S. exports of automotive products increased approximately \$1 billion to \$7,567 million, a 16 percent gain over 1975. U.S. exports of textiles, chemicals, non-ferrous metals, agricultural products, and electronic computers also increased.

U.S. imports from Canada increased 21 percent compared with 1975. Natural gas imports, due to substantial price increases, rose to \$1,599 million, 50 percent over 1975. Automotive imports increased to \$7,846 million, 36 percent over 1975. Imports of forestry products, metal ores, chemicals, and fertilizers increased significantly, whereas imports of industrialized goods remained relatively constant.

Economic cooperation with the EC.--A Framework Agreement for commercial and economic cooperation between Canada and the European Communities was signed on July 12, 1976. The provisions of the agreement will also apply to the ECSC (the European Coal and Steel Community). The new agreement, known as the "contractual link," will focus on developing Canadian and European industries by encouraging technological and scientific exchanges and opening up new sources of supply and markets. Principal objectives are the facilitation of broader intercorporate links between their respective industries (especially in the form of joint ventures), increased two-way investment, technological and scientific exchanges, joint cooperation by their private sectors in third countries, and regular exchanges of information on industrial and agricultural matters. In conformity with the GATT, Canada and Europe will continue to accord each other Most-Favored-Nation-Treatment on an equal and reciprocal basis. The Agreement is concluded for an indefinite period but may be terminated by either Contracting Party after five years, subject to one year's notice.

Table 12.--U.S.-Canadian trade, 1971-76: Comparison of U.S. and Canadian customs clearance figures

(Amounts in millions of U.S. dollars)

Year	Canadian figures			U.S. figures		
	Exports to U.S.	Imports from U.S. (c.i.f.)	Trade balance	Imports from Canada (f.a.s.)	Exports to Canada	Trade balance
1971-----	12,079.2	10,852.4	1,226.6	12,691.5	10,365.4	-2,326.1
1972-----	14,907.4	13,049.0	1,858.4	14,926.7	12,415.4	-2,325.8
1973-----	16,692.8	16,119.3	573.5	17,715.3	15,104.0	-2,611.3
1974-----	21,157.9	21,789.5	631.6	21,928.0	19,936.0	-2,349.6
1975-----	20,584.9	23,088.8	2,503.9	21,747.0	21,758.9	12.0
1976-----	26,235.3	26,890.0	654.7	26,237.6	24,108.9	-2,128.7

Source: Official statistics of the U.S. Department of Commerce and Statistics Canada.

approximately \$10 billion net of bond issues abroad (two times the amount in 1975). The conversion of these overseas borrowings kept upward pressure on the Canadian dollar. For most of the year it was trading at about a 3-cent premium to the U.S. dollar; however, the reversal of direct investment flows in conjunction with a diminished trade surplus and mounting interest payments on foreign debt ultimately caused downward pressure on the Canadian dollar. By the end of 1976, it had dropped in value to C\$ 0.98 = U.S. \$1.00.

#### Energy and mineral policy

Oil.--In 1976, the Canadian trade balance with the United States for crude petroleum registered a \$2.4 billion surplus; however, because of rapidly decreasing oil reserves, Canada announced in 1973 that it would phase out oil exports to the United States, probably by 1980. Accordingly, authorized shipments to the United States declined from 700,000 barrels per day in 1975 to 450,000 barrels per day on July 1, 1976. An export charge equivalent to the difference between the controlled domestic crude price and the cost of off-shore oil continues to be applied to crude oil and other petroleum exports. The controlled price of domestic oil increased by C\$1.05 to C\$9.05 per barrel on July 1, 1976, and will go to C\$9.75 on January 1, 1977. Although the United States imports less than 5 percent of its total fuel supplies from Canada, these supplies are critical to certain regions of the United States.

Gas.--Canada has not reduced the supply of natural gas it exports to the United States, amounting to approximately 1 trillion cubic feet per year, but its gas export prices have been adjusted to correspond with increasing world prices. The export price for Canadian gas increased from approximately 30¢ per million cubic feet in 1974 to nearly \$2.00 at the end of 1976. The States most affected are California, Washington, Oregon, Montana, Wisconsin, Minnesota, New York, and Vermont. Future exports are contingent on renewed exploration.

Potash.--In 1976, a U.S. Grand Jury studying production controls and price fixing in the U.S. potash industry named some prominent Canadians as conspirators because of their involvement in a prorationing potash program. In 1969, the Canadians had been found to be dumping potash into the U.S. market; however, the U.S. revoked its dumping charges on August 6, 1975. As a result of the new conspiracy charges, the Saskatchewan government is now moving to nationalize the Province's potash industry, most of which is owned by U.S. firms. Canada exports approximately two-thirds of its annual potash production to the United States, which accounts for about 70 percent of the U.S. supply.

## Trade liberalization

Tariff reductions.--Tariff reductions on a wide range of consumer products of interest to U.S. exporters were extended on June 30, 1976, for one year. The cuts, averaging five percentage points, apply to the following products: Canned meats, prepared cereal foods, biscuits and pretzels, frozen vegetables, canned clams and crabs, tomato and pineapple juices, soups, film, pharmaceuticals, perfumes and toilet preparations, soaps and washing preparations, tableware and kitchenware, typewriters, vacuum cleaners and carpet sweepers, power lawn mowers, certain hand tools, fishing gear, light fixtures, cameras and projectors, certain sporting goods, phonograph records and tapes, and pens. Tariff cuts on tires and tubes and scissors introduced in February 1973 for one year and subsequently renewed until June 30, 1976, were not extended. Effective from May 26, 1976, to June 30, 1977, the duty on macaroni and vermicelli is reduced from 62 1/2 cents to 30 cents per 100 pounds.

Duty-free rates introduced.--Effective May 26, 1976, fresh pork, edible meat offals of all animals, bacon, hams, shoulders, and other pork, prepared or preserved, other than canned will enter duty-free.

Duty-free treatment extended.--Effective May 26, 1976, duty-free treatment of aircraft and aircraft engines of types and sizes not made in Canada will be extended until June 30, 1977.

MTN.--Canada has made no formal proposals with regard to tariff cuts, but has outlined an illustrative scheme under which duties of 5 percent ad valorem or less would be removed. The U.S. proposal for a tariff-cutting formula does not make full use of its negotiating authority in that it does not provide for the elimination of duty rates presently at 5 percent or below. With respect to Canada this is significant, as over two-thirds of its dutiable industrial exports to the United States enter at rates of 5 percent or below.

## Canadian domestic tax actions applicable to imports

Tax changes in 1976 which may affect the price of U.S. imports include: elimination of the federal sales tax on many items (such as solar furnaces, heating panels, wind-powered generating equipment, heat pumps, etc.) contributing directly to the development of energy sources other than fossil fuels, effective May 26; introduction of a special excise tax of \$100 on air-conditioners for use in passenger vehicles, effective May 26; and significant increases in the special excise tax on high-energy consuming passenger vehicles (i.e. automobiles, station wagons, vans, and small trucks), effective August 1.

In contrast with increased imports in 1976 from the United States, Canadian imports from the EC dropped from \$3,296 million in 1975 to \$3,174 million in 1976. Canadian exports to the EC increased 16 percent over 1975 to \$4,553.

Bilateral agreement with the U.S.S.R.--A new long-term bilateral trade agreement between Canada and the Soviet Union, as well as an extension of their existing Science and Technology Agreement, was signed on July 14, 1976. The agreement calls for the establishment of a Mixed Commission which will incorporate both the Canada/USSR Agreement on the Industrial Application of Science and Technology and the Consultative Trade Committee established under the bilateral trade agreement. The principal objective of the agreement is to provide a framework for negotiation with the Soviet state trading agencies that will enable Canadian goods and services to compete with products from the rest of the world. The new trade agreement will remain in force for 10 years.

