UNITED STATES TARIFF COMMISSION

OPERATION OF THE TRADE AGREEMENTS PROGRAM

21st Report

1969

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UNITED STATES TARIFF COMMISSION

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Prepared in Conformity With Section 402(b)
of the Trade Expansion Act of 1962

Washington
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Preface

This, the 21st report issued by the United States Tariff Commission on the operation of the trade agreements program, relates to the calendar year 1969. The report is made pursuant to section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902), which requires the Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program. 1/

The principal developments during 1969 that are discussed in this report relate to actions by the United States affecting its obligations under the trade agreements program, actions initiated by the Contracting Parties to the General Agreement on Tariffs and Trade to implement that agreement, and commercial policy developments in the major countries with which the United States has trade agreements. Developments within and among the major regional trading blocs also are covered.

The report was prepared principally by John F. Hennessey, Jr., Magdolna Kornis, Lucile Graham, and Clinton R. Shaw.

1/ The immediately preceding report in this series was U.S. Tariff Commission, Operation of the Trade Agreements Program, 20th Report, 1968, TC Publication 336, 1970. Hereafter that report will be cited as Operation of the Trade Agreements Program, 20th report. Other reports of the Tariff Commission on the operation of the trade agreements program will be cited in a similar short form.

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Chapter 1

U.S. Actions in Connection with the Trade Agreements Program

INTRODUCTION

As in past years, the United States in 1969 maintained a considerable network of trade-agreement arrangements and obligations with most of the world's trading nations. These relationships resulted primarily from joint membership of the United States and 75 other trading countries in the multilateral General Agreement on Tariffs and Trade (GATT), which has become the principal international instrument for the negotiation of tariff reductions, the enforcement of trading rules, and the settlement of trade disputes. Obligations of the United States under the GATT predominate in the trade agreements program, but in 1969 some six of the originally numerous bilateral agreements that followed the Trade Agreements Act of 1934 still remained in force.

During 1969 the United States continued its participation in the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA), a multilateral pact first negotiated by the Cotton Textiles Committee of GATT. There was no change in the number (30) or composition of parties to the arrangement. At the yearend, trade restrictions in force between the United States and other countries under LTA covered an aggregate of about 1.7 billion equivalent square yards of cotton textiles.

Automotive products trade between the United States and Canada continued to grow substantially in 1969, owing mainly to an agreement between the two countries that by December 31 had been in force for nearly

5 years. Total two-way trade in automotive goods reached a value of $6.3 billion, 29 percent more than in 1968 and eight times the total for 1964. Meanwhile, payments for adjustment assistance to workers in the U.S. auto industry continued to decline, amounting to only $250,000 for the year; the total for the entire 1965-69 period was about $4.1 million.

The United States formally participated in two of the five multilateral international commodity agreements in force during the year. Developments in the International Grains Arrangement were characterized by a breakdown of pricing cooperation within the group, with the United States eventually moving unilaterally to cut wheat prices. The International Coffee Agreement weathered some fairly sharp price fluctuations owing to climatic factors, and moved further toward stabilizing output in the producer countries through the use of output targets.

During 1969 the Tariff Commission conducted three investigations under the escape-clause provisions of trade-agreement legislation, and made two reviews of economic conditions in industries producing goods for which escape-clause rates were in effect. Three investigations in response to worker petitions for adjustment assistance were completed under the provisions of section 301(c)(2) of the Trade Expansion Act of 1962 (TEA). No new investigations were initiated under section 22 of the Agricultural Adjustment Act. The Office of Emergency Preparedness began one new investigation under section 232 of the TEA and continued two others underway at the beginning of the year.

STATUS OF U.S. TRADE AGREEMENTS

Agreements Under Trade Agreements Legislation

The trade agreements program

The Trade Agreements Act of 1934, as amended and extended, and the Trade Expansion Act of 1962, as amended, together are referred to as the trade agreements legislation. Under the authority granted to the President by this legislation, the United States has entered into both bilateral and multilateral trade agreements, and U.S. actions taken under the legislation commonly have been referred to as the trade agreements program. In recent years the negotiation of a number of trade pacts dealing with particular products or commodities, under domestic authorities outside the trade agreements legislation, 1/ has increasingly blurred the boundaries of the trade agreements program itself.

Between 1934 and 1948 the United States entered into bilateral trade agreements with numerous countries. On January 1, 1948, the multilateral General Agreement on Tariffs and Trade, concluded at Geneva on October 31, 1947, entered into force for the United States. Subsequently, many partners to bilateral agreements with the United States have acceded to the GATT, so that their bilateral pacts have been superseded and terminated. Today, obligations of the United States under the multilateral General Agreement predominate in the trade agreements program.

1/ Some of these are discussed later in this chapter.

The General Agreement on Tariffs and Trade

A country may be associated with the GATT in one of three categories: contracting party, provisional accession, or de facto application 1/. During 1969 there was no change in the countries associated with the GATT or their category. Of the 91 member countries at the close of the year, 76 (including the United States) were contracting parties, 2/ two had acceded provisionally, and 13 were participating on a de facto basis. These countries are listed on the following page by category of association.

1/ The basis for de facto application of the General Agreement to newly independent territories is contained in the General Agreement of October 1947. Para. 5(c) of art. XXVI provides in broad terms for extension of continued coverage under the GATT to such territories, contingent on sponsorship by the contracting party which had previously accepted the agreement on behalf of the territory concerned. The underlying intent of this provision was to allow the new governments time to shape up their commercial policies and to consider their future relations with the GATT. In November 1957 the Contracting Parties took the first step toward implementation of this provision. Development of procedures and further conditions continued over the ensuing 10 years. These conditions included a requirement for reciprocity between the territory concerned and the contracting parties, and dealt with the question of limiting the time period of de facto application of the agreement.

The establishment of a time limitation proved troublesome. In 1960 the Contracting Parties changed this from "reasonable" (established in 1957) to 2 years from the date on which autonomy was acquired. In 1961 the Contracting Parties provided for a 1-year extension of the 2-year limit, and in 1962 recommended such an extension for a number of newly independent states in Africa. Noting in 1967 that many qualifying autonomous territories had requested (and in all cases had been granted) repeated prolongations of the arrangements for de facto application, the Contracting Parties in effect did away with both the time limit for de facto application and the requirement that the governments concerned annually request an extension of the arrangement whereby the GATT is applied to them on a reciprocal de facto basis. The dates of independence for some of the countries in the de facto category go back as far as the late fifties and early sixties.

2/ The term "contracting parties," when used without initial capitals, refers to GATT member countries acting individually; when used with initial capitals (Contracting Parties), it refers to the members acting as a group.

Contracting Party

Argentina
Australia
Austria
Barbados
Belgium
Brazil
Burma
Burundi
Cameroon
Canada
Central African Republic
Ceylon
Chad
Chile
Congo (Brazzaville)
Cuba 1/
Cyprus
Czechoslovakia 2/
Dahomey
Denmark 3/
Dominican Republic
Finland
France 4/
Gabon
Germany, Federal Republic of
Ghana
Greece
Guyana
Haiti
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Kenya
Korea, Republic of
Kuwait
Luxembourg
Madagascar
Malawi
Malaysia
Malta
Mauritania
Netherlands 4/
New Zealand
Nicaragua
Niger
Nigeria
Norway
Pakistan
Peru
Poland
Portugal
Rhodesia
Rwanda
Senegal
Sierra Leone
South Africa
Spain
Sweden
Switzerland
Tanzania
Togo
Trinidad and Tobago
Turkey
Uganda
United Kingdom 4/
United States of America 4/
Upper Volta
Uruguay
Yugoslavia

Provisional Accession

Tunisia
United Arab Republic 5/

De Facto Application

Algeria
Botswana
Cambodia 6/
Congo (Kinshasa)
Equatorial Guinea
Lesotho
Maldive Islands
Mali
Mauritius
Singapore
Southern Yemen
Swaziland
Zambia

See next page for footnotes

1/ Pursuant to Title IV of the Tariff Classification Act of 1962 (Public Law 87-465), the United States in May 1962 suspended the application of its trade-agreement rates of duty to all products of Cuban origin until such time as the President decides that Cuba is no longer dominated by the foreign government or foreign organization controlling the world communist movement. Trade with Cuba was earlier embargoed by Presidential Proclamation No. 3447, effective Feb. 7, 1962.

2/ On Sept. 29, 1951, the United States suspended until further notice its obligations with respect to Czechoslovakia under the General Agreement.

3/ Including Greenland and Faroe Islands.

4/ Including overseas territories.

5/ The United Arab Republic became a contracting party to the General Agreement on May 9, 1970.

6/ On Nov. 17, 1958, in considering the Cambodian Government's expressed future intent to enter into negotiations with a view to accession to the General Agreement in accordance with the provisions of art. XXXIII, the Contracting Parties decided to recognize the de facto application of the General Agreement between Cambodia and contracting parties desiring to enter into a reciprocal relationship with that country. A protocol for the accession of Cambodia was opened for signature in April 1962 but had not entered into force by the end of 1969.

Bilateral agreements

Following passage of the Trade Agreements Act of 1934 (48 Stat. 943), the United States entered into numerous bilateral trade agreements within the framework of the reciprocal trade agreements program. At the close of 1969, only six of these agreements were still in force, with the countries noted below; 1/ two of these countries were also members of the GATT. The United States has entered into no bilateral agreements under the trade agreements legislation since the General Agreement on Tariffs and Trade entered into force for the United States on January 1, 1948.

Argentina 1/	Iceland 3/
El Salvador 2/	Paraguay 2/
Honduras 2/	Venezuela

1/ On December 27, 1967 the 1941 bilateral trade agreement between the United States and Argentina was further amended to keep the agreement in effect until the consolidated schedule of the United States concessions to the GATT (schedule XX) "shall have been completed and proclamation thereof by the President of the United States shall have become effective." Argentina became a contracting party to the GATT as a result of negotiations during the Kennedy Round; the protocol entered into force in October 1967.

2/ The schedules of concessions and the provisions relating thereto in their bilateral agreements with the United States were terminated for the following countries effective on the dates indicated: Honduras, Feb. 28, 1961; El Salvador, Aug. 9, 1962; Paraguay, June 30, 1963.

3/ The agreement with Iceland was terminated on Nov. 11, 1970. Iceland became a contracting party as a result of negotiations during the Kennedy Round; the protocol entered into force in April 1968.

1/ No change from 1968.

Agreements Under Other Legislation

The Philippine agreement

The United States is party to a bilateral agreement with the Philippines, authorized by special U.S. legislation 1/ dealing with trade and related matters during the transitional period following the institution of Philippine independence. An executive agreement between the President of the United States and the President of the Republic of the Philippines, signed at Manila on July 4, 1946 and revised in September 1955, reflects the provisions of this legislation. The agreement is scheduled to expire on July 3, 1974.

1/ The Philippine Trade Act of 1946 (60 Stat. 141) and the Philippine Trade Agreement Revision Act of 1955 (69 Stat. 413).

LONG-TERM ARRANGEMENT REGARDING INTERNATIONAL TRADE IN COTTON TEXTILES

Background

Section 204 of the Agricultural Act of 1956, as amended, in part authorizes the President, whenever he determines it appropriate, to negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries and the importation into the United States of any textiles or textile products.

Pursuant to this authority, imports of cotton manufactures have been subject to restraint since 1962 under the provisions of the Long-Term Arrangement Regarding International Trade in Cotton Textiles. 1/ A multilateral arrangement negotiated by the GATT Cotton Textiles Committee (CTC), 2/ the LTA came into effect October 1, 1962, for an initial period of 5 years. Before its scheduled expiration on September 30, 1967, the arrangement was extended for another 3 years, i.e., until September 30, 1970.

Prior to the inception of the LTA, the United States had made some effort to curb its imports of cotton textiles through voluntary foreign controls. Japan had imposed voluntary controls since 1957 over a wide range of cotton textile items exported to the United States. Italy had voluntarily controlled its exports of cotton velveteen to this country. These early efforts, however, neither comprehensively nor equitably controlled shipments of cotton textiles to the United States. Therefore,

1/ A preliminary short-term arrangement, set up under the GATT, controlled cotton textile trade from Oct. 1, 1961 through Sept. 30, 1962.
2/ The CTC is composed of representatives of countries party to the LTA.

the United States proposed the LTA as a means of insuring a more orderly development of trade in cotton textiles than had occurred in the 1950's when, as one of the few open markets, it bore the brunt of sharply rising exports from new suppliers.

The LTA allows the United States and other importing countries to limit cotton textile imports in order to prevent disruption of their domestic markets, and also assures exporting countries of the opportunity for orderly growth in their cotton textile exports. At the time the LTA entered into force (October 1, 1962) three additional countries joined the 19 participants in the predecessor short-term arrangement to bring to a total of 22 the number of countries initially participating in the LTA. The addition of two countries in 1963 and four in 1964 raised the total to 28. In the 3 years from January 1, 1965 through December 31, 1967, the number of participants increased by two, 1/ then remained stable at 30 throughout 1968 and 1969.