Canada's exports to the U.S.S.R. totaled \$535 million during 1976, compared with \$409 million during 1975. In both years wheat accounted for approximately two-thirds of such exports. Canadian imports from the U.S.S. in 1976 were insignificant.

## Japan

### Economic conditions

Japanese gross national product in constant dollars grew 6.3 percent in 1976, a considerable improvement over the 1975 growth rate of 2.4 percent, but well below the average annual growth of the 1960s (10.8 percent). The recovery in 1976 was led by exports, which increased 17 percent over the preceding year, and by a steady rise in private housing investment, up 10.8 percent. The consumer price index, which had risen by 24.3 percent in 1974, was up by 11.9 percent in 1975 and by 9.3 percent in 1976.

Japan's balance of trade swung from a deficit of \$3.0 billion in 1975 to a surplus of \$2.5 billion in 1976. The swing of \$5.5 billion in net trade in 1976 required adjustment for the United States and some countries of Western Europe and led to voluntary agreements to restrict trade in steel and television receivers.

Exchange rate.--Throughout 1976, the yen fluctuated between ¥ 287 = U.S. \$1.00 and ¥ 305 = U.S. \$1.00. The value of the yen gained slightly on the dollar during the year. Its rate against the dollar averaged 302 during the first quarter, 299 during the second quarter, 291 during the third quarter, and 294 in the final quarter.

## Government actions relevant to the United States

Unfair trade practice actions.--The American Iron and Steel Institute filed a petition in 1976 under section 301 of the Trade Act alleging unfair trade practices by the European Coal and Steel Community (ECSC) and the Japanese Ministry of International Trade and Industry (MITI). The Institute alleged that a voluntary restraint arrangement between the ECSC and the MITI, setting limits on Japanese exports of steel to the European Community, had the effect of diverting significant quantities of Japanese steel exports to the United States.

In 1976, Japanese steel exports to the United States totaled 8 million tons, compared with 6.2 million tons in 1975. Officials of the Iron and Steel Institute estimate such imports should have increased only 100,000 tons in 1976 to 6.3 million. They believe much of the difference was deliberately diverted by the Japanese after having agreed with the ECSC to limit steel exports to its nine member nations to 1.3 million tons per year for 1976 and 1977.

Specialty steel.--In June 1976, the President directed the Special Trade Representative to negotiate orderly marketing agreements with Japan on specialty steels. <sup>1/</sup> The action was taken after a finding earlier in the year by the U.S. International Trade Commission that increased imports were a substantial cause of injury to the domestic industry. Japan accounts for more than 50 percent of U.S. imports of specialty steel (Japan supplied 78,500 tons in 1975, and 30,900 tons in the first four months of 1976). The orderly marketing agreement limits U.S. imports of specialty steel from Japan to 66,400 tons for the 12-month period from June 14, 1976, to June 13, 1977, with 3 percent annual increases in 1978 and 1979. The United States unilaterally imposed quotas on other suppliers.

## Agricultural products

During 1976, U.S. exports of agricultural products to Japan were affected not only by quantitative restrictions but also by quarantine measures and restrictions on food additives. Beef and citrus fruits were the products most significantly affected.

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<sup>1/</sup> Although specialty steel accounts for only 2 percent of total steel tonnage imported into the United States, such steels are characterized by exceptional strength, hardness, and resistance to oxidation, heat, and abrasion. Specialty steels are used extensively by industry in the manufacture of automobiles, storage tanks, appliances, tools, and aircraft engines.

Japanese beef quotas.--Beef imports remain under quantitative restrictions in Japan. The October 1975-September 1976 quota was 90,000 metric tons; the October 1976-September 1977 quota is set at 80,000 metric tons. Japan's beef purchases from the United States had resumed in June 1975, after having been suspended in February 1974.

Japan returned to its "one touch" importation system for beef in June 1976. The "one touch" system is used when the Ministry of Agriculture and Forestry (MAF) determines that beef must be imported to bring domestic prices down. Importers receiving quotations from U.S. suppliers must check with the MAF to determine if their prices are below the target price held (secretly) by the MAF. If the prices are below, the imported beef is accepted; if above, it is rejected. The importer must add a surcharge to his price, and the selling price to end users is the CIF price plus the surcharge. The amount of the surcharge varies depending on the target price, with the difference between the target price and the CIF price accruing to the MAF.

U.S. shipments of beef to Japan in 1976 amounted to 11,000 metric tons valued at \$38 million, up substantially from 1975 when such shipments totaled 4,000 metric tons valued at \$16 million. Beef imports were especially strong during 1976 because Japan's livestock industry was still recovering from the very bad year it experienced in 1975.

Citrus.--The United States is unable to provide the proper fungicide certification required by Japan for citrus fruit. Hence, the rate of decay of citrus imported from the United States, especially lemons, is above normal. The approval by the Japanese government of two U.S. fungicides (SOPP and TBZ) is pending. Fresh oranges and orange juice imports remain under quantitative restrictions (the 1976 quota was 22,000 and 1,000 metric tons, respectively). Imports of fresh lemons and grapefruit had been banned in 1974 because of improper fumigation.

Virtually all Japanese citrus imports are supplied by the United States. U.S. shipments of lemons and limes to Japan in 1976 amounted to 93 million metric tons, up 45 percent over 1975 when such shipments totaled 64 million metric tons. The corresponding figures for oranges and grapefruits were 23 million metric tons, up 10 percent over 1975, and 151 million metric tons, up 3 percent over 1975.

U.S. Japanese agreement on agricultural trade.--Nineteen seventy-six marks the first year of operation of the U.S.-Japanese trade agreement on agricultural products. The agreement between the Japanese Minister of Agriculture and the U.S. Secretary of Agriculture was reached in August 1975. On November 7, 1975, the Japanese received a written pledge from the U.S. Secretary of Agriculture to sell to Japan an annual amount of at least 14 million metric tons of corn, wheat, and soybeans over the next three years. Expected substantial increases in revenue

from the export of these three major agricultural products in 1976, however, were offset in large part by lower world prices. <sup>1/</sup> Exports of corn were up only 7 percent over 1975 to \$752 million, soybeans were up 4 percent to \$675 million, and wheat was up 3 percent to \$522 million. During 1976, Japan was the single largest export market for U.S. grains, with more than 70 percent of its total imports sourced in the United States.

U.S.-Japanese fishery agreement.--As a consequence of international approval and enforcement of the new Law of the Sea, Japan is seeking a fishery treaty with the United States. Japanese fish catches in areas now designated as U.S. territorial waters have averaged between 1.2 and 1.6 million metric tons annually in recent years. The Japanese Government contends these hauls constitute important sources of animal protein essential to the diet of the Japanese population. Preparatory negotiations for a U.S.-Japanese fishery agreement began in August 1976.

#### Foreign investment

Investment liberalization.--The Japanese Government's scheduled liberalization of direct investments (permitting--subject to case by case review--100 percent foreign ownership in all but four industries) was completed in March 1976 with the removal of investment controls in three industries (manufacture, sales, and leasing of computers; manufacture of fruit juices or fruit beverages, and manufacture of photographic film). Four industries (agriculture, forestry, and fishing; petroleum and petroleum products; leather products; and mining) have been indefinitely excluded from investment liberalization. Despite the implementation of the government's scheduled investment liberalization policy, investments have lagged because of Japan's economic recession.

Japanese direct investment in the United States.--Japanese interest in investment in the United States is increasing as U.S. production costs increase less rapidly in comparison with other countries. In 1976, Japan's total foreign investment was \$16 billion, an increase of about \$3 billion over 1975. Approximately \$3.2 billion was in the United States (larger than in any other country).