Operation

Definition and classification of cotton textiles

In its administration of the arrangement, the United States defines as cotton textiles those items in which cotton is the chief fiber by value. These textiles are classified into 64 categories. 2/

1/ Greece in 1966 and Poland in 1967.
2/ For a description of categories, see U.S. Tariff Commission Summaries of Trade and Tariff Information, schedule 3, volume 3, TC Publication 346, 1970,

Controls

The major import-control provisions of the LTA are contained in articles 3 and 4 of the arrangement. 1/

Article 3: restraints.--Article 3 authorizes participating importer countries to request restraints 2/ on exports of product(s) from participating supplier countries when such exports cause or threaten to cause market disruption. An importing country can request an exporting country to limit shipments of the cotton textiles which are causing disruption in the requesting country. If the exporting country does not accede to the request within 60 days, the importing country can impose an import quota on the designated product(s), within terms specified in the arrangement. To assure equity for participating supplier countries, article 6(c) provides that exports of participating countries cannot be restrained more severely than exports of nonparticipants.

Article 4: bilateral agreements.--Article 4 of the LTA contains the authority under which the negotiation of bilateral trade agreements may be used to regulate cotton textile trade, to the extent that the terms

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1/ Support for U.S. application of these controls to nonparticipants in the LTA derives from sec. 204 of the Agricultural Act of 1956, as amended, which authorizes the United States to control imports from nonparticipants in a multilateral agreement if the trade of countries participating in the agreement accounts "for a significant part of world trade in the articles with respect to which the agreement was concluded."

2/ A restraint is a restriction of imports of cotton textiles classified in a specified category (or categories) from a single country to the level requested by the importing country. A country may have in force more than one restraint against imports from another country at any given time. A restraint is customarily for a 12-month period at a level not less than the level of trade in the article(s) concerned during the first 12 of the last 15 months prior to the request by the importing country. If a restraint is continued for an additional 12-month period, the level is increased by at least 5 percent (annex B, LTA).

are consistent with the basic objectives of the arrangement. Such agreements may be negotiated between participants in the LTA as well as between participants and nonparticipants.

In general the bilateral agreements are more comprehensive in product coverage and extend over longer periods than the restraints imposed under article 3. Under bilateral agreements, exporting countries benefit from increased flexibility, assured access to and share of foreign markets, and greater control over their own exports; 1/ importing countries benefit from the comprehensive coverage of the agreements.

U.S. Participation in 1969

During 1969 the United States continued its participation in the LTA. There was no change in number (30) or in composition of parties to the arrangement. All but three countries 2/ participating in the LTA were parties to the GATT. 3/

1/ At the close of 1969, U.S. bilateral agreements in force under the LTA covered periods from 1 to 6 years. Most of the agreements were for 3 or 4 years.

2/ Republic of China, Colombia, and Mexico (all eligible for participation under the provisions of para. 2, art. 11 of the arrangement.

3/ The United Arab Republic, technically in a status of provisional accession to the GATT on Dec. 31, 1969, was treated as a contracting party to the GATT under the provisions of para. 1, art. 11 of the LTA. (The United Arab Republic became a contracting party to the GATT effective May 9, 1970.)

Parties to the LTA, December 31, 1969

Australia	India	Portugal
Austria	Israel	Spain
Belgium	Italy	Sweden
Canada	Jamaica	Turkey
China, Republic of	Japan	United Arab Republic
Colombia	Korea, Republic of	United Kingdom 1/
Denmark	Luxembourg	United States
Finland	Mexico	
France	Netherlands	
Germany, Federal Republic of	Norway	
Greece	Pakistan	
	Poland	

1/ The Government of the United Kingdom accepted the arrangement for Hong Kong on Sept. 27, 1962, and continues as the official representative of Hong Kong in the LTA. Although sometimes listed with parties to the LTA, Hong Kong, a Crown Colony of the United Kingdom, is not an independent signatory.

Application of controls

Under the terms of the LTA, the U.S. Government has moved steadily to regulate imports of cotton textiles into the United States. In its construction and application of the provisions of the LTA, especially articles 3, 6(c), and 4, the United States draws on the authority vested in the President by section 204 of the Agricultural Act of 1956, as amended.

Article 3: restraints 1/.--During 1969 the United States extended 14 article 3 restraints for another 12 months, imposed seven new ones, 2/

1/ As indicated above, art. 3 of the LTA permits the unilateral imposition of restraints against cotton textile imports from participating countries when such imports cause or threaten to cause market disruption; and art. 6(c) requires that imports from participating countries shall not be restrained more severely under art. 3 than are imports from nonparticipants which are causing or threatening to cause market disruption. In meeting this requirement, the U.S. Government applied the procedures of art. 3 against nonparticipants in the situations envisaged in art. 6(c). The term "article 3 restraint," therefore is often used to refer to unilateral restraints imposed against LTA nonparticipants as well as participants.

2/ Against Brazil, Hungary, Malaysia, and Rumania.

and permitted three to expire. 1/ At yearend, the United States had in effect under article 3 of the LTA 21 restraints on imports of cotton textile articles classified in 22 different categories, from seven countries. In the aggregate, these restraints amounted to an article 3 ceiling of nearly 53 million equivalent square yards 2/ on imports of cotton textiles. Compared with yearend 1968, these figures represent an increase of four in the number of article 3 restraints in effect, an increase of three in the number of categories affected, a decrease of one in the number of countries restrained, 3/ and an elevation of the aggregate article 3 ceiling on imports by some 3 million equivalent square yards.

None of the seven countries under article 3 restraint by the United States was a party to the LTA or a partner of a bilateral agreement with the United States under the LTA. Four of the countries were contracting parties to the GATT. 4/ The other three had no identification with the GATT.

The table on the following page lists the countries against which the United States had article 3 restraints in effect on December 13, 1969, and indicates for each country the number of restraints, the number of cotton textile categories affected, and the aggregate quantitative impact of these restraints (in million equivalent square yards). 3/ It is

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1/ Against Malaysia and Tunisia.

2/ To facilitate comparison, the U.S. Department of Commerce converts statistics on U.S. imports of cotton textiles reported in other units of measure (e.g., pounds, dozens, pairs) into equivalent square yards.

3/ Tunisia. Effective Jan. 1, 1968, the United States had imposed a restraint against one category of cotton textile imports (category 26) from Tunisia. This restraint was not extended upon its expiration at yearend 1968.

4/ Argentina, Brazil, Malaysia, and Trinidad and Tobago.

immediately apparent from the table that the overall quantitative impact of the U.S. effort to control imports under article 3 of the LTA during 1969 was greatest by far in Brazil and Malaysia.

U.S. Import Restraints in Effect under LTA Article 3
Dec. 31, 1969 1/

Country 2/	Number	Number of categories affected 3/	Aggregate quantity (percent)
			Million equivalent square yards
Argentina	1	1	0.6
Brazil	4	7	36.9
Honduras	1	1	.1
Hungary	2	2	.8
Malaysia	9	11	11.7
Rumania	2	3	2.2
Trinidad and Tobago	2	2	.6
Total	21	22	52.9

1/ For further detail, see Summaries of Trade and Tariff Information, schedule 3, vol. 3, TC Publication 346, 1970, app. C.
2/ During 1969 the United States imposed an art. 3 restraint against one category of imports from Czechoslovakia. This action was superseded later in the year by a comprehensive bilateral agreement between these 2 countries.
3/ The same category may be restrained for more than 1 country.

Bilateral agreements under Article 4.--At the close of 1969 the United States had in force 24 1/ bilateral agreements under article 4 with 22 countries and two dependencies. This was two more than in 1968, new agreements with Costs Rica and Czechoslovakia having entered into force during 1969. Over two-thirds of the 22 partner countries to these agreements were participants in the LTA. All except five 2/ were identified

1/ This figure includes an agreement covering the Ryukyu Islands, which are still under the provisional jurisdiction of the United States. Therefore, it is not a true bilateral agreement. Accordingly, it is often omitted from Government listings and counts of U.S. bilateral agreements under the LTA.
2/ Colombia, Costa Rica, Mexico, the Philippines, Republic of China.

with the GATT. 1/ All agreements, except that with Italy, 2/ covered a part, parts, or all of each of the 64 categories into which the United States has classified cotton textiles for LTA administrative purposes.

Below is a list of the countries and dependencies with which the United States had LTA article 4 bilateral agreements in effect on December 13, 1969, with the aggregate trade limitations covered by those agreements:

Country or dependency 1/	Trade limitations aggregate quantity
	Million equivalent square yards
China, Republic of	74.8
Colombia	33.1
Costa Rica 1/	3.0
Czechoslovakia 1/	2.5
Greece	9.2
Hong Kong 1/	409.4
India	97.2
Israel	25.4
Italy	2.1
Jamaica	24.8
Japan	411.3
Korea	38.7
Malta 1/	14.7
Mexico	82.7
Pakistan	75.2
Philippines 1/	54.6
Poland	5.5
Portugal	120.2
Ryukyu Islands 1/2/	13.9
Singapore 1/	39.7
Spain	44.5
Turkey	3.5
United Arab Republic	51.0
Yugoslavia 1/	20.7
Total	1,657.7

1/ Not a party to the LTA.
2/ Also referred to as the Nansei-Nanpo Islands.

1/ Fifteen as contracting parties, and one each in a status of provisional accession (The United Arab Republic) and de facto application (Singapore).
2/ The agreement with Italy covered only category 7.

Summary.--At yearend 1969, trade restrictions in force between the United States and other countries under the provisions of the LTA covered an aggregate of approximately 1.7 billion equivalent square yards of cotton textiles. In its overall trade impact, this was tantamount to an aggregate U.S. import ceiling of 1.7 billion square yards equivalent on the cotton textiles affected. Bilateral agreements under article 4 accounted for nearly 97 percent of this aggregate limitation, with article 3 restraints accounting for the remainder. U.S. imports subject to these limitations amounted to about 1.5 billion equivalent square yards in 1969--88 percent of the 1.7 billion square yards of all cotton textiles imported by the United States in that year.

The 1969 import total of 1.7 billion equivalent square yards for all cotton textiles was up 0.1 billion from 1968; down 0.1 billion from the record high of 1966; and 0.7 billion more than in 1960, prior to the existence of any multilateral arrangement to control trade in cotton textiles. Compared with 1968, the most dramatic changes in volume of cotton textile imports occurred in the category groups covering cotton fabric, which increased by nearly 12 percent, 1/ and cotton yarn, which decreased by 46 percent. 2/ During 1969 no limitations under provisions of the LTA were imposed on U.S. exports of cotton textiles.

1/ From 613 million to 685 million equivalent square yards.
2/ from 229 million to 124 million equivalent square yards.

Extension of the Arrangement

The Cotton Textiles Committee of the LTA met in October and December of 1969 to consider extension of the arrangement beyond September 30, 1970, the scheduled expiration date. The participants generally agreed that the situation in international trade in cotton textiles had improved but that it had not yet improved to the point where all the LTA objectives had been achieved. They therefore decided to proceed on the "working hypothesis" that the arrangement should be extended in its present form for an additional 3 years. In consideration of prevailaing conditions in the domestic cotton textile industry and market, the United States proposed a five-year renewal but went along with the working hypothesis. After adopting the hypothesis, the CTC members agreed to meet again early in 1970 to take definitive action on extension of the arrangement. 1/

1/ On June 15, 1970, prior to the expiration of the existing three-year extension, the participating countries by protocol extended the LTA for an additional 3-year period, i.e., until September 30, 1973.

Textiles of Manmade Fibers and of Wool

In 1969 U.S. imports of textiles of manmade fibers amounted to 1.8 billion equivalent square yards, surpassing U.S. imports of cotton textiles for the first time. This figure compares with 1.5 billion in 1968 and 328 million in 1964. Wool textile imports in 1969 totaled 177 million equivalent square yards, down 15 million from 1968 and up 46 million from 1964.

Whereas U.S. imports of textiles of manmade fibers have risen steadily since 1964, imports of wool textiles have shown considerable instability. Fluctuating between 131 million equivalent square yards in 1964 and 192 million in 1968, U.S. imports of wool textiles averaged 168 million square yards over the 6-year period, 1964 through 1969.

Although textiles of manmade fibers and of wool are to some extent competitive with cotton textiles, to date they have not been covered by any multilateral trade agreement such as the LTA. Nor, in 1969, did the United States have any limitations in effect on imports of these textiles.

IMPLEMENTATION OF THE UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS AGREEMENT

The United States-Canadian automotive products agreement of 1965 provided for limited free trade between the two countries in automotive vehicles and original-equipment parts. By December 31, 1969, the agreement had been in effect for nearly 5 years. 1/

In 1969, two-way trade in automotive products between the United States and Canada rose to $6.3 billion, 29 percent over 1968 and about eight times the 1964 total. Canadian imports of automotive products from the United States in 1969 were valued at $3.2 billion, an increase of more than 25 percent over 1968 and about five times the 1964 level. U.S. automotive imports from Canada increased to $3.1 billion in 1969, a gain of nearly 40 percent over 1968; such imports amounted to only $71 million in 1964. The net U.S. export balance of trade in automotive products was calculated at about $97 million in 1969, which was only about 30 percent of the corresponding figure for 1968 and 12 percent of that for 1964. 2/

United States and Canadian Production and Trade in Automotive Products

During 1969, production in the U.S. automotive industry decreased slightly from the 1968 level. Employment, however, rose to a record high. Total production and employment in the Canadian automotive industry continued to increase, reaching peaks in 1969.

1/ For details on earlier implementation of the agreement, see Operation of the Trade Agreements Program, 17th, 18th, 19th, and 20th reports.

2/ The trade data given in this section relate to United States-Canadian trade in all automotive products--both those that were duty free under the agreement and those that were dutiable (e.g., replacement parts).

U.S. production of motor vehicles totaled 10.2 million units in 1969, which was about 6 percent below the 1968 total. Canadian production of motor vehicles amounted to about 1.4 million units (a record high), about 15 percent more than in 1968 and about twice that of 1964. In 1969 the Canadian share in the aggregate number of motor vehicles produced in the two countries was nearly 12 percent, compared with 10 percent in 1968 and 7 percent in 1964. 1/

Average monthly employment in the U.S. motor vehicle industry increased to 906,000 workers in 1969, a gain of more than 4 percent over employment in 1968 and 71 percent above the level of 1965. Average monthly employment in the Canadian automotive industry rose to 91,000, a small increase over the 3 preceding years but 14 percent higher than the number employed in 1965.

Total two-way trade in automotive products between the United States and Canada reached almost $6.3 billion in 1969, compared with almost $4.9 billion in 1968 and $731 million in 1964. Although exports of automotive products both from the United States to Canada and from Canada to the United States increased substantially, Canadian exports rose proportionately much more. The Canadian market for automotive products has experienced a faster rate of growth than the United States market, but the principal cause of Canadian export expansion has undoubtedly been the implementation of the automotive products agreement with the United States.

1/ The Canadian share of the combined two-country output of motor vehicles was materially smaller than the percentages indicate, since Canadian-assembled vehicles contained a substantial proportion of parts and accessories manufactured in the United States, while United States-assembled vehicles contained only a negligible proportion of parts and accessories made in Canada.

Canadian imports of motors, vehicles, and parts from the United States amounted to almost $3.2 billion in 1969, compared with nearly $2 billion in 1968 and $600 million in 1964. Parts and accessories alone accounted for $2.2 billion in 1969, $1.7 billion in 1968, and $597 million in 1964. Total U.S. imports of motor vehicles and parts from Canada soared to a high of nearly $3.1 million in 1969, compared with almost $2.3 million in 1968 and only $71 million in 1964. As a result, the net U.S. export balance in automotive trade with Canada was reduced to $97 million in 1969, compared with $320 million in 1968 and $589 million in 1964. 1/ Meanwhile, the customary annual U.S. export surplus in total trade with Canada shifted from a positive balance of more than $500 million in 1964 to a deficit of nearly $1.2 billion in 1969.

In 1969 Canada remained the principal foreign market and chief supplier of the United States with regard to automotive products. Canada took about 69 percent of U.S. exports of these products, compared with

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1/ United States and Canadian statistics on United States-Canadian trade in automotive products differ materially. These differences arise largely from the fact that both countries measure imports that enter dury free under the agreement more carefully than they measure exports that enter the other country duty free. U.S. import statistics on such trade, for example, are prepared in accordance with the import classifications established by the Automotive Products Trade Act of 1965, which identify all free entries resulting from the agreement. U.S. export classifications, however, do not separately identify some exports of automotive parts. Hence, statistical series on the U.S. export trade balance in automotive products with Canada differ, depending on whether they are based on U.S. data, Canadian data, or a combination of the two. The figures in the text were derived from U.S. import and export statistics. For other series, see Second Annual Report of the President to the Congress on the Operation of the Automobile (sic) Products Trade Act of 1965, Committee on Finance, U.S. Senate, May 21, 1968, and Third Annual Report, July 17, 1969.

about 37 percent in 1964. At the same time, Canada supplied about 66 percent of such U.S. imports, in contrast to only 11 percent in 1964.

Canadian and United States government negotiators met in Washington during November 1969 to discuss the eventual elimination of transitional restrictions on Canadian imports of motor vehicles and parts from the United States. Owing to differences in the size and the relative production costs of the automotive industries of the two countries at the time the agreement was negotiated, Canada had requested transitional arrangements until its smaller automotive industry could adjust to the much larger combined United States-Canadian market. Although some progress was achieved as a result of these discussions, by well into 1970 the Governments of the two countries had been unable to agree on the specific conditions for elimination of these transitional restrictions.

Petitions Filed for Adjustment Assistance

Under the Automotive Products Trade Act of 1965 (APTA), 1/ firms or groups of workers could apply to the Automotive Agreement Adjustment Assistance Board to be compensated for dislocations attributable to the implementation of the act. 2/ After June 30, 1968, petitions from groups of workers requesting determination of their eligibility to apply for

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1/ This act granted the President of the United States authority to carry out the automotive agreement.

2/ Petitions from groups of workers were filed with the Automotive Agreement Adjustment Assistance Board, comprising the Secretaries of Commerce, Labor, and the Treasury. The President had delegated to the Board the responsibility of determining the eligibility of petitioners for adjustment assistance. In accordance with the act, the Tariff Commission was requested by the Board to conduct an investigation of the facts relating to each petition and to prepare a report which would assist the Board in making its determination.

adjustment assistance were handled under the Trade Expansion Act of 1962, and no longer under the special provisions of the APTA.

Between 1965 and July 1, 1968, 21 groups of workers filed petitions for adjustment assistance under the APTA. Seven petitions were denied by the Board, but certifications of eligibility for such assistance were issued in the other 14 cases, affecting more than 2,500 workers in six States. Of these workers, about 1,950 had actually received weekly payments by July 1, 1968. During 1969, weekly payments for the year as a whole to workers certified before June 30, 1968, totaled only a little more than $250,000; such weekly payments amounted to as much as $80 per worker. During the first part of 1969, a monthly average of less than 20 workers collected benefits under the act; by December 1969, payments for adjustment assistance totaled approximately $4.1 million. During the entire 1965-69 period, no petitions for assistance were submitted by firms. 1/

1/ Adjustment assistance to firms could be in the form of technical, financial, or tax assistance.

INTERNATIONAL COMMODITY AGREEMENTS

A total of five formal international commodity agreements were in force in 1969, but the United States participated in only two--the International Grains Arrangement and the International Coffee Agreement. Although not formally adhering to the other three (the International Tin Agreement, the International Sugar Agreement, and the International Olive Oil Agreement), the United States does have certain informal contacts with their executive bodies--most notably the Tin Council, with which the United States consults on disposal of stockpiled tin. During 1969, a sixth agreement, the International Dairy Arrangement was negotiated under GATT auspices. The United States participated in the negotiations on the understanding that it did not intend to adhere formally to the final agreement. 1/

The International Grains Arrangement

The basic plan for the International Grains Arrangement (IGA) dates to the Kennedy Round. An International Wheat Conference in Rome in 1968 hammered out a final agreement in treaty form, effective July 1, 1968. The U.S. Senate approved the treaty in June 1968, and the U.S. ratifications were deposited shortly thereafter. The arrangement embodies two basic parts: a Wheat Trade Convention and a Food Aid Convention.

Growing wheat surpluses during 1969 produced considerable downward pressure on world wheat prices. The members of the arrangement failed

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1/ No other new agreements were concluded during 1969, but negotiations and meetings were held in various international forums on a large number of other commodities: cocoa, tea, rubber, hard fibers, jute and allied fibers, cotton, wool, rice, citrus fruits, bananas, wine, tungsten, lead, zinc, meat, and poultry.

during the year to agree on how to handle this problem, and the United States became concerned with the threat that it posed to the U.S. position in world commercial wheat markets. Therefore, the problem remaining unsolved by multilateral agreement, the United States took unilateral action to cut its wheat export prices. Other major exporters followed, and prices ultimately stabilized some 10 to 15 percent below the previously established IGA minimums.

The International Coffee Agreement

The International Coffee Agreement of 1968 continued the original agreement of 1962 for 5 years, through September 30, 1973. The U.S. legislation implementing it is the International Coffee Agreement Act of 1968. Signatories to the agreement include 41 producer countries and 21 consumer countries. The arrangement has four basic objectives: (1) To smooth price fluctuations in world coffee markets; (2) to provide stable and growing earnings for the producing countries as world consumption of coffee rises; (3) to maintain reasonable prices for consumers; and (4) to create conditions of long-term equilibrium between supply and demand. The International Coffee Council meets annually in August to estimate world demand and to set quotas for the coming coffee year, which runs from October 1 through September 30.

The first half of 1969 saw sharply falling coffee prices, which led the Executive Board in midyear to take steps to limit producer shipments. Before these steps had much effect, however, a severe freeze in Brazil reversed market conditions drastically, sent prices sharply upward, and led to the expansion of producers' quotas at the August council meeting and thereafter. Upward price pressure moderated somewhat until the end of the year, when inventory accumulations caused another strong upward acceleration.

Persistent longrun imbalances between consumption and production of coffee continued to be recognized, however, despite temporarily short production in the second half of the year, and agreement was reached on setting production targets for producer members, effective for the coffee year 1972/73. Inasmuch as this set limits on production, which otherwise would have been larger, a transitional Coffee Diversification Fund was established. The fund was to be financed mainly by the producer/exporter countries, which were required to remit $0.60 per bag of coffee exported. These funds were to be supplemented by a loan of $15 million from the United States, plus up to an additional $15 million to match any contributions forthcoming from the other consumer countries.

GOVERNMENT ACTIONS AFFECTING TRADE-AGREEMENT ITEMS

Certain provisions of U.S. legislation authorize the imposition of import restrictions (1) to protect domestic industries injured by increased imports stemming from trade-agreement concessions, (2) to prevent interference with agricultural programs of the U.S. Government, or (3) to prevent impairment of national security. Furthermore, governmental assistance of various sorts may be made available through other provisions to firms or groups of workers injured by increased imports resulting from trade-agreement concessions. Generally, an investigation by an agency of the Federal Government is required before imports can be restricted or adjustment assistance granted. The procedures invoked vary with the relevant statutes. A number of such investigations were conducted during 1969; these are discussed in the remainder of this chapter.

The Escape Clause 1/

During 1969 the Tariff Commission initiated and concluded three investigations under the escape-clause provisions of trade-agreement legislation. It also made two reports on industries producing goods for which escape-clause actions were in effect.

Escape-clause investigations are conducted under the provisions of section 301(b) of the Trade Expansion Act of 1962. 2/ The three

1/ Since 1943, all trade agreements concluded by the United States have included a safeguarding provision commonly known as the standard escape clause. This clause provides, in essence, that either party to a trade agreement can modify or withdraw its concessions if increased imports resulting from the concessions caused or threatened injury to the domestic industry producing like or directly competitive articles.

2/ For a detailed account of the provisions of the TEA and the Executive orders establishing procedures for its operation, see the appendix to Operation of the Trade Agreements Program, 17th report.

excape-clause investigations made during the year related to pianos, canned sardines, and flat and tempered glass. In each case, the Commission was required to determine whether the goods involved were, as a result in major part of trade-agreement concessions, being imported into the United States in such increased quantitits as to cause or threaten to cause serious injury to the domestic industry producing like or directly competitive products. In the piano investigation (TEA-I-14), the Commission's determination was affirmative with respect to pianos but negative with respect to piano parts. In the sardines investigation (TEA-I-13), the determination was negative. The glass investigation (TEA-I-15) led to determinations that varied according to the specific product involved. With respect to sheet glass, the Commission was equally divided; in such cases, the President may, under the law, consider the findings of either group of Commissioners as the findings of the Commission. With respect to plate, float, rolled, and tempered glass, the findings of the Commission were negative.

During 1969 the Tariff Commission submitted two reports to the President, under section 351(d)(3) of the TEA; this section of the act requires the Commission, under specified circumstances, to advise the President of the probable economic effect of the industry concerned of termination of an escape-clause action taken by him pursuant to the TEA or the Trade Agreements Extension Act of 1951. In one case, Wilton and velvet carpets and rugs, the Commission advised the President that conditions in the industry had changed substantially since the 1961 finding of injury and that U.S. producers of Wiltons and velvets in the aggregate would be little affected by the termination of the existing higher duty, which was scheduled for revision to 21 percent ad valorem on December 31, 1969. Subsequently, the President issued a proclamation lowering the duties on carpets of oriental design but extending the existing escape-clause tariff rate on other Wilton and velvet carpets. In the other case, sheet glass, the Commission's report and advice was followed by a Presidential proclamation which temporarily extended the existing escape-clause rates so as to permit consideration of the matter in conjunction with the Commission's forthcoming report on its escape-clause investigation relating to all types of flat glass.

Requests for Adjustment Assistance

Three investigations were completed by the Tariff Commission during 1969 under provisions of section 301(c)(2) of the Trade Expansion Act of 1962. The first of these (TEA-W-8) was made in response to a petition for adjustment assistance filed by the United Steelworkers of America, AFL-CIO, on behalf of a group of workers producing welded pipe at the Armco Steel Corporation Weld Mill, Ambridge, Pennsylvania. The other two (TEA-W-9 and TEA-W-10) were closely related and the subject of a single report to the President; they were petitioned by the same labor organization on behalf of workers producing transmission towers and parts in two plants--the Shiffler plant at Pittsburgh, Pennsylvania, and the Maywood plant at Los Angeles, California--of the American Bridge Division, United States Steel Corporation. In all three investigations, the Commission found that items like or directly competitive with those produced by the petitioning workers were, as a result in major part of trade-agreement concessions, being imported into the United States in such increased quantities as to be the major cause of the unemployment or underemployment of a significant number of workers in the affected plants. By virtue of these decisions the petitioning workers became eligible for certification for adjustment assistance by the Secretary of Labor.

Action Under Section 22 of the Agricultural Adjustment Act

Under section 22 of the Agricultural Adjustment Act, as amended, the President is authorized to restrict imports of any agricultural commodity, by imposing either fees or quotas within specified limits, whenever such imports render or tend to render ineffective, or materially interfere with, programs of the U.S. Department of Agriculture relating to agricultural commodities or products thereof. The Tariff Commission is required, under section 22, to conduct investigations of these situations when so directed by the President and to make reports and recommendations to him.