#### Trade developments

Total Japanese exports for 1976 increased 21 percent over 1975 to \$67.4 billion. Much of the increase is attributable to the 44 percent rise in the value of automobile exports. Automobiles nearly

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<sup>1/</sup> World prices for grains decreased 22 percent in 1975 and then increased less rapidly in comparison with other commodities.

replaced iron and steel as Japan's number one export item. Automobiles and iron and steel, together with ships, accounted for 40 percent of Japan's total exports in 1976.

Total Japanese imports for 1976 increased 12 percent over 1975 to \$64.9 billion. Imports of mineral fuels including coal accounted for nearly half of Japan's foreign purchases in 1976. The 11 percent increase in the value of such imports is attributable to higher prices. Agricultural products, Japan's second largest import category, rose in value 9 percent and accounted for approximately 15 percent of the value of total Japanese imports in 1976.

#### U.S.-Japanese trade

The U.S. trade deficit with Japan more than tripled in 1976 to \$5.4 billion. The United States accounted for 24 percent of total Japanese exports in 1976 and 18 percent of imports.

U.S. imports from Japan increased 38 percent to \$15.5 billion and reached record highs in many products. Japan's automobile manufacturers shipped 1.2 million cars to the United States in 1976, valued at \$2.9 billion, 65 percent above the total for 1975. Exports of automotive parts increased 131 percent to \$1.2 billion, and sales of compact pickup trucks increased 100 percent to \$648 million. The only major category in which exports fell was motorcycles, down 29 percent from 1975 to \$445 million. Spiraling costs have placed many models in the same price range as compact cars. Exports of television sets to the United States rose to \$572 million in 1976, up 144 percent over 1975, and exports of watches, clocks, and parts rose to \$110 million, up 70 percent over 1975. Participating in the citizens band boom, Japanese manufacturers tripled exports of citizens band transceivers to the United States to \$744 million.

During 1976, Japanese imports made substantial inroads into the U.S. television, automobile, and steel markets. Such imports accounted for 35 percent of all U.S. color television sales, 9.3 percent of automobiles sales, 29 percent of the ball-bearing market, and 8 percent of the steel market.

U.S. exports to Japan totaled \$10.1 billion in 1976, up 6 percent from 1975, but below the record level of \$10.7 billion, set in 1974. Because of the Japanese recession, exports of coal and coking material (comprising the leading export category) fell 27 percent to about \$1 billion for the year. Expected substantial increases in the exports of three major agricultural products (corn, soybeans, and wheat) were offset in large part by low world prices.

U.S. exports of computers and business machines increased 24 percent over 1975 to \$272 million. The United States exported \$136 million of measuring and testing equipment to Japan in 1976 and \$174 million in pharmaceutical goods. U.S. export earnings from logs and lumber were up 21 percent to \$893 million; cotton, up 29 percent to \$259 million; and tobacco, up 69 percent to \$223 million.

#### Trade with Communist nations

Japan's trade with Communist nations declined 2 percent to \$7,606 million in 1976, the first decline since 1960. Two-way trade between Japan and the U.S.S.R. increased 22 percent to \$3,426 million in 1976; however, this increase was offset by a decrease in two-way trade between Japan and the People's Republic of China. Such trade decreased 20 percent to \$3,039 million.

#### Latin America (Including the Caribbean Area)

##### Latin American trade

During 1976, the economies of many Latin American countries began to recover from the contraction in world trade that adversely affected the region in 1975. However, for some countries the economic downturn persisted or became more pronounced in 1976. The prices of some Latin American export commodities remained low throughout the year while those of others began to recover. Depressed commodity prices led many Latin American countries to attempt to attract more foreign investment to finance continued development.

Latin American regional trading agreements.--For many years, the agreements which have been most important in expanding intraregional trade and furthering developmental goals in Latin America have been embodied in the charters of the various integration groups: the Latin American Free Trade Association (LAFTA), the Andean Common Market (ANCOM), the Central American Common Market (CACM), and the Caribbean Community (CARICOM). These groups and the countries that compose them are listed below:

##### Latin American Free Trade Association (LAFTA)

Argentina	Mexico
Bolivia	Paraguay
Brazil	Peru
Chile	Uruguay
Columbia	Venezuela
Ecuador	

## Andean Common Market (ANCOM)

Bolivia	Peru
Colombia	Venezuela
Ecuador	

## Central American Common Market (CACM)

Costa Rica	Honduras
El Salvador	Nicaragua
Guatemala	

## Caribbean Community (CARICOM)

Antigua	Jamaica
Barbados	Montserrat
Belize	St. Kitts-Nevis-Anguilla
Dominica	St. Lucia
Grenada	St. Vincent
Guyana	Trinidad and Tobago

Latin American trade with the United States.--Trade with Latin America (including the Caribbean Community) accounted for 14.4 percent of total U.S. exports and 13.4 percent of total U.S. imports in 1976, compared with 15.6 percent of U.S. exports and 15.5 percent of U.S. imports in 1975.

Latin American and Caribbean economic integration groups (LAFTA including ANCOM, CACM, CARICOM) supplied more than 95 percent of U.S. imports from Latin America and received about 94 percent of U.S. exports to Latin America in 1976. Trade with each group is shown in the tabulation below 1/.

Total U.S. Exports To Latin America  
(Millions of U.S. dollars)

	<u>1975</u>	<u>1976</u>
LAFTA	13,635.8	13,399.1
ANCOM	4,838.2	4,960.5
CACM	962.5	1,153.3
CARICOM	1,083.1	1,080.6

Continued on following page.

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1/ Although Chile left ANCOM on Oct. 31, 1976, data for Chile are included.

Total U.S. Imports From Latin America  
(Millions of U.S. dollars)

	<u>1975</u>	<u>1976</u>
LAFTA	10,099.4	11,224.9
ANCOM	5,308.3	5,485.8
CACM	828.8	1,207
CARICOM	3,206.4	3,113.3

Developments in major commodities traded.--Latin American countries depend on only 17 primary commodities 1/ for over half the value of the region's total exports; some countries are almost totally reliant on one or two products to provide the major portion of their export revenues. Fluctuations in the demand for and prices of these commodities often greatly disrupt the economies of many Latin American countries.

In 1976 the prices of many commodities (excluding coffee) were depressed compared to pre-1975 levels. The price of sugar in 1976 reached its lowest level in several years; for many sugar-producing countries, 1976 prices were below the cost of production. Sugar is exported by 15 Latin American countries and sugar exports are vital to most countries in the Caribbean.

World consumption of sugar grew just over 3 percent a year from 1967 until sugar prices peaked in 1974. High prices that year encouraged many countries to increase sugar production, cultivating additional land at higher cost than existing production. Demand for sugar fell in 1974/75 under the impact of very high prices. The decline in demand, together with increased production, caused prices to drop. Sugar stocks remained high at the end of 1976, and prices continued to be depressed.

Latin American and Caribbean sugar exporting nations met in mid-1976 to discuss formulation of a common negotiating position for scheduled 1977 talks on creating a new international sugar agreement, but failed to reach agreement on the problem of fair pricing. Latin American and Caribbean countries produce about 25 percent of the world's sugar and have just under 55 percent of the world export market.

Bolivia, a major tin producer receiving most of its export revenue from tin, felt that the 1976 floor and ceiling prices for tin (set by the International Tin Agreement) were too low. Bolivia also objected to a lack of representation for producer countries on the International Tin Council (the agreement's executive body), thought that the buffer stock should not be financed entirely by producer countries, and complained that the voting procedures currently used favored consumers. Bolivia threatened to withhold its signature from the Fifth International Tin

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1/ Petroleum, coffee, copper, sugar, beef, iron ore, bauxite, tin, cotton, bananas, corn, fish meal, wheat, shrimps, cacao (cocoa and chocolate), soybeans, and wool.