During 1969 the Tariff Commission conducted no new investigations under this legislation. Early in the year, however, following the submission to the President of the results of an investigation completed in December 1968 concerning certain imported dairy products, the President issued a proclamation setting quotas for 1969 on the importation of most of the types of dairy products involved. 1/

1/ For details, see Operation of the Trade Agreements Program, 20th Report, pp. 18-20.

National Security Investigations

Under section 232 of the Trade Expansion Act, the Director of the Office of Emergency Preparedness (OEP), upon the request of the head of any department or agency, the application of an interested party, or his own motion, is required to conduct an investigation to determine the effects of imports of an article on the national security. If he is of the opinion that imports of such an article are threatening to impair the national security, he is to advise the President accordingly; if the President is in agreement, he is required to take whatever action may be necessary to control the entry of such an imported article.

During 1969, the OEP initiated one new investigation under section 232 of the TEA, involving imports of miniature and instrument-precision ball bearings. Two others--concerning textiles and textile products and ferroalloys and related products--had been underway at the beginning of the year and were in progress at yearend.

Chapter 2

Operation of the General Agreement on Tariffs and Trade

INTRODUCTION

This chapter provides a summary of the principal developments occurring during 1969 in the General Agreement on Tariffs and Trade (GATT) and its agencies. These developments are presented under the following headings: expansion of trade, activities in the interest of developing countries, actions relating to obligations under GATT, and other actions taken.

The Contracting Parties did not hold an annual session in 1969. At their 25th Session in November 1968, however, they had directed the Council of Representatives to undertake the widest possible range of work during 1969 to relieve the 26th Session--held in February 1970--of the burden of a long agenda so they could concentrate on trade matters of major importance. In fulfilling its tasks, the Council held ten meetings during 1969 and submitted reports thereon to the Contracting Parties. Much of the work consisted of pushing forward programs begun earlier, such as the various activities included in the coordinated work program. This work will provide a foundation for future steps in removing barriers to international trade. In addition, the Council handled an extensive range of problems during 1969 relating to the Contracting Parties' obligation under the GATT.

At the end of 1969 the full membership of the GATT consisted of 76 contracting parties:

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

EXPANSION OF TRADE

Coordinated work program

Toward the end of 1967, after the completion of the Kennedy Round tariff negotiations, the member countries of the GATT established a coordinated work program designed to further liberalize and expand international trade. The work program is focused on three principal areas of trade--trade in industrial products, trade in agricultural products, and trade and development. The Contracting Parties agreed that the work in the three areas should be undertaken in three stages: the first stage, which was accomplished in the main during 1968, involved collecting information and documentation from the member countries; the second stage, largely completed during 1969, related to the identification and formulation of specific problems to be solved; and the third stage, which the Contracting Parties envisioned as involving a lengthy period of consultations after the 26th Session in 1970, concerned seeking effective solutions to specific problems.

Two of three trade studies, those made by the Committee for Trade in Industrial Products and the Committee on Trade in Agricultural Products, are summarized below. The third trade study, that done by the Committee on Trade and Development, which is of special significance to the activities of GATT concerning problems of developing countries, is discussed in a separate section.

Trade in industrial products

The Committee on Trade in Industrial Products was established by the GATT as a special committee in 1967. At their 25th Session in 1968 the Contracting Parties instructed the Committee to report to the Council, before the 26th Session, on the results of its work. The Committee's report to the Council in 1969 covered its activities from December 1968 through December 1969. Basically, the Committee's work on the expansion of trade in industrial products was divided into two areas of study. Study of both areas will help the Committee discharge its general mandate to explore opportunities for further progress toward liberalizing international trade.

The tariff study

The principal objective of the tariff study is to prepare an analysis of the international tariff situation as it will be when all Kennedy Round concessions have been fully implemented--i.e., after January 1, 1972. When this study was initiated by the GATT Secretariat in 1968 numerous technical and methodological problems were anticipated, and its early guidance was placed under a group of technical experts. During 1969 the tariff study group made considerable progress in gathering trade data of developed countries and recording them on computer tapes. Compilation of the 1972 tariff rates and trade statistics for the years 1964 and 1967 for the United States, Japan, the United Kingdom, Switzerland, and the countries of the European Community was almost fully completed. A concordance relating the Canadian tariff and the Brussels Tariff Nomenclature (BTN) was prepared, but because of technical considerations Canada's trade data for years prior to 1969 could not be processed. Data for Australia, Austria, Denmark, Finland, New Zealand, Norway, and Sweden were planned to be added as soon as feasible.

At its October meeting, the Committee noted that the Secretariat was preparing three summary tabulations. The first would compare the imports and average tariff rates of individual countries using BTN headings. This tabulation, to amount to some 500 pages, will serve as a reference work for consultations involving the tariff situation in particular areas or sectors of trade. The second tabulation, expected to be about 40 pages long, would summarize under 23 industrial categories the trade and tariff data relating to the countries included in the study. This tabulation will make possible a comparison of the tariff structures of each of the countries included. 1/ A third tabulation, requested by a number of contracting parties at the Committee's June 1969 meeting, would present tariff and trade data in a form suitable for analyses of specific trade problems faced by developing countries. Special emphasis was to be placed on the differentials prevailing between tariffs on primary materials and tariffs on the semifinished and finished products manufactured from such primary materials. The full report of the group of experts was submitted to the Contracting Parties at the 26th Session in February 1970.

Nontariff barriers to trade

At their 25th Session in November 1968 the Contracting Parties had agreed that the Committee on Industrial Trade should move ahead from the stage of study and identification of the nontariff barriers to trade to that of searching for mutually agreeable solutions to end such barriers. During its meetings in 1969, the work group analyzed a list of notifications of nontariff barriers submitted by virtually all members of the GATT. The list inventoried some 800 measures then in force which were deemed to constitute nontariff and paratariff barriers to trade. The barriers were listed whether or not the particular measure was legal in relation to the General Agreement. The notifications were placed in five main categories as follows: (1) government participation in trade; (2) customs and administrative entry procedures; (3) standards involving imports and domestic goods; (4) specific limitations on imports and exports (e.g. quantitative

1/ The European Community expressed reservations on the method of averaging used; these reservations were noted by the Council but the report as a whole was approved for submission to the Contracting Parties.

restrictions); and (5) restraints on imports and exports by price mechanisms.

By October 1969, the working committee had received from the Secretariat a report on each notification received, together with a brief description of the measure, the names of the notifying country or countries, and a summary of comments on the effects of the measure and/or its relation to the provisions of the General Agreement. After some discussion, the Committee agreed to proceed to the next stage of its work--that of exploring within its competence the possibilities for action, with a view both to reducing or removing particular nontariff barriers and to developing rules of conduct. It was further agreed that the work was to be of a purely exploratory nature and that any solutions proposed were not to be binding on individual governments. Accordingly, the Committee established five working groups, each to specialize in one of the five categories of nontariff barriers mentioned above. It was anticipated that the reports to be furnished by these groups would provide the basis on which bilateral or multilateral negotiations might later proceed.

Trade in agricultural products

The work of the Agriculture Committee in many respects paralleled in approach the work of the Committee on Industrial Products described above. An earlier study by the Secretariat had provided documentation relating to eight product groups which together accounted for an estimated three-fourths of world agricultural trade (i.e., cereals, dairy products, meat, vegetables, fruit, vegetable oils and oilseeds, raw tobacco, and wine). At the 25th Session the Contracting Parties directed the Committee to complete as rapidly as possible identification of the problems affecting international agricultural trade so that it could proceed to the stage of seeking mutually acceptable solutions to those problems. To this end, the Committee established four working groups to examine measures affecting each group of products. One group would examine export measures such as subsidies and double pricing arrangements; another, import measures including tariffs, variable levies, state trading, and quantitative restrictions; a third group would examine production, placing special emphasis on national policies affecting production in particular countries; and a fourth group, any other relevant measures not covered by the first three groups.

During 1969, the Agriculture Committee dealt with two particular problems, those involving oilseeds and vegetable oils, and those involving the disposal of commodity surpluses. 1/ In connection with the first problem, a proposal was made by Ceylon and Nigeria to reduce or eliminate barriers to trade provided the products were of tropical origin. After studying the proposal, the Agriculture Committee concluded that any proposed solution to the problem should be of a scope coextensive with the trade in all such commodities, regardless of origin. Accordingly, the Committee postponed further consideration of the proposal until further progress had been made in its overall study.

The problem of the disposal of commodity surpluses has been a continuing one in the GATT and in the United Nations. To prevent the disposal

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1/ During 1969 a special working group of the GATT reported on a special study relating to proposals for an international dairy arrangement. For a discussion of this report, see p. 58.

of such surpluses from disrupting world markets, the Contracting Parties--at their 9th Session in 1955-adopted a resolution establishing procedures whereby countries disposing of commodity surpluses would consult with any interested country. The consultation procedure had also been instituted in 1954 by the Food and Agriculture Organization of the United Nations (FAO). Because both the nature and scope of the problem had changed in recent years, the Secretariat in 1969 requested the Agriculture Committee to review the notification and consultation procedures provided in the 1955 resolution. That Committee, in cooperation with the FAO, prepared a draft resolution that would provide, in the case of concessional transactions (defined as those transactions listed in the annex to the resolution), that countries reporting and consulting in accordance with the FAO procedure would thereby fulfill their obligation under the GATT resolution. 1/

Joint Working Group on Quantitative Import Restrictions

During 1969, the Council established the Joint Working Group on Quantitative Import Restrictions. In establishing that group, the Council noted that in the recent decade many restrictions maintained for balance-of-payments (BOP) reasons had been eliminated. There remained, however, a "hard core" of BOP restrictions. These restrictions, when "legal" under the provisions of the GATT, were subject to regular review. A number of the restrictions, however, were "illegal" under the GATT rules and have

1/ The draft resolution was examined by the Contracting Parties in February 1970 and referred back to the Agriculture Committee for further consideration.

not been so reviewed. It was to be the purpose of the new joint working group to examine and attempt to find solutions for all of the BOP restrictions, whether allowed under GATT regulations or not. The group urged developed countries to submit lists of all their current quantitative restrictions. The activities of the Joint Working Group complements those of the other Committees associated with the work program for the expansion of trade, and will be composed of members from the three main committees of the GATT: Industrial Products, Agriculture, and Trade and Development. The working group planned to make a systematic examination of the nature and justification for each restriction maintained by developed countries and to report thereon at the 26th Session in 1970.

ACTIVITIES IN THE INTEREST OF DEVELOPING COUNTRIES

One of the underlying aims of the GATT has been to strengthen and improve the trade of developing countries. Inasmuch as a substantial majority of the member countries are in the earlier stages of economic development, most of the work carried on throughout the GATT is in some way responsive to the needs of these countries. Certain activities within the GATT, however, were established by the Contracting Parties for the express purpose of helping the economic growth of developing countries. Among these are the work of the Committee on Trade and Development, the Trade Negotiations Committee for Developing Countries, the International Trade Center (UNCTAD/GATT), and the Training Program. The principal activities in the interest of developing countries during 1969 are reviewed below.

Committee on Trade and Development

During 1969 the Committee on Trade and Development held its 13th, 14th, and 15th sessions. The basic topics reported upon are summarized below.

Examination of part IV of the General Agreement 1/

The Committee noted that since its last report to the Secretariat, five Governments--Burma, Greece, Haiti, Nicaragua and Uruguay--had accepted the protocol embodying the provisions of part IV. By the end of 1969, only four contracting parties had not accepted the protocol--France, Gabon, Senegal, and South Africa. The Committee expressed the hope that the remaining contracting parties would endeavor to take necessary legal action to accept part IV as soon as possible.

During 1969, the Committee conducted a full examination of the implementation of part IV. Its report cited the views of a number of members from developing countries to the effect that developed countries were not moving as quickly as they could to exempt certain developing-country products from the application of new taxes or surcharges, and the like, even when existing legislation in those countries did not make such restrictions mandatory. A number of representatives of developed countries, however, reiterated their governments' desire to accord high priority to the interests of developing countries, but felt that in some

1/ In 1965 the Contracting Parties broadened the General Agreement to include a new section, part IV, on trade and development, which comprised three new articles aimed at helping developing countries by increasing export earnings, lowering barriers to trade, and increasing trade in primary products of interest to such countries (arts. XXXVI, XXXVII, and XXXVIII). For comment on these articles, see Operation of the Trade Agreements Program, 17th Report.

cases more time was needed to evaluate the work in progress in other GATT bodies. For example, they felt that no major step toward full implementation of the objectives of part IV could be taken until a scheme for generalized preferences had been implemented. Because of the importance of consultations between developed and developing countries, the Committee agreed to provide guidelines for such consultations, and to continue to review the implementation of part IV at each of its sessions. The review would be based on notifications from members as well as documentation from the Secretariat.

Residual import restrictions affecting exports from developing countries

During its sessions in 1969, the Committee noted that some action to liberalize certain items of interest to developing countries had been taken, but that in general progress in this area was slow and limited in scope. A special group established by the Committee examined on a product-by-product basis items from a list of 21 products or product groups. Recommendations on these high-priority items were sent to the Secretariat for further consideration. Work on these items was slated to continue, with due regard to the activities of the Joint Working Group on Quantitative Import Restrictions.

Adjustment assistance measures

During 1969 the Committee continued its examination of adjustment assistance measures. It noted that such measures could offer a desirable alternative to import restrictions as a means of aiding sectors of national economies sensitive to trade liberalization. The trend appeared to be toward increasing use of adjustment assistance, and the Committee expressed the hope that countries applying it would do so with greater attention to problems of developing countries.

Trade in tropical products

Most of the work by the Committee's special group on tropical products was concerned with the proposal by Ceylon and Nigeria on vegetable oils and oilseeds of tropical origin. The group continued it study of the trade in other tropical products such as cocoa, coffee, tea, bananas, and spices. No action was reported by the group as having been taken in 1969.

The Trade Negotiations Committee for Developing Countries

The Trade Negotiations Committee for Developing Countries was established in 1967 to provide a forum for developing countries to exchange tariff and trade concessions with one another. By the end of 1969, 33 developing countries, including ten countries not members of the GATT, were participating in the Committee's work. In 1969 the Committee had submitted specific lists preparatory to actual negotiations, but it left the negotiations open for further preliminary discussion.

Preferential Trade Arrangement Between India, the United Arab Republic, and Yugoslavia

In their decision of November 14, 1968, the Contracting Parties approved the provisional implementation of a preferential trade arrangement between India, the United Arab Republic, and Yugoslavia. According to the terms of that decision, consultations between these countries and the Contracting Parties would be continued. On September 10, 1969, the Council appointed a working party to consult with the three countries with respect to a new protocol--to go into effect on October 1, 1969--which established additional trade preferences under the trade agreement between them. A number of members felt that the new preferences constituted a significant extension of the agreement, but the working party had not, by the end of 1969, reached any conclusions for recommendations on the preferential arrangement.

The UNCTAD/GATT International Trade Center

Under the arrangement agreed upon at the 24th Session of the Contracting Parties in 1967, the International Trade Center has operated since the beginning of 1968 as a joint UNCTAD-GATT agency. The activities of the center have expanded considerably and are concentrated mainly in such fields as market information and trade promotion services, training nationals of developing countries, and publications of periodicals and pamphlets useful for these countries.

In 1969, the advisory group for the center conducted a general review of the center's activities. One of the group's principal recommendations was that the trade center's headquarters in Geneva should serve as a base organization for expanding its technical assistance program. The center continued in 1969 to shift the emphasis in this area from one of providing information mainly through research activities to one of providing direct assistance for export promotion through representatives located in developing countries. In its report submitted to the Council in early 1970, the group commented favorably on the accomplishments of the center in 1969 and expressed hope that the redeployment of its budgetary resources into direct assistance in the developing countries would provide the operational services necessary to enable such countries to take progressively more responsibility for the formulation and implementation of their own export promotion programs.

Training program

The purpose of the training program is to provide training in commercial policy for government officials of developing countries. Since 1966 the Secretariat has conducted two courses each year. Applications for the courses have usually exceeded places available. In 1969, with additional financing from the U.N. Technical Assistance funds, two additional 5-week courses on trade policy and trade promotion were held in cooperation with the U.N. Economic Commission for Africa, in Tunis and Nairobi, respectively. The Council, in reviewing the training program in 1969, praised its work and recommended further expansion of its activities, particularly those associated with universities and area studies in various parts of the world.

ACTIONS RELATING TO OBLIGATIONS UNDER GATT

The basic objective of the GATT is to liberalize trade by reducing customs duties; dismantling or lowering other barriers to international trade, and eliminating discriminatory trade practices. Under certain circumstances, however, the General Agreement permits a contracting party to act in a manner inconsistent with that objective. Thus, article XII authorizes a contracting party to apply quantitative import restrictions to safeguard its balance of payments and its external financial position. Similarly, article XVIII permits developing countries to apply protective duties and other measures to facilitate their development programs. Articles XIX and XXVIII authorize the withdrawal or modification of tariff concessions if designated conditions exist. Moreover, article XXV authorizes the Contracting Parties "in exceptional circumstances not elsewhere provided for" to grant a member country, by two-thirds vote, a waiver of any obligation imposed on it by the General Agreement.

Contracting parties applying import restrictions under articles XII or XVIII are required to consult with the Contracting Parties annually or biennially. Waivers usually are granted for a fixed period of time, but frequently are extended. Major actions relating to the contracting parties' obligations under the General Agreement are summarized below.

Import Restrictions for Balance-of-Payments or Economic Development Purposes

During 1969, 12 contracting parties that were applying quantitative import restrictions under articles XII or XVIII of the General Agreement consulted with the Committee on Balance-of-Payments Restrictions regarding the nature of, the extent of, and the justification for such restrictions. Pursuant to the provisions of article XV of the General Agreement, each of the contracting parties concerned had held similar consultations earlier in the year with the International Monetary Fund (IMF). 1/

At its consultations the Committee studied the reports from the countries concerned and those from the IMF. The IMF reports contained detailed analyses of the economic situation of each of the countries. The Committee gave particular attention to the question of whether or not the individual countries applied the restrictions in conformity with their obligations under the General Agreement. The IMF had found improvement in either the financial situation or the general economic performance in the majority of countries consulted, and the Committee noted the liberalization of quantitative import restrictions in more than half of these countries.

The Council adopted the reports of the Committee with respect to all the consulted countries, thus indicating their consent to continue the restrictions. The contracting parties involved in the consultations, the authority under which the consultations were conducted, and the dates

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1/ South Africa did not consult under art. XV, but stated that it was disinvoking art. XII for certain restrictions and would announce further liberalization measures later.

on which the consultations were held are given below:

Country	GATT authority (article No.)	Date consultation was held or completed
Brazil	XVIII:12(b)	July 3, 1969
Ceylon	XVIII:12(b)	July 1, 1969
Chile	XVIII:12(b)	Nov. 11, 1969
Iceland	XII:4(b)	Nov. 17, 1969
India	XVIII:12(b)	Nov. 20, 1969
Israel	1/	Nov. 17, 1969
Korea, Republic of	XVIII:12(b)	Mar. 12, 1969
New Zealand	XII:4(b)	July 8, 1969
Pakistan	XVIII:12(b)	Nov. 17, 1969
Spain	1/	Nov. 18, 1969
Tunisia	XVIII:12(b)	Nov. 12, 1969
Turkey	XVIII:12(b)	July 4, 1969

1/ Authority not reported.

Reports on Actions Taken Under Waiver

During 1969 the Council took action on five waivers currently in force. These were the waivers pertaining to the Brazilian and Chilean tariff schedules, the Italian waiver permitting special fiscal treatment for bananas from Somalia, the Turkish stamp duty, and the waiver with respect to certain Uruguayan import surcharges.

Brazilian tariff schedule

In their decision of February 27, 1967, the Contracting Parties suspended the application of certain provisions of article II of the General Agreement to the extent necessary to permit Brazil to apply the rates of duty in that country's new customs tariff which may exceed those bound in schedule III. The waiver is subject to certain conditions. One of these called for consultations pursuant to article XXVIII to be concluded by February 1968 in the absence of negotiations satisfactorily concluded before that time. In 1968 the Contracting Parties extended the termination date until March 30, 1969. On May 19, 1969, the Contracting Parties again extended the date for termination of negotiations or consultations until the 26th Session in February 1970.

Chilean tariff schedule

In their decision of December 30, 1966, the Contracting Parties suspended certain provisions of article II of the General Agreement to enable Chile to put into effect certain rates of duty, pursuant to its new customs tariff, which might exceed those bound in schedule VII. The decision was subject to certain specified conditions, one of which was that Chile would terminate negotiations or conclude consultations under the relevant provisions of article XXVIII by December 31, 1967. The time limit was extended in 1967 and in 1968. One June 23, 1969, the Contracting Parties again extended the time limit until the end of the 26th Session, to be held in February 1970.

Italy: special fiscal treatment for bananas from Somalia

On November 21, 1967, the Contracting Parties granted Italy a waiver to allow it to extend a lower consumption tax to bananas originating in the Republic of Somalia than that applied to bananas of any other origin. The waiver was to expire on December 13, 1969. Prior to the expiration date, Italy requested that the expiration date be extended until December 31, 1970. Because the special treatment promoted the economic development of Somalia, and because that country had been making considerable effort to reorganize its banana production in order to be more competitive in international markets, the Contracting Parties, acting pursuant to article XXV:5, granted the extension requested. 1/

Turkish stamp duty (tax)

In July 1963 the Contracting Parties granted Turkey a waiver permitting that country to levy a stamp tax of 5 percent ad valorem on all imports of products included in schedule XXXVII--in effect an import surcharge. The waiver allowing the tax, which was one of the fiscal measures implementing Turkey's first 5-year development plan, was valid until December 31, 1967. In a decision of November 11, 1967, the Contracting Parties amended the waiver of 1963 to allow Turkey to increase the stamp duty to a rate not to exceed 15 percent ad valorem, and the Contracting Parties extended the waiver for another 5 years, until December 31, 1972. In 1968, Turkey informed the Contracting Parties that the tax had been raised to 15 percent as permitted under the waiver.

In April 1969 the Turkish Government informed the Council that it had amended its law so as to increase the maximum permitted stamp duty from 15 percent to 25 percent ad valorem on all imports, except certain products of an exceptional nature on which the rate was increased to 100 percent. Turkey requested that the waiver be amended to allow the increases but agreed to leave the expiration date in December 1972 unchanged. A number of representatives of the Council considered the

1/ The decision was made on January 14, 1970.

decision to increase the stamp duty sufficiently important to warrant its consideration by a special working party. Because Turkish officials stressed that the increased duty was not meant to reduce imports, but to maintain imports at a manageable level consistent with its overall balance-of-payments situation, the Council agreed to establish a special working party to meet with Turkey after that country's consultation in the balance-of-payments committee. The working party, which was headed by the chairman of that committee, was to examine the Turkish request for an amendment to its waiver after consultation with the International Monetary Fund and to report its conclusions to the Council.

In its report to the Council, the working party indicated that it had met with Turkey in July and that Turkish officials assured the working party that the stamp duty was only a temporary measure but that reduction or elimination of the duty before December 31, 1971, depended on future economic conditions. Some members of the working party indicated concern that Turkey had increased the duty on certain imports to 100 percent, but the Turkish representative stated that the 100-percent duty would apply only to limited imports and that his government would supply data on the volume of imports subject to the 100-percent stamp duty in Turkey's annual report to the Contracting Parties. The working party recommended that the waiver of 1963, as amended in 1967, be again amended to allow Turkey to increase the stamp duty to 25 percent, the waiver to expire on December 31, 1972. The working party noted that if the volume of imports subject to the 100-percent stamp duty were significantly expanded it might be necessary to reconsider the decision. Moreover, the working party recommended that the waiver include a number of terms and conditions which provided, among other things, that Turkey consult with the Contracting Parties annually with regard to its progress in removing, wherever possible, the items subject to the stamp duty, and that the Turkish Government consult with the Contracting Parties after its 1971 consultation under article XVIII:B. The Council approved the working party's decision and adopted its report.

Uruguayan import surcharges

In their decision of May 8, 1961, the Contracting Parties granted Uruguay a waiver, subject to specified conditions, to enable that country to implement its decree of 1960. The decree levied certain surcharges in excess of those allowed under article II of the General Agreement. Originally, the waiver was regarded as a temporary measure, but Uruguay has received numerous extensions. During 1969 the Council recommended that Uruguay be authorized to maintain the surcharges until August 1, 1970. The Contracting Parties adopted the Council's recommendation in February 1970.

OTHER ACTIONS TAKEN

In addition to the actions presented above, the Contracting Parties or their agencies devoted their attention to various other matters in 1969, the more important of which are summarized below.

The Kennedy Round

Implementation of tariff concessions

The tariff concessions negotiated during the Kennedy Round in 1967 were to be implemented in five equal stages. Contracting parties wishing to utilize the maximum time to implement fully the concessions could elect to reduce tariffs on the applicable items by 20 percent on January 1st of each of the years 1968 through 1972. On January 1, 1969, 12 countries implemented their second 20-percent reduction. Contracting parties that made two 20-percent reductions in 1968 were not required to make a reduction on January 1, 1969. By the end of 1969, all contracting parties that had granted tariff concessions in the Kennedy Round had completed a minimum of two 20-percent reductions. 1/

During 1969, two countries--Canada and Ireland--decided to implement their tariff concessions in advance. Canada announced that, effective July 4, 1969, it would fully implement all concessions negotiated during the Kennedy Round with the single exception of its concession on shoeboard. The Government of Ireland, on July 1, 1969, fully implemented all concessions made by it during the Kennedy Round. Argentina, the Dominican Republic, and Iceland had fully implemented their Kennedy Round concessions during 1967 and 1968. Thus, by the end of 1969, five countries had exercised full implementation of their concessions. The third-stage reduction was to take place on January 1, 1970, for all contracting parties except the five just mentioned and three countries that are not involved in the staging process.

1/ Three contracting parties are not involved in the staging process because the concessions that they made in 1967 involved either binding existing tariff rates or reducing tariffs by a given percentage each year.

Supplemental agreement relating principally to chemicals

During the Kennedy Round, U.S. representatives lacked the authority to negotiate abolition of the American Selling Price (ASP) method of assessing duties, applicable to imports into the United States of benzenoid chemicals and certain other products. The United States negotiated a so-called special package under a separate agreement whereby the United States would abolish the ASP system in return for a number of concessions, principally duty reductions on U.S. exports of automobiles. The separate agreement was to enter into force on January 1, 1969, but the U.S. Congress did not pass the enabling legislation during 1969 and the parties to the agreement decided in December 1969 to extend the expiration date until January 1, 1971.