Agreement, which came into force on July 1, 1976. <sup>1/</sup> The International Tin Council decided to raise prices but did nothing in response to Bolivia's other demands. Bolivia signed the agreement on schedule, although still not satisfied with the situation of the less developed tin producing countries. Near the end of 1976, Bolivia made further demands for price rises.

The council of copper exporting countries (CIPEC) met in June to discuss the possibility of a united stand by producing countries on commodity price stabilization. The association had agreed to a 15 percent production cut in November 1975 in an attempt to stabilize flagging prices, but a decrease in demand for copper coincided with the cutback in production and prices continued to drop. Disenchanted with the idea of restricting production, Chile announced at the June 1976 CIPEC meeting that it was resuming full production. Some members protested, but consensus could not be reached, and the meeting resulted in lifting restrictions on production levels. At a CIPEC meeting ending in December 1976, Chile continued to oppose proposed cuts in output that were designed to defend prices.

Changes in Latin American foreign investment policy.--Increased oil prices and generally depressed commodity prices (except coffee) have raised the import levels of most Latin American countries relative to their exports. Many countries desire to attract foreign investment as an immediate means of making development progress. As a result, a number of countries are greatly easing their foreign investment restrictions--allowing increased rates of profit and capital repatriation, drastically reducing taxes, and permitting foreign firms to have access to local credit facilities. For example, Paraguay eased its restrictions to allow foreign investors to remit 100 percent of their profits, after paying negligible taxes, and offers facilities for repatriating foreign capital at a rate of 20 percent a year. In Argentina, foreign investors' will have the same rights and obligations as local investors and will have access to local sources of credit; Argentina will place no limits on the repatriation of profits or capital, subject to availability of foreign exchange.

In 1976, foreign investment was a major item of discussion among members of a Latin American economic integration group, the Andean Common Market (ANCOM). Chile argued strongly throughout most of 1976 for reduction of ANCOM controls and restrictions on foreign investment. Bolivia tended to support Chile's position. Peru, plagued by internal financial problems, has begun emphasizing private enterprise and is gradually tending to reduce foreign investment restrictions and controls. Colombia showed signs that it would be willing to ease ANCOM rules

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<sup>1/</sup> The agreement is a renewal of the Fourth International Tin Agreement, signed in 1971.

on foreign investment if it would help prevent Chile's withdrawal from the pact. Only Ecuador and Venezuela, countries with strong balance of payments situations due to oil exports, fought changes in ANCOM foreign investment policy.

ANCOM liberalized its foreign investment rules in September 1976. Bolivia then eased its foreign investment policy to allow capital additions to existing foreign investments and the merger of two or more small foreign-owned companies, the same benefits granted to new foreign investment projects. Following its withdrawal from the Andean Pact on October 31, 1976, Chile drastically modified its foreign investment legislation in early 1977. All restrictions on the repatriation of profits have been lifted; assets may be liquidated and the original capital repatriated after three years. Taxes on foreign firms have been reduced. Export-import regulations in force at the time of investment will remain unchanged for the duration of the investment.

Contrary to the general trend in foreign investment policy, Mexico enacted a new patents law that restricts the use of patents, limits the use of foreign trademarks, and controls industrial property rights more strictly than previously. The legislation is expected to cause problems for some transnational corporations.

#### The Latin American Free Trade Association (LAFTA)

LAFTA developments.--In 1976 no movement occurred toward further action on the 15th annual conference resolutions proposing changes to revitalize and restructure LAFTA. During the year, attempts were made to convoke the Foreign Ministers, the organization's executive body; procedures establishing the group had required that it meet within the first year of its existence. The Foreign Ministers' failure to meet within the specified period added to existing evidence that fundamental conflicts among LAFTA members continue to impede the organization's ability to further economic integration in Latin America.

Differences in size and economic development among LAFTA member countries are a basic source of conflict. Almost all members see freer intraregional trade and accelerated development as desirable goals, but they believe most projects instituted to achieve those goals benefit some countries more than others. For example, reduction of intraregional trade barriers helps industries in the more developed countries of the group more than it benefits the group's less developed members; industrial programs designed to speed development in less developed countries may be viewed as threatening competition to existing industry. Small countries fear their interests will be ignored or downgraded; large countries view LAFTA primarily as a coordinator of joint activities which should not interfere with national economic decisions.

The 16th Regular Annual Conference of the Contracting Parties to LAFTA closed on November 26. The only nonprocedural resolution adopted involved a motion to analyze the annual report on the Cartagena Agreement (Andean Pact) activities when it was received. The Andean Pact declined to submit a report on its activities because of LAFTA's inability to act on withdrawal of concessions to Chile when that country pulled out of the Andean Pact at the end of October. In addition, only 9 new tariff concessions were added to the national lists of items subject to annual duty reductions throughout LAFTA. Several "relatively less developed" countries (Bolivia, Ecuador, Paraguay, Uruguay) received 79 tariff concessions, but they were not extensive and the majority were granted by Argentina to Uruguay. No new complementation agreements were approved. 1/

Industrial sector meetings of representatives of private industry occurred throughout 1976. In the LAFTA scheme, private sector meetings can recommend to member governments adoption or extension of complementation agreements, negotiation of National List concessions 2/, or other measures. Private sector meetings in 1976 resulted in recommendations for a new complementation agreement in the aluminum industry. The delegates to an office machine meeting noted that they were unable to negotiate new concessions for inclusion in the National Lists because of recent protective measures adopted by Brazil and Argentina. The graphics industry asked that the governments officially conclude as soon as possible the complementation agreements drafted last year. The pen, pencil, and ball point pen manufacturers agreed to begin negotiating several National List concessions. The photographic industry agreed to urge member governments to enlarge on an existing complementation agreement by instituting additional tariff reductions.

On September 22 LAFTA launched a scheme designed to aid growth in intrazonal trade in manufactured goods by tapping new sources of external financing. The scheme involves the sale on New York financial markets of time drafts for goods to be shipped between countries within LAFTA. The new financial instruments are called ABLAS (Latin American-LAFTA bank acceptances). The primary purpose of ABLAS is to obtain funds, preferably from third countries, to finance regional trade operations.

Trade.--In recent years, the value (in U.S. dollar equivalents) of intraregional exports of LAFTA countries has represented about 11 percent of the value of worldwide LAFTA exports. Argentina and Brazil have dominated LAFTA intraregional trade, Argentina averaging 24

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1/ Complementation agreements are efforts to achieve efficient industry scale by encouraging regional specialization in designated industries; specialization is promoted by providing for the free movement of trade in specified products.

2/ Each member of LAFTA agreed to maintain a "national list" composed of import-duty concessions which were to be granted to other member nations.

percent of the total value of intraregional exports and 22 percent of the value of intraregional imports, Brazil averaging 25 percent of the value of intraregional exports and 23 percent of the value of intraregional imports.

The value of LAFTA exports to the United States increased from \$10.1 billion in 1975 to \$11.2 billion in 1976, an 11 percent increase. Approximately 70 percent of the value of LAFTA exports to the United States still consists principally of primary and raw material products. However, manufactured products and machinery and transportation equipment were among the fastest growing LAFTA export categories in 1976. The value of coffee exports also increased very rapidly. The value of LAFTA exports to the United States of petroleum products declined slightly from 1975. Petroleum exports accounted for 36 percent of the value of total exports to the United States in 1976, compared to 41 percent in 1975.

U.S. exports to LAFTA declined by nearly 3 percent in value in 1976, after growing 10 percent in 1975. Exports of nonagricultural products accounted for about 90 percent of the value of U.S. shipments to LAFTA in 1976. The value of agricultural exports declined about 21 percent, but the value of nonagricultural exports was virtually unchanged. U.S. exports of machinery and transportation equipment grew about 5 percent in 1976.

In 1976, the United States conducted 79 percent of its U.S.-LAFTA trade with Mexico, Brazil, and Venezuela. As in 1975, the U.S. registered trade surpluses with Mexico and Brazil and a trade deficit with Venezuela.

#### Andean Common Market

The Andean Common Market (ANCOM) was initiated by middle-sized members of LAFTA because of their frustration at the slow pace of economic integration and industrial development within LAFTA, as well as the unequal distribution of integration benefits within the parent organization.

When the group was established, member countries were bound by common economic views; most favored nationalist trade policies involving a high common external tariff to encourage import substitution and fairly strict controls on foreign investment to limit foreign control of domestic industry. The more developed members were interested in rapid reduction of intraregional trade barriers to increase the size of markets available to their industries. The less developed wanted industrial development programs and a more balanced distribution of the benefits of intraregional trade. In recent years many conflicts

have arisen within the Andean Pact; during 1976 ANCOM members made fundamental alterations to the Cartagena Agreement, the group's founding charter, in an attempt to resolve differences that threatened to destroy the pact.

ANCOM developments.--Several ANCOM members have drastically changed their political and economic orientations since the early years of the Andean Pact. Coups in Chile and Bolivia have replaced economically nationalistic governments with regimes more inclined to encourage foreign investment. <sup>1/</sup> Peru's economy entered financial straits after a period of severely limiting foreign investment and attempting massive socialization of industry, but Peru's government has recently reversed its foreign investment position and begun dismantling many state-owned enterprises. Colombia and Chile favored more foreign investment and the common external tariff at September ANCOM meetings. Only Venezuela and Ecuador, countries with strong balance of payments situations due to oil exports, argued strongly for maintenance of original ANCOM goals restricting foreign ownership and control of domestic industry. In November 1976, ANCOM altered its policy on foreign investment, effectively allowing each member country the freedom to formulate its own policy.

Among the other issues that invoked discussion within ANCOM during 1976 were scheduled automatic intraregional duty reductions, Sectoral Programs for Industrial Development (SPID's), and establishment of a common external tariff. A basic disagreement arose between the two strongest industrial countries - Chile and Colombia - and the other four ANCOM countries - Bolivia, Ecuador, Peru, and Venezuela. Chile and Colombia wanted duty reductions to continue on schedule (10 percent annual reductions) even though the group had failed to agree on assignments for scheduled industrial programs and establishment of a common external tariff. The less developed countries felt that continuing duty reductions mainly benefited the more developed ANCOM members and should be accompanied simultaneously by industrial development programs. Their main purpose in joining ANCOM was the hope of more rapid industrial development. ANCOM remained in conflict concerning country assignments in industrial programs throughout 1976. Chile was strongly in favor of a very low common external tariff, but several other ANCOM countries disagreed, believing that such a tariff would increase competition from foreign products and stunt the development of industries within ANCOM.

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<sup>1/</sup> However, foreign investment and trade liberalization are not as important to Bolivia as to other, more developed, members of the Pact. Bolivia's major hope in joining ANCOM was for accelerated development through joint industrial programs.

On October 31, 1976, Chile left the Andean Group. Although by the end of 1976 it appeared that ANCOM members had liberalized their foreign investment restrictions enough to satisfy even Chile, disagreements on the level of a common external tariff and lack of accord with fellow members on many aspects of ANCOM development strategy led to Chile's departure.

In October 1976, the ANCOM countries made changes in the Cartagena Agreement to give group members more time to resolve their differences. The automatic internal duty reduction program was extended to December 31, 1983; annual duty cuts are to be 6 percent, instead of the former 10 percent, with a last annual reduction of 8 percent in 1983, marking the beginning of free intraregional trade for most ANCOM countries. Less developed members, Bolivia and Ecuador, have a slightly more lenient schedule. Products on exceptions lists (those exempted from automatic duty reduction) must be eliminated from the lists by December 31, 1988; exemptions list products for Bolivia and Ecuador may remain until December 31, 1993.

Approval for a common external tariff was postponed until December 31, 1978. After a tariff is agreed upon, members must begin to move their tariffs toward the agreed level on December 31, 1979, and must place the common external tariff in effect by December 31, 1983. Bolivia and Ecuador have until December 31, 1988, to put the tariff into effect.

Products reserved for Sectoral Programs for Industrial Development may remain exempted from duty reductions until December 31, 1978. Those products not incorporated into industrial programs as of that date shall be subject to successive annual reduction in duties of 5, 10, 15, 30, and 40 percent, the first on December 31, 1979. Production of certain SPID list products not produced within ANCOM, if they remain unassigned past the specified time limit, will be assigned to Bolivia and Ecuador on December 31, 1978. Other ANCOM members will eliminate duties on these products according to specified annual reductions.

In November, the five remaining ANCOM members met in Caracas to sign an agreement creating a \$300 million Andean Reserve Fund. The Fund was formed to provide support to member countries with balance of payments problems, to guarantee credits received from outside the region, to promote the harmonization of member countries' monetary policies, and to improve the liquidity of investments made from member countries' external reserves.

Trade.--As in most Latin American economic integration groups, some ANCOM countries have benefited more than others from freer intraregional trade. In a six-year period, Colombia moved from 21 percent of intraregional imports and 29 percent of intraregional exports, a comparatively

balanced trade situation, to only 9 percent of intraregional imports and about 27 percent of intraregional exports, a very large intraregional trade surplus. Venezuela and Ecuador are sustained by oil exports and have little balance of payments difficulty. Bolivia has gone from an intraregional deficit to surplus in 6 years, but accounts for only about 5 percent of total intraregional trade. Chile and Peru have borne the brunt of the other countries' more favorable intraregional trade balances. In six years, Chile's intraregional imports grew from an amount nearly identical to its intraregional exports to an amount twice the size of its intraregional exports; Peru went from a solid intraregional trade surplus to a large intraregional deficit. Group intraregional imports as a percentage of ANCOM world imports have grown from 4.1 percent to 5.6 percent in six years of ANCOM operation.

ANCOM exports to the United States have consisted mainly of petroleum from Venezuela and Ecuador, coffee from Colombia, tin from Bolivia, copper from Chile, and nonferrous metals and sugar from Peru. The value of ANCOM exports to the United States grew from \$5,308 million in 1975 to \$5,486 million in 1976, a 3.3 percent increase.

More than half of United States exports to ANCOM countries consists of nonelectrical machinery, transportation equipment, and cereal grains and flour. U.S. exports to ANCOM grew from \$4,838 million in 1975 to \$4,961 million in 1976, an increase of about 2.5 percent.

#### Central American Common Market (CACM)

Since its inception, the CACM has been plagued by fundamental differences in the goals of member countries. The more developed members, Guatemala and El Salvador, often termed the "production centers" of the CACM, enjoy competitive advantages over fellow participants in the production of consumer and capital goods; they want free trade within the region and oppose industrial programming ventures that might hurt their present CACM trade and industrial leadership. The less developed nations, Costa Rica and Honduras, support much stronger regional direction of growth; they want preferential trade provisions to help them resolve their persistent intraregional trade deficits and industrial programming projects to improve their development level. Nicaragua, also a less developed member, objects strongly to any imposition of regional authority. Nicaragua would like to improve its intraregional trade balance through greater restriction of intraregional imports (particularly sensitive products) and complete trade liberalization in basic grains, in which it has some comparative advantage.

The Honduras-El Salvador conflict has added to estranging influences surrounding CACM members. <sup>1/</sup> After the 1969 clash, the CACM began functioning as two four-country markets, El Salvador remaining in the CACM and the other three countries forming bilateral agreements with Honduras. In recent years, CACM countries have applied unilateral trade restrictions on intraregional imports to ease trade deficits or in retaliation for restrictions placed on their intraregional exports by other members.