International Antidumping Code

The Committee on Antidumping Practices eas established by the Contracting Parties on November 14, 1968, for the purpose of enabling parties to the international antidumping code to consult on the operation of the code. 1/

In 1969, the Committee on Antidumping Practices held two meetings, one in February and one in September, during which it examined the antidumping laws and regulations in force in the member countries, to ensure conformity with the code. The Committee felt that more explicit rules or modifications of certain existing national legislation would be

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1/ The Committee was established at the request of the parties to the Agreement on the Implementation of Article VI, as foreseen by art. 17 of the agreement. All parties to the Agreement on the Implementation of Article 17 are ipso facto members of the Committee; on December 31, 1969, 18 countries (including the United States) and the European Community were parties.

desirable. The Committee also examined reports submitted by the member countries on their disposition of specific antidumping actions taken during the period July 1, 1968, through June 30, 1969. 1/

Border Tax Adjustments

In March 1968, following a request by the United States, the Council of Representatives appointed a working party to examine the provisions of the General Agreement relating to border tax adjustments, the practices of the contracting parties concerning these matters, and the effect of border tax adjustments on international trade. 2/ The working party held five meetings during 1968 and four meetings in 1969. It completed the examination of the relevant provisions of the General Agreement and examined a number of border tax systems applied by some of the contracting parties. The work done brought out the difficulty in comparing tax systems internationally and in deciding what kind of border tax adjustments should be applied.

The working party recommended in its interim report for 1969 that it continue its study of the border tax arrangements and submit a report to the Contracting Parties at their 26th Session or late in 1970.

1/ During calendar year 1969, the United States under its antidumping act found dumping in only three cases: potassium chloride from Canada, potassium chloride from France, and potassium chloride from West Germany.

2/ For the purposes of its examination, the working party used the definition of border tax adjustments used by the Organization for Economic Cooperation and Development "... any fiscal measures which put into effect, in whole or in part, the destination principle (i.e., which enable exported products to be relieved of some or all of the tax charged in the exporting country in respect of similar domestic products sold to consumers on the home market and which enable imported products sold to consumers to be charged with some or all of the tax charged in the importing country in respect of similar domestic products)."

International Dairy Arrangement

During 1969 a working party conducted, on behalf of the Contracting Parties, consultations under article XXII:2 of the GATT leading to the formulation of an international dairy arrangement. By the end of 1969, there was a consensus among the participants that an agreement to set a minimum export price on skimmed milk powder was imminent. The working party planned to hold a meeting in early 1970 to determine if there was sufficient participation to put the arrangement into force. The representative of the United States stated that because of the derogation of the provision in the arrangement setting minimum prices for skimmed milk powder used for animal feed, the United States would not participate in the arrangement, but would be willing to serve as an observer on the Management Committee, if the parties deemed it desirable. 1/

United Kingdom Import Deposits Plan

In November 1968, the United Kingdom introduced its import deposit plan, a measure designed to help bring that country's balance-of-payments into surplus. The Contracting Parties at their meeting on November 25, 1968, established a working party to examine the British import deposit plan and its implications and report thereon to the Council by January 21, 1969.

In its report to the Council the working party concluded, without prejudice to other contracting parties that may later wish to exercise their rights under the General Agreement, that the plan was not more

1/ The arrangement entered into force for skimmed milk powder on May 14, 1970.

restrictive than measures allowed under article XII of the General Agreement. The conclusion was based on a finding by the International Monetary Fund that "the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to achieve a reasonable strengthening of the United Kingodm's reserve position."

In a Council meeting held in October 1969, the U.S. representative announced that his country had decided to extend this import deposit plan for a one-year period from the original expiration date of December 5, 1969, and the United Kingdom would reduce the rate from 50 to 40 percent. The Council decided to reconvene the working party and to invite the International Monetary Fund to report its findings after consultation with the United Kingdom. At the end of 1969 the matter was still under review.

Consultations with Poland

In 1967 Poland acceded to the General Agreement on Tariffs and Trade. Instead of reciprocal tariff concessions, ineffective in a country with a state monopoly of foreign trade, Poland undertook to increase the total value of its imports from the Contracting Parties by not less than 7 percent per annum.

In 1969, pursuant to paragraph 5 of the Protocol for the Accession of Poland, a special working party held the second annual consultation with the representative of Poland's Government concerning his country's foreign trade and submitted a report to the Contracting Parties.

The working party noted, Poland's representative dissenting, that from 1967 to 1968 Poland's imports from GATT countries increased by 6 percent. Thus, it concluded that the objectives fixed by the protocol of accession had not been reached. Some members of the working party stated that special circumstances had made it difficult for Poland to reach its objective. The working party noted that estimates supplied by the representative of Poland indicated that Poland's imports from GATT countries would increase by 7.1 percent from 1968 to 1969 and 7.4 percent from 1969 to 1970. The working party's report was submitted to the Contracting Parties in February 1970.

Review of Swiss Protocol of Accession

After eight years of provisional membership, Switzerland was granted full accession to the GATT in 1966. The lengthy period of provisional membership was due to the fact that Switzerland had been unable to relinquish its quantitative restrictions on agricultural products and had to seek relief under the provisions of article XI of the General Agreement. In granting full accession to Switzerland, the Contracting Parties relieved that country of the obligations of article XI with respect to agricultural products. The relief was subject to certain conditions among which were the following: that Switzerland would report annually on its restrictions, that the restrictions concerned be applied in a manner that would cause minimum harm to the interests of contracting parties, that Switzerland would enter into consultation concerning the measures upon the request of the Contracting Parties, and that the

Contracting Parties would conduct a thorough review of such measures every 3 years.

In 1969 the Contracting Parties held their first triennial review of the application of paragraph 4 of the Swiss protocol of accession. The working party established to conduct the review noted that during the 3-year period Switzerland had introduced no new restrictive measures, nor had it intensified any of the existing measures. The report of the working party was adopted by the Council on October 29, 1969.

Malawi Tariff Preferences

After becoming an independent state on July 6, 1964, Malawi applied provisionally the customs tariff of the Federation of Rhodesia and Nyasaland. On January 1, 1967, Malawi introduced a new customs tariff based on the Brussels Tariff Nomenclature. The transition from the old system to the new system caused changes in preferential rates, some increasing and some decreasing. A working party established to examine the Malawi preferences met in April 1969, but a key code by which the preferential rates between the two systems could be compared was made available by Malawi too late for the working party to agree on conclusions. At a later meeting, in June 1969, the working party concluded that the new rates were in general conformity with article I of the GATT and Malawi need not take further action to adjust its rates. The working party recommended that if in the future a contracting party found itself adversely affected by a margin of preference inadvertently increased by Malawi's new system, that party might bring the matter before the Contracting Parties under the usual procedures. The Council adopted the working party's report on June 30, 1969.

CHAPTER 3

Major Developments in Regional Trading Blocs and Certain Countries

INTRODUCTION

Major developments in certain regional organizations and countries relating to their trade and commercial policy, especially their commercial relations with the United States, are discussed in this chapter. These regional organizations are the European Community (EC), the European Free Trade Association (EFTA), the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), and the Caribbean Free Trade Association (CARIFTA). Canada and Japan, two major U.S. trading partners, are also covered. In 1969 these regional groups and countries accounted for about 80 percent of all U.S. imports and three-fourths of all U.S. exports. Canada, Japan, and most members of these regional groups have trade-agreement obligations with the United States, primarily through their membership in the GATT.

As the U.S. trade surplus has declined since 1964, interest has centered increasingly on the challenge presented by the commercial policies of the trading partners of the United States, especially those of regional economic organizations. Tariff and other commercial discrimination against third countries usually is an intrinsic feature of such regional groups. For example, the protectionist measures gradually adopted by the European Community, especially respecting agricultural trade, appear to have had a heavy impact on U.S. agricultural exports.

Nevertheless, the United States got some relief from tariff discrimination during the year under review, since many of its trading partners also implemented the tariff reductions staged for 1969 in the Kennedy Round of trade negotiations conducted within the framework of the GATT. If the reductions implemented on January 1, 1970, are also taken into account, by the beginning of 1970 the United States and all major U.S. trading partners (the EC, EFTA, Canada, and Japan) had cut their tariffs by 60 percent of the total reductions to which they had committed themselves.1/ Canada went even further and fully implemented its agreed concessions (with the single exception of shoeboard--a paper product) in June, 1969. At the same time, however, increasingly protectionist measures practiced through a variety of nontariff barriers continued during the year to be major obstacles to multilateralism and nondiscrimination in international trade.

World trade again rose vigorously in 1969, while the overall share of industrial countries in world exports and imports also continued to grow. Trade flows among members of the European Community, between Japan and the United States, among members of the European Free Trade Association, and between the United States and Canada all expanded even faster than world trade as a whole. The United States was able to reestablish some of its trade surplus with the rest of the world but the surplus remained far below levels reached during most of the sixties. The improved U.S. trade performance stemmed from a sharp deceleration of

1/ Switzerland is an exception. By January 1, 1970, it had effected only the first two of the three scheduled 20-percent duty reductions.

import growth, mainly as a consequence of slackening domestic economic expansion. The United States improved its trade balance with the LAFTA, EFTA, and especially the European Community, its second largest trading partner. On the other hand trade deficits with Canada, its biggest trading partner, and with Japan both increased.

EUROPEAN COMMUNITY

The European Community 1/ entered 1969 as a functioning customs union and agricultural common market. Quotas and tariffs already had been dismantled in intermember trade and members had unified their tariffs on industrial imports from outside the region and harmonized their treatment of agricultural trade with nonmembers. Within the framework of a common agricultural policy (CAP) the members had instituted throughout the Community a unified and jointly financed system for supporting farm production and farm exports.

In 1969, some Community arrangements that had been successfully adopted were disrupted by new developments. The common agricultural price and support system broke down temporarily owing to changes in the parities of two currencies--the French franc and the West German mark. This required that the special interests of the members be reconciled with the overall Community interest of preserving the CAP. Moreover, the shortcomings of the CAP became more obvious; its high cost grew increasingly apparent as surpluses of dairy products, grain, and other farm products continued to grow. During the year the Community studied the proposal its Commission had submitted in 1968 regarding a radical change in the CAP, But made no decision on the subject. Instead, it agreed on the final arrangements for financing the existing CAP in years to come.

The Community continued to concentrate during 1969 on the removal of the remaining impediments to free trade, consisting of a variety of

1/ The Community comprised the following countries: Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands.

nontariff barriers. Some progress was made toward an "economic union" by coordinating national policies in various social and economic areas. Work has continued on a common commercial policy towards nonmember countries. On the other hand, the Community did not succeed in adopting the tax on value added (TVA) by January 1970, as originally scheduled. Introduction of the TVA was postponed for two more years.

An event of major significance was the Community's decision to open membership negotiations with the United Kingdom, Denmark, Ireland, and Norway. The Community also renewed its association agreements with a number of African countries and concluded new preferential trade agreements with other countries.

Enlargement of the Community

In December 1969, members of the Community agreed to open membership negotiations with the United Kingdom, Denmark, Ireland, and Norway--the four countries had submitted applications in 1967. This was a significant change in the position of the Community regarding its enlargement, since the four applicants had been informed in December 1967 that, for the time being, no action would be taken on their requests.1/ The Community decided, moreover, that by the middle of 1970 all members should be ready to begin discussion.

Decision regarding talks on the enlargement of the Community was preceded by a report submitted by the Commission to the Council of Ministers, pointing out that agriculture would be one of the main problems of enlargement. The report emphasized that transitional measures

1/ See Operation of the Trade Agreements Program, 20th report, pp. 67-69.

would be necessary to mitigate the financial consequences of the CAP on new members and the effects of the CAP on patterns of farm production and consumption in the enlarged Community area. The report further pointed out that prospective members should accept the existing principles of the common farm policy, but acknowledged that a structural reform of the CAP then under consideration would make it easier for new members to accept the financial implications.

Of the four prospective members, the United Kingdom would be most affected by the CAP. The UK subsidizes domestic farmers and imports large amounts of food in an effort to keep food prices down. As a member of the Community, the UK would have to share under the present system of the CAP about half of the costs of the program. Most of the benefits would accrue to farmers outside the UK, and agricultural surpluses would continue to accumulate. At the same time the United Kingdom would probably have to face a meterial increase in its own food prices. For these reasons, tough bargaining for some modifications of the original CAP seemed inevitable.

Other External Relations

In 1969 the Community continued to support the concerted efforts of several industrial countries to create a nondiscriminatory and nonreciprocal generalized system of preferences benefiting developing countries. Nevertheless, the Community proceeded to strengthen the intricate network of its own preferential system, by negotiating new trade agreements of association with a number of countries. The Community had begun creating its preferential system by successive agreements of association 1/ with European and African countries; with Greece in 1961, with 18 African countries 2/ and Turkey in 1963, with Nigeria in 1966, and with three East African states in 1968. In addition, the Community throughout the 1960's concluded preferential trade agreements or entered into preliminary negotiations with a number of countries, mainly in the Mediterranean area.3/

By 1969, then, the EC was well on its way toward building a preferential trading area embracing most of the Mediterranean Basin and a large part of Africa. Moreover, the pretense by the EC that such preferential arrangements would be limited to countries with which the six had special historic (e.g., colonial) or economic ties appeared less and less meaningful--most notably in the case of association agreements with members of the British Commonwealth.

Generalized tariff preferences for developing countries

In March 1969, following up a resolution adopted at the second U.N. Conference on Trade and Development, the Community agreed on a tentative scheme of generalized tariff preferences on manufactures and semimanufactures of developing countries. The Community submitted this scheme to

1/ Association agreements generally envisage the eventual establishment of a customs union or a free trade area. Associations indicate a wider scope of economic ties between participants than trade agreements but a narrower one than full membership in a regional organization.