CACM developments.--In 1976, high prices for coffee and cotton eased balance of payments pressures on less developed CACM members. Many of the region's problems became temporarily less visible, but inequitable distribution of integration benefits, restrictions on free trade, and widespread disillusionment with the integration process still persist.

A draft treaty, outlining proposals for restructuring the economic integration process within the CACM, was presented in March to the Central American chiefs of state. The document makes an appeal for social and agrarian reform, establishment of new juridical institutions, and the granting of greater authority to regional administrative bodies. The draft treaty emphasizes the need to distribute more equitably integration benefits among the five partners; it implies a major role for economic planning in order to "program" industrial and agricultural trade and to redistribute customs duties. The document is now being thoroughly reviewed by the governmental, business, and academic communities of each country.

Central American technicians worked throughout 1976 on revising the Central American tariff schedule (NAUCA) to make it consistent with the Brussels nomenclature and to substitute a flexible range of external tariffs for the present single duty applied against third-country imports.

Central American grain stabilization institutions, concerned over the high cost of national agrarian programs aimed at local self-sufficiency, initiated discussions on increasing intraregional agricultural trade and cooperation.

Nicaragua, El Salvador, Guatemala, and Honduras have established free trade zones within their countries in hopes of increasing domestic employment opportunities. Within the zones, foreign firms are offered exemption from all duties on capital goods and equipment for industrial installations and on raw materials. Real estate and buildings in the free trade zones are tax exempt.

Trade.--The value of intraregional trade averaged an increase of only 10.5 percent per year from 1968 to 1975 and actually declined 1.2 percent in the latter year. Such trade had increased at an average

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<sup>1/</sup> See Operation of the Trade Agreements Program, 21st Report, p. 123.

annual rate of 32 percent during 1960-66. Reduced opportunities for easy import substitution, political differences within the CACM, the Honduras-El Salvador conflict, and the 1975 recession slowed growth in intraregional trade. In 1976, growth in trade within the CACM resumed but did not approach pre-1968 rates; the value of intraregional trade increased to \$589.3 million, a 13.5 percent increase over the previous year. However, from 1970 to 1976, intraregional trade declined from 25 percent of Central America's total imports to 17-18 percent.

The benefits from CACM intraregional trade were more balanced in 1976. The two countries with the smallest percentage of intraregional exports in 1975, Honduras (5.6 percent) and Nicaragua (17.4 percent), increased their respective shares of exports in 1976 to 6 percent and 18.7 percent. Other CACM countries' shares of 1976 intraregional exports were slightly smaller. However, intraregional trade balances in 1976 still reflect the persistent pattern of unequal distribution of trade benefits prevalent in the CACM. Guatemala exported 35.3 percent of total intraregional exports but imported only 18.1 percent of total intraregional imports. All other CACM countries registered a higher percentage of intraregional imports than their percentage of intraregional exports in 1976.

Panama, though not a member of the CACM, maintains close trade ties with it through a series of bilateral agreements with all CACM members except Honduras. In addition, Panama participates in several of the CACM's regional institutions such as the regional payments system and the CACM development bank. U.S. trade with Panama accounted for about 17 percent of total U.S.-Central American two-way trade in 1976.

U.S. exports to the CACM and Panama rose about 18 percent in 1976. Increases centered in nonagricultural commodities, mainly increases in CACM imports of manufactured goods. Combined CACM and Panamanian exports to the U.S. grew nearly 32 percent in 1976; the increase included a 40 percent increase in nonagricultural commodities (principally machinery and transportation equipment) and a 49 percent increase in agricultural commodities (principally coffee). Nearly 80 percent of CACM exports to the United States in 1976 were agricultural goods. The United States registered trade deficits with El Salvador, Honduras, and Nicaragua in 1976, resulting from high coffee prices.

#### The Caribbean Community (CARICOM)

Foreign exchange reserves in most Caribbean countries continue to be heavily impacted by oil imports. Lower receipts from basic commodities (sugar, bauxite) and a down-turn in tourism have also contributed to adverse trade balances in many CARICOM countries.

Reduced income from foreign loans, bauxite, tourism, and traditional export crops (sugar, bananas) led Jamaica into a serious trade deficit in 1976. Representatives from Trinidad and Tobago, Guyana, Barbados, and Jamaica held a Caribbean Summit Meeting in June to determine means of aiding Jamaica; the meeting resulted in a mutual cooperation plan designed to contribute to the stability and development of the region by pooling resources and greatly increasing intraregional interdependence. The plan's overall aim was to achieve economic stabilization of the region while taking action to reduce its vulnerability to external forces.

At the June meeting, Trinidad and Tobago, Guyana, and Barbados agreed to loan Jamaica approximately \$80 million to improve its reserve position; Trinidad and Tobago was the largest contributor, agreeing to purchase about \$70 million of Jamaican securities. Barbados agreed to hold \$7 million of its foreign reserves in Jamaican securities, and Guyana to contribute \$3 million in extended credit for rice purchases which will convert to a five-year loan to the Jamaican Central Bank.

The agreement entered into by the four countries covered many other areas besides reaffirming the principle of mutual assistance to any territory facing temporary difficulty. The countries have agreed on specific proposals for expanding trade within the region, giving priority to intraregional sources of supply over all others. Plans include a protective policy with quantitative restrictions on imports from extra-regional sources. The four countries have undertaken to obtain from one another their imports of motor vehicles, chemical products, and consumer durables. Jamaica has agreed to reserve its home market exclusively for cars, trucks, buses and other commercial vehicles assembled in Trinidad and Tobago. 1/ Jamaica, Guyana, and Barbados have agreed to import from Trinidad and Tobago all requirements of ammonia, ammonium sulphate, and urea. 2/ Barbados, Guyana, and Trinidad and Tobago agreed to import cement from Jamaica. 2/ The countries will also undertake to obtain from one another: (1) Petroleum products, (2) packaging materials, (3) automobile parts and accessories, (4) asphalt. 2/

The action programs agreed on cover the areas of finance and air and sea transportation, as well as trade. Sea transportation among CARICOM members is to be expanded and improved, and close collaboration in civil aviation designed to bring about rationalization of air services is planned. Provisions also were made for joint ventures in intraregional investments. 3/

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1/ Subject to a detailed examination of market requirements in terms of makes, types, supply capability, and price criteria.

2/ Subject to availability and competitive pricing.

3/ Suggested areas of collaboration were cement, textiles, fertilizers, and steel.

progress on proposed buffer stock programs for control of commodity price fluctuations. Some SELA members objected to the United States Trade Act provisions relating to access to supplies of essential commodities, believing that U.S. actions under the law might interfere with the rights of commodity-producing nations. Proposals for a unified position on regulation of transnational corporations were stymied by diverging positions on attracting foreign investment; some members underlined the rights of Latin American countries to regulate the operations of resident transnational corporations, and others preferred a less stringent position, not wishing to discourage foreign investors. Most members were in accord on two trade and development issues: pursuit of market access agreements (more favorable tariff treatment for less developed countries) and increased technology transfer. Interest was shown in pursuing expansion of the Generalized System of Preferences (GSP) program for less developed country exports. Caribbean representatives proposed creation of a regional technology center to assimilate and adapt new techniques to the specific needs of Latin American industry, and Venezuela offered financial support for the venture.

Under SELA sponsorship, a Caribbean regional shipping line (NAMUCAR) began operation in 1976. The project, jointly owned by eight Caribbean basin countries, showed signs of having succeeded beyond early expectations after its first ten months of operation. By the end of the year, it was estimated that the multinationally-owned shipping line was carrying about 7.5 percent of the one million tons of goods being moved annually between the Caribbean and Central American countries.

#### The Association of Southeast Asian Nations

The Association of Southeast Asian Nations (ASEAN) was formed in 1967 by Singapore, Malaysia, Thailand, Indonesia, and the Philippines. Its official purpose is to initiate constructive cooperation among the countries of Southeast Asia in economic, social, and cultural matters. ASEAN's needs and consequently its goals had shifted from that of a military alliance as a defense against the communist nations in the area towards that of an organized economic community.

Although ASEAN has been referred to as the most viable regional endeavor with the greatest potential, there are other regional organizations to which the members of ASEAN belong. All five ASEAN members, for example, are members of the Asian Development Bank (ADB) and its subgroup, the Southeast Asian Regional Transport Survey. The members of ASEAN, with the exception of the Philippines, are members of the Association of Natural Rubber Producing Countries which has signed an

international agreement on natural rubber price stabilization. Thailand and the Philippines were among the eight nations that were signatories of the Bangkok Agreement, signed in 1975 as a preliminary step toward tariff negotiations and non-tariff barrier reductions among developing Asian nations.

The United Nations completed an advisory report on economic cooperation and integration for ASEAN in 1972. <sup>1/</sup> It recommended a program of selective trade liberalization and complementarity arrangements as a means of promoting economic cooperation and national specialization within ASEAN. These proposals have been or are currently being studied by ASEAN and have been incorporated in ASEAN's goals. The members of ASEAN want to create a free trade area. They seek coordination in industrial planning and cooperation in joint industrial projects that will decrease costs by replacing small and inefficient national projects operating below capacity. ASEAN has also made the political neutralization of the area one of its goals.

There is great diversity among the member nations of ASEAN in terms of gross national product (GNP), population, area, and level of economic development. The GNP per capita of the member countries varied in 1976 from Indonesia's \$210 to Singapore's \$2,600. The population difference is also great; Singapore's population in 1976 was only 2.3 million, while Indonesia's was 143.4 million. Indonesia, the only ASEAN country that is a member of OPEC, has been accused by other ASEAN members of exporting oil to the West for higher prices instead of supplying the ASEAN nations. The fact that the member nations' economies with the exception of Singapore are not complementary, but competitive, has tended to impede cooperation. Because Singapore's economy is more developed than those of her ASEAN counterparts, the other ASEAN members fear that Singapore's goods will flood their infant industries if tariffs are cut. The question of military commitments has become a point of difference as well, since Indonesia and the Philippines would like to see military commitments incorporated into ASEAN's goals, while other members want them totally left out.

A permanent secretariat was organized at the first ASEAN summit meeting held in February 1976. It is headed by a secretary general who attends all official ASEAN meetings including standing committee meetings. The basic organizational structure in 1976 was as follows:

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<sup>1/</sup> A study requested by ASEAN and conducted by a U.N. joint study mission co-sponsored by the U.N. Center for Development, Planning, Projections, and Policies; the U.N. Conference on Trade and Development; the Food and Agriculture Organization; and the U.N. Economic and Social Commission for Asia and the Pacific (ESCAP).

The less developed CARICOM countries did not participate in the June agreements; the new agreements were described as being in addition to current programs being developed for assistance to the lesser developed countries in the region, and, in fact, as prerequisite to an effort by the four to generate more meaningful assistance to those lesser developed countries. However, the smaller countries showed signs of being dissatisfied with their relative share of CARICOM benefits. The smaller islands indicated they would reject an already agreed upon improved system for awarding tariff preferences known as the 'process list.' This list would bestow duty-free treatment in proportion to the local (CARICOM country) inputs used, the degree of linkage with the rest of the local economy, and the amount of local employment provided in processing the product. The less developed CARICOM members are now blocking its introduction until new measures have been worked out for providing them with a greater share of CARICOM's benefits.

In 1976, CARICOM began work on two integration programs that do not place traditional emphasis on increasing intraregional trade. The group has begun planning a program for subregional development of food production and studying establishment of a security network to finance members' balance of payments deficits. The food production program calls for creating farms, livestock ranches, and fish nurseries on about 1 million acres of land in Belize, Guyana, Jamaica, Trinidad and Tobago, and St. Kitts-Nevis. The core of the program is a 10-year plan to promote livestock raising on little-used pasture land in Belize and Guyana and to enlarge existing herds in other member countries. It is anticipated that the project will create about 26,000 jobs.

Trinidad and Tobago, with its petroleum income, will provide the major part of financing for the balance of payments support fund. The fund will be managed by member countries' central banks and financial authorities and supplemented by a regional clearing arrangement under which the various central banks will extend to each other lines of credit totalling 1 percent of regional trade. The amount of credit may be raised to 20 percent if the scheme is successful. The fund is intended to be used only as a last resort by member countries.

Trade.--Caribbean intraregional exports constitute about 7 percent of the region's total exports; this percentage has grown slowly during the past several years. Guyana, Jamaica, and Trinidad and Tobago dominate both external and internal trade. In 1965 those countries supplied 87 percent of intraregional exports; ten years later in 1975 they supplied 90 percent of intraregional exports. In 1976 Guyana, Jamaica, and Trinidad and Tobago supplied about 60 percent 1/ of CARICOM exports to the United States.

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1/ If refined oil listed as being exported to the United States from the Netherlands Antilles, but in fact originating in Trinidad and Tobago, is counted, the three countries account for about 80 percent of CARICOM exports to the United States.

CARICOM exports to the United States decreased about 3 percent in 1976 after decreasing about 13 percent in 1975. Petroleum exports accounted for approximately 80 percent of total CARICOM exports to the United States, but U.S. oil imports from the Caribbean area declined about 8 percent in 1976.

U.S. exports to the Caribbean Community decreased slightly in 1976. About 80 percent of U.S. exports to CARICOM in 1976 were nonagricultural commodities, 40 percent of which were machinery and transportation equipment. Food amounted to nearly 19 percent of CARICOM imports from the United States.

#### The Latin American Economic System (SELA)

In October 1975, 25 Caribbean and Latin American countries (including Cuba) embarked on a new regional integration effort called the Latin American Economic System (SELA). <sup>1/</sup>

The year 1976 was spent in establishing SELA's regulations and work program and attempting to decide on a common Latin American position for scheduled meetings of international organizations. Action committees were set up to try to put in motion the organization's plans for work programs. The committees' planned work programs cover cooperation and integration in the manufacture of fertilizers; housing construction and the creation of a multinational cement production complex; the production of high-protein foodstuffs; the timber, pulp and paper industries; the establishment of a multinational news agency (SILA); the expansion of handicraft industries; future plans for the exploitation of nuclear energy; the creation of an authority responsible for providing information on production surpluses and shortfalls; and the development of aluminum, pharmaceutical, and capital goods industries. SELA has made little progress in actual implementation of the programs because of a lack of willingness on the part of larger member countries to make firm commitments on funding. Disagreements and conflicts of interest within the organization have contributed to the lack of concrete action.

Progress in other main areas of SELA functioning--coordination of Latin American policies in international bodies, foreign trade, and relations with transnational companies--was also impeded by differences among SELA members. Brazil, Colombia, Chile, and Bolivia demonstrated diverging goals from the majority of commodity-producing nations in the various commodity organizations to which they belong, impeding

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<sup>1/</sup> At the end of 1976, the group had 21 members. They are: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru, Dominican Republic, Trinidad and Tobago, Uruguay, Venezuela.