2/ This agreement of association conferred associate status on former territories of member countries that since have become independent.

3/ Australia, Malta, Spain, Israel, Iran, Lebanon, the United Arab Republic, Morocco, and Tunisia.

the Organization for Economic Cooperation and Development (OECD), the international organization through which Western Countries coordinate their positions on the subject. Under the Community's plan, imports of all manufactures and semimanufactures originating in developing countries would be free from customs duties, but would be limited by quotas. At the same time, the Community submitted to the OECD a preliminary list of processed agricultural products for which it would be ready to grant tariff concessions, should inclusion of such products in this system of preferences be considered.

Association with 18 African countries

On July 29, 1969, at Yaounde, Cameroon, the Community and 18 African countries 1/ signed their second convention of association, which was to apply also to the Community members' overseas possessions and territories. The first such convention was signed at Yaounde in 1963 and took effect on June 1, 1964, for a period of 5 years. 2/ The renewed association is based on the trade and aid principles of the first Yaounde convention. It provides for free trade in most industrial products between the Community and the associates and preferential treatment by the Community for the agricultural products of the associates. The convention also allows the African countries to retain or introduce import restrictions for development or budgetary reasons or for coping with balance-of-payments difficulties.

1/ The 18 countries are Burundi, Cameroon, the Central African Republic, the Congo (Leopoldville), the Congo (Brazzaville), Ivory Coast, Dahomey, Gabon, Upper Volta, the Malagasy Republic, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Chad, and Togo.

2/ See Operation of the Trade Agreements Program, 16th Report, pp. 58-59.

The new Yaounde convention pledged $1 billion in economic aid for the eighteen associates and the overseas territories of Community members, which compares with $800 million provided in the first convention. This expanded European Development Fund (EDF) is to be used primarily to promote the industrial sectors of the countries involved.

The convention includes some changes that reflect new developments in the fields of economic assistance and trade over the last decade. It takes into account the need for a coherent Community policy towards all developing countries and includes a protocol permitting associates' participation in a worldwide system of generalized tariff preferences. It also leaves the associates free to join regional customs unions or free trade areas.

Association with three east African countries

On September 24, at Arusha, Tanzania, the Community signed a new association agreement with the three east African members of the British Commonwealth: Kenya, Uganda, and Tanzania. The agreement follows the main lines of the first Arusha agreement of July 1968, which expired before ratification was completed.1/ The agreement provides as a general rule that exports of the east African countries, like those of the Yaounde associates, shall have free access to the Community. However, only limited amounts of coffee, cloves, and canned pineapple are to be allowed into the Community duty free, in order to avoid harmful competition for the Yaounde countries. Moreover, the association council was to decide

1/ See Operation of the Trade Agreements Program 20th report, pp. 70-71.

later on the treatment by the Community of specific agricultural export commodities of the east African partners that compete with European products. The east African Associates on their side agreed to remove all customs duties and quantitative restrictions not needed to protect their economic development, balances-of-payments, or budgets.

Trade agreements with Tunisia and Morocco

In March 1969, the Community signed trade agreements pointing toward an eventual association with Tunisia and Morocco. The agreements provide, with some exceptions, free access to the Community for the manufactured products of the two countries. The Community's concessions vary for the agricultural export products of Tunisia and Morocco, being substantial for olive oil, most fresh and preserved fruit and vegetables, fish products, and Moroccan hard wheat. In return, Tunisia grants the Community a preference equal to 70 percent of those it previously accorded France on products representing about 40 percent of Tunisia's imports from the Community. These concessions are to be granted in stages over a 36-month period, to lessen their impact on Tunisian industry. Morocco, however, had to refrain from granting preferences because of an earlier commitment.1/ Hence, in its 1969 trade agreement with the Community, Morocco agreed to a general, nondiscriminatory tariff reduction on specified imports representing 7 percent of its import volume.

1/ The Act of Algeciras, signed in 1906 by Morocco and several important powers, aimed to limit the preferential treatment of France by Morocco in economic matters. The act stipulated that Morocco shall not grant trade perferences to any country.

Trade with Eastern Europe

In December 1969, the Community agreed on a common system governing imports from and exports to the Soviet Union and countries of Eastern Europe. 1/ The agreement contains a "liberalization list" that specifies the products allowed to enter the Community on a quota-free basis, and resolves to add still more products to it. Member states may not unilaterally reimpose quotas or other trade restrictions on products appearing on the list. The Community also agreed on a short common list of products for which export restrictions still exist and decided that thenceforth no member state may unilaterally forbid the export to these countries of any product not already restricted.

1/ See below, "Common Commercial Policy for 1970-73," for Community regulations on bilateral agreements with third countries, including the state-trading nations.

Other Commercial Policies Affecting Third Countries

Common commercial policy for 1970-73

The Treaty of Rome called for a common commercial policy to become operative on January 1, 1970. Yet many aspects thereof were in force by 1969 including common policies for trade in agricultural products and for industrial imports from all third countries except state-trading nations. Still to be defined were common policies on industrial trade with state-trading nations and replacement by Community agreements of existing bilateral trade agreements with third countries.

In October 1969, the EC Council approved a limited version of a common commercial policy which allows members to conclude bilateral trade agreements with third countries for three more years after January 1, 1970. However, the Community must authorize the negotiations for such agreements, define their subjects, and approve the agreements before signature. The new arrangement will enable members of the Community to continue making bilateral arrangements with countries such as the Soviet Union and East European countries which have so far declined to negotiate with the Community as a unit. After January 1, 1973, communist countries will have to recognize the Community's existence if they want trade agreements with its members. Such agreements then will be negotiated by the EC Commission on behalf of the members, collectively.

Changes in the parity of currencies

Effective August 10, 1969, the French Government devalued the franc to Fr. 5.55:US $1.00 from Fr. 4.94:US $1.00. The step was induced by a substantial balance-of-payments deficit and massive reserve losses which could not be stemmed by fiscal and monetary measures.1/ The French Government followed up and supplemented the parity change with strict exchange controls to prevent capital flight. Also, tighter fiscal and monetary policies were adopted, both to revive confidence in the franc and to reduce internal consumption and investment demand so that resources would be shifted to export production.

In contrast, the Federal Republic of Germany had exactly the opposite problem with substantial trade and balance-of-payments surpluses and an increasingly undervalued currency. Under international pressure, the Government in 1969 first tried half-way measures to solutions. It changed its border tax system and granted bonuses on imports while taxing exports, but such measures failed to reduce the trade surplus and did nothing to stem widespread international speculation on an upward revaluation of the deutsche mark (DM), the official parity of which was DM 4:00:US $1.00. When speculative inflows of short term capital became intolerable, the DM was turned loose to "float" upward, without an officially supported parity. Calm returned shortly and, effective October 27, 1969, the Government pegged its currency once again, at a new parity of DM 3.66:US $1.00.

1/ See Operation of the Trade Agreements Program, 20th report, pp. 65-66.

The parity changes made by France and West Germany promised to have enormous beneficial effects on bilateral economic relations between these two "giants" of the Community. Because they went in opposite directions, these parity changes opened up a massive relative price differential of roughly 20 percent between the two countries. Thus, French exports suddenly were about 20 percent cheaper in Germany, while German goods became roughly 20 percent dearer in France. Germany is France's biggest trading partner, accounting in 1969 for 21 percent of French exports and 22 percent of French imports, so that the parity changes had a quick and substantial effect on France's trade deficit. The effect on the German side was less pronounced, because Germany's trade with France accounts for smaller proportions of its total exports and imports. Prior to the parity changes, a worrisome condition of imbalance or disequilibrium had been developing between the two countries--although its significance had been obscured by the much more spectacular international monetary effects of the DM's undervaluation. Sooner or later, however, it probably would have created a serious problem for the Community itself, in terms of commercial and economic policy harmonization. As it developed, however, the two parity changes--made largely for other reasons--went far to nip the problem in the bud, notwithstanding the nasty repercussions they had on the CAP. Nevertheless, awareness within the French and German governments of this growing disequilibrium almost certainly helped to make their respective decisions to change parities more palatable.

Foreign Trade

The Community's internal trade has expanded significantly as a result of the gradual creation of a single market. Over the first 11 years of the Common Market's existence, intra-Community trade more than quadrupled; it reached $36.3 billion in 1969, which compares with $6.8 billion in 1958. In 1969 alone intra-Community trade grew 28 percent. Trade with third countries also expanded appreciably during the same period, although at a lower rate. In 1969, both exports to and imports from third countries amounted to $39.2 billion, two and a half times 1958 values. This growth in external trade outstripped the increases in both overall world trade and the external trade of most other countries or economic groupings. In 1969 Community exports to third countries increased by 11 percent, and its imports from such countries rose by 17 percent; the Community's balance of external trade lost all of the surplus attained in 1967 and 1969, owing to deterioration in the trade balances of all members, particularly France and Italy. Even West Germany lost some of the significant trade surplus it had built up in the sixties, but its position remained strong enough largely to offset the combined deficits of all the other members.

Commercial Relations with the United States

The United States imported $5.8 billion worth of merchandise from the Community in 1969. This was 1.4 percent less than in 1968, when U.S. imports from the Community had been grossly inflated. Imports of metals and automobiles declined, while those of clothing and footwear continued to increase. Meanwhile, U.S. exports to the Community increased by

14 percent -- to $7 billion under the stimulus of a veritable economic boom in Western Europe. Demand was especially strong for steel and associated materials, coal, scrap, and certain alloys, as supply problems developed in the Community. In 1969 the United States trade surplus with the Six, which almost disappeared in 1968, returned to the $1.2 billion level of 1967. Whereas in 1958 the United States had accounted for 17 percent of the Community's total imports from third countries and 10 percent of its exports to them, in 1969 these percentages increased to 19 and 15 percent, respectively. By 1969, the EC countries all were swinging upward in an extraordinary business-cycle expansion, and as in the past, this had a trade-creating effect that strongly boosted Community trade with extraregional countries, in particular the United States. In terms of overall trade, this effect swamped the weaker impact of various sorts of discrimination against third countries.

Nevertheless, commercial relations between the United States and the Community became more strained. In 1969, U.S. agricultural exports to the Community declined for the third consecutive year, from a high of $1.6 billion in 1966 to $1.3 billion. The decline centered largely on commodities subject to the EC's variable levies, highlighting the damaging effect of Community protection on U.S. farm exports. The Community counterargued, however, that all U.S. agricultural exports declined during the same period and that the Community's share of the world market for U.S. farm products remained fairly stable.

U.S. concern also extended to measures of the Community other than variable levies, such as heavy subsidization of farm exports, which compete with U.S. exports to third countries and are therefore partly responsible for the erosion of the U.S. position in non-EC markets that the Community cites in its defense; proliferation of discriminatory trade agreements with a number of countries; and erection of various nontariff barriers (NTB's) that weaken the effect of tariff reductions negotiated in the Kennedy Round. As the NTB issue became more and more sensitive, U.S. concern focused on the EC's use of border taxes and on a consumption tax on soybeans and other oilseeds that had been proposed by the Community in 1968.

Common Agricultural Policy

By 1969, intra-Community agricultural trade was virtually free of restrictions as a result of measures implemented in previous years. Moreover, the six members had supplanted widely differing national farm policies with a common agricultural policy--the CAP. The CAP involves a common mechanism for the guarantee of prices of major farm products at levels substantially above world prices, administered through a common agricultural fund. It also includes a common system of variable levies to protect a wide range of Community farm products against import competition from third countries.1/ In 1968, the CAP came under severe criticism even within the Community itself on the grounds of its high cost and

1/ For further references to the CAP, see Operation of the Trade Agreements Program, 17th, 18th, 19th, and 20th reports.

the serious surplus problems it created. In response, the Commission submitted to the Council a ten-year program for the structural reform of agriculture, generally referred to as the Mansholt Plan. This program is still more expensive than the existing CAP.1/ In 1969, the proposal was widely discussed in various Community institutions, member countries, and potential members, as growing surpluses and the heavy cost of the CAP continued to be serious problems. No decision on the subject was reached during the year.

Financing the CAP

The members of the Community finally reached agreement in December 1969 on how to finance the CAP in the future. Under the old system that ended in 1969, the six members paid into the common agricultural fund 90 percent of the levies they collected on agricultural products--but none of the customs duties collected. They financed the rest of the cost of the CAP directly from their national budgets, according to a specified percentage distribution. The new system is designed to make the CAP self-financing, with contributions from the national budgets scheduled to be gradually eliminated. Beginning in 1971, the members pay all the import levies and part of the customs duties collected on farm products (by 1975 all of such customs duties) into a common agricultural fund, thereby reducing greatly the dependence of the CAP on the members' national budgets. Prior to 1975, the deficit is to be financed from direct national

1/ See Operation of the Trade Agreements Program, 20th report, pp. 61-63.

budget contributions, according to a specified percentage scale. From 1975 on, the national budget assessments will be eliminated and members will turn over to the common agricultural fund part of their receipts from the TVA.1/

The significance of the new CAP financing system goes beyond the limited objective of putting the Community's agricultural programs on a self-supporting basis. For the first time the new system establishes the political principle of budgetary control at the Community level, rather than the level of national governments. In doing so, it lays the foundation for a single European federal budget which eventually would embrace areas of the Community's economic (and other) activities and programs ranging far beyond agriculture.