## MINISTERIAL HIGH COUNCIL

## SECRETARIAT

## SECRETARY GENERAL

BUREAU DIRECTORS: Economic Bureau  
 Science and Technology Bureau  
 Socio-cultural Bureau

OFFICERS: Administrative  
 Foreign Trade and Economic Relations  
 Public Information  
 Assistant to the Secretary General

PERMANENT COMMITTEES ON: Commerce and Industry  
 Food and Agriculture  
 Shipping  
 ASEAN Central Banks and Monetary Authorities  
 Science and Technology  
 Transport and Telecommunications

## SPECIAL COORDINATING COMMITTEES

ASEAN Brussels Committee  
 Committee of Senior Trade Officials On Multilateral Trade  
 Negotiations

In addition to the official ASEAN machinery are the ASEAN Chambers of Commerce and Industry (ASEAN-CCI), whose purpose is to enlist the cooperation of the private sector and to coordinate its objectives with those of ASEAN. The ASEAN-CCI aim to improve the quality of life of the ASEAN people by increasing production and productivity, fostering employment opportunities, and helping to equalize the distribution of income among the people of ASEAN. The ASEAN-CCI use existing private regional organizations whenever possible, rather than creating duplicate groups. One of these, the ASEAN banking council, has made recommendations concerning financing of ASEAN investment projects and trade expansion. It has also proposed the establishment of an ASEAN clearing union, planned for 1977.

Developments in 1976

ASEAN's most significant convocation to date was the first ASEAN summit meeting held in Bali in February 1976. Here two agreements, The Treaty of Amity and Cooperation and the Declaration of ASEAN Concord, were signed and several important decisions were made.

The Treaty Of Amity And Cooperation, which replaces the original ASEAN charter, calls for cooperation and friendship among the peoples of the member nations, as well as increased economic growth through

regional strategies for economic development. According to the treaty, the members seek to promote regional prosperity through "cooperation in the economic, social, cultural, technical, scientific, and administrative fields." Economic growth is to be achieved by the expansion of trade and the greater utilization of agriculture and industries. Article 18 was left open for accession to the treaty by other Asian states. The treaty appointed a ministerial high council to settle any disputes which might arise among the member nations.

The second document signed at Bali is the Declaration of ASEAN Concord (the Bali Concord), which officially announced the desire in principle for ASEAN joint industrial projects and preferential trading arrangements. It calls for political and economic cooperation to be considered together. The members committed themselves to study and implement large-scale regional industrial projects and to take steps toward implementing preferential trade agreements.

The ASEAN economic and planning ministers met in March 1976 to implement the broad decisions reached at the summit meeting. They examined the feasibility of immediately establishing several industrial plants as ASEAN national industrial projects, and decided on those which would be possible to complete within three years without massive capital investment. The industrial projects agreed upon were urea in Indonesia and Malaysia, superphosphates in the Philippines, diesel engines in Singapore, and soda ash in Thailand. The output from these ASEAN industrial projects will be eligible for preferential tariff treatment and preference in government procurement, and will be granted special tax incentives. Though feasibility studies had been made, the projects were still in the planning stage in 1976. In addition to these plans for moderate-scale projects, the Ministers also decided to study the possibility of future large-scale projects such as steel and petrochemicals, metalworking machine tools, heavy-duty rubber tires, fisheries, electronic components, electrolytic tin plating, potash, and newsprint.

The ASEAN region supplies about 80 percent of the world's natural rubber exports, 80 percent of its palm oil exports, and 68 percent of its tin exports. ASEAN also exports relatively large quantities of coconut, copra and coconut oil, spices, rice, sugar, forest products, petroleum, and copper. Although the region is rich in natural resources, ASEAN economies are far from self-reliant since they depend on imports of manufactured products from industrialized countries. Only by increasing their intra-regional trade in manufactures can ASEAN countries utilize their raw materials to decrease their dependence on the industrial nations.

In October 1976 the members of ASEAN signed a preferential trade agreement. Although they committed themselves in principle to establishing a free trade zone in the near future, they had problems working out the details. They were unable to agree on the degree of local origin content necessary in order for products to qualify for preferential treatment. They did agree to decrease gradually their mutual tariff barriers until they are eventually eliminated. The ASEAN ministers decided that rice and crude oil will be granted preferential trading arrangements, including priority of supply in times of shortages and priority of purchase in times of surplus. It is planned that this list will be expanded over time to include raw sugar, maize, fish, beef, vegetables, coconut and palm oil, logs, sawn timber, and clinker.

Although ASEAN's share of total U.S. trade is small, in 1975 ASEAN supplied the United States with 90 percent of its total imports of vegetable oils, 80 percent of its tin imports, and 79 percent of its rubber imports. About one-third of ASEAN's total trade is with the United States. In 1976 Indonesia, Malaysia, and the Philippines registered trade surpluses with the United States while Singapore and Thailand had negative trade balances. ASEAN as a whole had a positive trade balance with the United States in both 1975 and 1976, and most of this surplus was due to U.S. petroleum imports from Indonesia. (See table 13).

Table 13.--ASEAN trade with the United States

(In millions of U.S. dollars, c.i.f.)

	1975			1976		
	Exports: to U.S.	Imports: from U.S.	Trade balance	Exports: to U.S.	Imports: from U.S.	Trade balance
Malaysia-----	\$ 812	\$ 395	\$ +417	\$ 994	\$ 536	\$ +458
Singapore-----	564	994	-430	728	965	-237
Indonesia-----	2,447	810	+1,637	3,277	1,036	+2,241
Thailand-----	240	357	-117	307	347	-40
Philippines---	834	832	+2	994	819	+175
ASEAN total----	4,897	3,388	+1,509	6,300	3,703	+2,597

The United States does not have specific trade agreements with ASEAN as a group, but does have bilateral agreements with the individual members. As developing countries, the individual members of ASEAN are eligible under the U.S. Generalized System of Preferences. Indonesia, as a member of OPEC, is excluded, however, and this has been a major issue between ASEAN and the United States because Indonesia did not participate in the 1973 oil embargo.

The volume of intra-ASEAN trade has increased noticeably since 1967, and was 27 percent of ASEAN's total world trade in 1976. Singapore led in two-way intra-ASEAN trade in 1976, while Malaysia and Indonesia's shares were approximately equal, as shown in the tabulation below (millions of U.S. dollars, c.i.f.):

	<u>Exports</u>	<u>Imports</u>	<u>Total</u>
Singapore	\$1,252.89	\$1,543.66	\$2,796.55
Malaysia	1,138.30	548.40	1,686.70
Indonesia	642.00	608.00	1,250.00
Thailand	373.07	90.14	463.21
Philippines	80.20	256.00	336.20

## Glossary of Abbreviations

ABLA	Latin American bank acceptances
ACP	African, Caribbean, and Pacific
ADB	Asian Development Bank
ANCOM	Andean Common Market
APTA	Automotive Products Trade Act of 1965
ASEAN	Association of Southeast Asian Nations
CACM	Central American Common Market
CAP	Common Agricultural Policy (of the EC)
CARICOM	Caribbean Community
CIEC	Conference on International Economic Cooperation
CIPEC	Intergovernmental Council of Copper Exporting Countries
CXT	Common External Tariff (of the EC)
EC	European Community
ECSC	European Coal and Steel Community
EDA	Economic Development Administration (of the U.S. Department of Commerce)
EFTA	European Free Trade Association
EMU	Economic and Monetary Union (of the EC)
ESCAP	Economic and Social Commission for Asia and the Pacific (of the United Nations)
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
ICA's	International Commodity Agreements

ICC	International Coffee Council
ICO	International Coffee Organization
IMF	International Monetary Fund
ISO	International Sugar Organization
LAFTA	Latin American Free Trade Association
LTFV	Less than fair value
MAF	Ministry of Agriculture and Forestry (of Japan)
MFA	Multifiber Agreement, i.e., Arrangement Regarding International Trade in Textiles
MFN	Most favored nation
MITI	Ministry of International Trade and Industry (of Japan)
MTN	Multilateral Trade Negotiations
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
SELA	Latin American Economic System
SPID's	Sectoral Programs for Industrial Development
STABEX	Export Stabilization Program (of the Lomé Convention)
TNC	Trade Negotiations Committee (of the GATT)
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific, and Cultural Organization
VAT	Value added tax

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