The financing of the CAP is designed so that agricultural importers in the Community, such as Italy, contribute relatively more to costs of the CAP and benefit relatively less financially from the program than net exporters of farm products, such as France. Inherently, the new system of farm financing will continue to benefit France relatively the most. In recognition of this fact, France agreed to increase its contribution to the common fund for the transitional years of the new system (1971-75), thereby reducing the burden of other members.

The new agreement has important implications respecting not only existing members of the Community but also potential ones, predominantly the United Kingdom. As a Community member, the United Kingdom, being a

1/ They will levy this tax according to a common Community-wide TVA system to be developed by 1972. By 1975 the tax rules themselves should also be roughly harmonized between members.

heavy importer of agricultural products, would have to contribute substantially to the costs of the CAP. Meanwhile, the benefits accruing to the United Kingdom would be significantly less than those accruing not only to France but even to major importers of farm products within the Community. In contrast to the present members of the Community, the United Kingdom long ago abjured supporting the price of its farm products, reduced its farm sector to a more or less viable minimum size, and switched to importing most of its food at low prices. Hence, there is no large group of farmers in the United Kingdom to benefit from the CAP, and the United Kingdom's heavy contributions to the costs thereof would, in effect, largely benefit the farmers of its partners in the Community. Moreover, for consumers in the United Kingdom, substantial increases in food prices would accompany the country's obligations under the CAP.

Effect of change in the parity of currencies

In 1969, the common agricultural policy suffered a setback, owing to changes in the parities of the French franc and the German mark. Uniform farm prices throughout the Community had to be suspended, and the agricultural sectors of France and Germany were temporarily separated from the rest of the common agricultural market. The Community's common farm prices are expressed in units of account, a fictional standard defined at par with the U.S. dollar. Hence, any change in the parity of Community currencies affects the common agricultural prices in terms of the currencies involved. On the basis of common farm prices, French farmers stood to receive 11.1 percent more in their own currency for their products as a result of the devaluation of the franc. The French Government decided, however, to prevent such inflationary price increases and maintained farm prices, in terms of francs, at predevaluation levels. Moreover, it instituted a system of compensatory subsidies for farm imports and levies on farm exports, to eliminate the difficulties that lower French prices (in terms of other currencies) would have caused in international trade. The Community gave France two years to get its farm prices back into line with those of the rest of the bloc.

In contrast, the revaluation of the deutsch mark had the effect of reducing German domestic farm prices in terms of the mark. To counter this, the German Government instituted a temporary system of compensatory import taxes and export subsidies on specified products for the balance of the year, to protect the farmers from the effects of revaluation. These measures, while they were in effect, isolated the German farm sector from the rest of the common agricultural market. Effective January 1, 1970, the German Government and the Community decided to give direct income compensation to farmers for lower farm prices, the costs to be borne partly by the Community and partly by the German Government.

THE EUROPEAN FREE TRADE ASSOCIATION

In 1969, the European Free Trade Association (EFTA)1/ continued to operate as an industrial free trade area, a status it achieved at the end of 1966. This was EFTA's tenth year, including three years of free intermember trade in industrial goods. On January 1, 1969, three EFTA members--Austria, Portugal, and Switzerland--put into effect the second fifth of the duty reductions to which they had committed themselves in the Kennedy Round negotiations. The other EFTA countries already had made tariff cuts amounting to two-fifths of their total commitment.

As the year ended, there were signs that EFTA was moving closer to eventual absorption in a larger West European community. In December, the European Community decided to begin discussions by the middle of 1970 with three EFTA members (the United Kingdom, Denmark, and Norway) that had applied for membership in the Community. The Community also agreed that shortly thereafter it would negotiate with the other EFTA countries that are not applicants for membership but wish to have closer ties with the Community, probably via suitable commercial agreements.

The gradual removal of trade restrictions has resulted in a substantial growth of trade among the eight members of EFTA. During EFTA's ten years of existence, intra-EFTA trade almost tripled. In 1969 it exceeded $10 billion for the first time and was 186 percent larger than than in 1969, the last year before EFTA was established. In 1969 alone

1/ The Association comprised the following countries as members: Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom. Iceland joined EFTA on Mar. 1, 1970; Finland is an associate member.

intra-EFTA trade increased by 17 percent.

EFTA's trade with extra-regional countries has grown more slowly, however, with the result that total trade has expanded at a lesser rate than intra-area trade. Exports to third countries rose to $28.1 billion in 1969 from $14.3 billion in 1959, an increase of 97 percent. Imports from outside the area grew by 93 percent, to $33.3 billion from $17.3 billion. In 1969 total exports of the EFTA countries (including those to each other) reached $38.2 billion and their total imports, $43.9 billion--an increase over the comparable 1959 figures of 111 and 108 percent, respectively. EFTA's trade deficit continued to decrease in 1969--to $5.7 billion from $6.4 billion in 1968 (it had averaged $5 billion a year in the 1959-67 period). The decline in 1969 was ac accounted for primarily by a significant improvement in the United Kingdom's trade balance during the year.

The EFTA and the United States supply about 10 percent of each other's market. The United States generally has a trade surplus with EFTA; it amounted to $374 million in 1969, of which a significant part was the U.S. trade surplus with the United Kingdom. In 1969 U.S. trade with EFTA was comparatively stagnant after rapid growth in 1968. During the year, the United States imported $3.7 billion in merchandise from, and exported $4 billion to, the EFTA countries combined--3 and 4 percent more, respectively, than in the previous year.

During the year, EFTA concentrated on the removal of nontariff barriers to trade, both internally and between EFTA and other trading areas. EFTA made progress towards its objectives that member governments recognize one another's established technical standards and remove any administrative arrangements that discriminate against products from other EFTA countries. Meanwhile, EFTA refrained from specifying common standards for the region as a whole, since these might conflict with the freedom of trade over a wider area. Instead, EFTA cooperated with various specialized international agencies that deal with technical standards on a world or European basis. Similarly, EFTA operated in concert with nonmember countries in establishing a common patent system. In May 1969, government officials from 17 European countries met in Brussels for preliminary talks on a proposed European patent convention. Seven members of EFTA contributed to these efforts.

As in previous years, EFTA members showed interest in regional groupings of countries other than the EFTA grouping itself, both within and outside the Association. During the year, the four Nordic members--Denmark, Norway, Finland and Sweden--drafted a treaty for an Organization for Nordic Economic Cooperation (NORDEK). The draft envisaged NORDEK as representing a higher order of integration than EFTA itself: a customs union with coordinated economic policies. Such special ties between the four Nordic EFTA members, however, were not to interfere with their membership in EFTA.

CANADA

The value of exports and imports of Canada each exceeded US $13 billion in 1969, considerably above 1968 levels. Imports increased more (by 15 percent) than exports (by 9 percent), however, thereby reducing the significant trade surplus of the previous year. Bottlenecks in strike-bound industries and continued difficulties in the marketing of wheat slackened export growth.

Canada owed its trade surplus in 1969 exclusively to trade with the United States, its main trade partner; it had a trade deficit with all other countries combined. The U.S. trade deficit with Canada, which appeared in 1968 for the first time in nearly 80 years, increased in 1969 to over US $1 billion. Nonetheless, while in 1969 U.S. imports from Canada continued to grow faster than U.S. exports to Canada, import growth slowed down. In 1969, U.S. imports from Canada amounted to U.S. $10.4 billion, 15 percent more than in 1968 when imports exceeded those of 1967 by about one-fourth. The slowdown resulted from a decline in imports of metals and less growth in imports of automotive products. During the year, U.S. exports to Canada (including re-exports) increased by 13 percent, to U.S. $9.1 billion. Considerable investment spending in Canada provided a strong impetus for increased U.S. shipments of machinery. Also showing considerable gains were computers, construction equipment, telecommunications apparatus, steel, and chemicals.

Effective June 4, 1969, Canada completed implementation of its Kennedy Round tariff reductions, thereby accelerating the staging of the reductions originally scheduled to end on January 1, 1972. This advanced implementation, which covered all items agreed upon except shoeboard (a paper product), was done on anti-inflationary grounds, but the tariff cuts also may have stimulated U.S. exports to Canada. This single-step tariff reduction of June 1969 followed several step reductions, the last of which became effective on January 1, 1969.

JAPAN

Japan's spectacular performance in international trade continued in 1969. Its total exports increased by 23 percent to about $16 billion, with imports increasing by 6 percent to $15 billion. Japan's trade surplus grew to $3.8 billion from $2.5 billion in 1968.

Trade with the United States, Japan's major trading partner, also continued to grow vigorously, although the share of the U.S. market in total Japanese exports dropped. U.S. exports to Japan amounted to $3.5 billion in 1969 (calendar year), 18 percent more than in 1968. Japanese demand was especially strong for U.S. computers and parts and electrical apparatus, while a big increase in Japanese steel production prompted significant gains in U.S. exports of coal and steel scrap. No change was recorded in U.S. exports of agricultural products to Japan.

U.S. imports from Japan grew even faster than U.S. exports to Japan, by 21 percent--to $4.9 billion. Hence, the U.S. trade deficit with Japan, which appeared for the first time in 1965, widened further--to $1.4 billion. While imports grew faster than exports, import growth was slower than in 1968, when they jumped one-third over the value of the previous year. In 1969 U.S. imports of Japanese steel dropped by nearly $50 million by reason principally of voluntary export restrictions agreed to by Japanese steel producers. Large increases were noted in U.S. imports of Japanese consumer goods, however. Automobile imports from Japan increased by 55 percent, compared to a 7 percent advance in U.S. imports of all foreign-made cars. U.S. purchases of Japanese-made television and radio receivers, sound recorders, and wearing apparel continued to rise.

While in 1969 Japan strengthened materially its balance of trade, balance of payments, and international reserve position, the country made little progress in eliminating its very restrictive import controls. In April the Government liberalized imports of six four-digit BTN items,1/ and in October added five others to the liberalized;2/ but retained quantitative restrictions on 118 more items, in direct conflict with Japan's obligations under the GATT. Japan justifies continued quantitative restrictions on the grounds that many of the products involved need special protection.

Also in October, the Japanese Government reduced from 5 percent to 1 percent the deposit required against issuance of import licenses for consumer products (for most raw materials and machinery the 1 percent import-deposit rate already was applicable). Moreover, the Government formally released a list of 55 commodities that would be liberalized over 1970-71, adding that an effort would be made to raise this number to 60 or more by the end of 1971. The foregoing actions and others were taken against the background of a series of discussions between representatives of the U.S. and Japanese Governments.

1/ Bottled bourbon whisky, color movie film, outboard motors, pet food, polished sheet glass, and boiled intestines, bladders and stomaches of animals.

2/ Brandy, printing machines and parts, industrial sewing machines, and thermionic valves and tubes.

LATIN AMERICAN FREE TRADE ASSOCIATION

The year 1969, although another critical period for the LAFTA, brought mainly administrative changes rather than solid economic development for the 11-nation Association. Faced with a complete breakdown of the trade negotiating schedule and procedures provided in the Treaty of Montevideo, the Contracting Parties were forced to acknowledge this situation and make realistic revisions. The member nations could not agree on additions to the Common List of products eventually to be liberated from intraregional trade restrictions; only the first quarter of the list has been successfully negotiated, and that back in 1964. Nor were they able to make much progress on the reciprocal trade concessions of their national lists; by 1969, new concessions were rare and a large proportion of the earlier ones had proved to be of little or no value.

Accordingly, at their annual conference in 1969, the LAFTA members, through the Protocol of Caracas, postponed the terminal date for complete liberalization of intraregional trade from 1973 to 1980; they also sharply reduced the rate and removed the compulsory feature of the annual duty-reduction formula stipulated in the Montevideo Treaty. Although these moves constituted a realistic admission of the failure of the LAFTA timetable, a mere extension of the date of completion of the trade liberalization program appears only to postpone nonfulfilment--as long as the present increasingly nationalistic and inward-looking viewpoints of the members persist. Moreover, merely to reduce the annual rate of duty from 8 percent to 2.9 percent solves no problems, especially when the new rate is not mandatory and is subject to revision at any time.

The trend towards subregional arrangements in 1969 continued to lessen enthusiasm for the professed goals of the LAFTA. Furthermore, the intrinsic weaknesses of these arrangements became increasingly apparent during the year. The five-nation Andean Group (Colombia, Ecuador, Peru, Chile, and Bolivia) within the LAFTA exhibited all the inherent defects of the parent association, indeed more intensely although on a smaller scale. National rivalries over comparative advantages of the larger members of the group, combined with complaints of disadvantages on the part of the lesser developed members, weakened the resolve of the Andean Group. Ultranationalistic suspicions of foreign investments and a growing anti-U.S. sentiment in most of the Andean governments dimmed the prospects for obtaining badly needed U.S. and other foreign funds for development of industry and infrastructure; furthermore, most investment decisions were based only on the needs of individual national markets. As for trade within the subregion, the noncomplementary nature of the Andean economies has limited such commerce to about five percent of the total value of the global trade of the five-nation group.

As for the River Plate Basin Group, also composed of five LAFTA countries (Argentina, Bolivia, Brazil, Paraguay, and Uruguay)--this arrangement was made outside the framework of the LAFTA, in apparent indifference to the parent body. By 1969, it was apparent that the highly specialized goals of the industrialists of these countries for development of industry and infrastructure, as contained in this agreement, were generally not the type envisaged in the LAFTA. There was no mention of basic LAFTA goals, such as trade liberalization or indeed of the LAFTA itself, in the articles of agreement of the River Plate Group. They seemed more like a series of bilateral agreements between interested parties, which could have been concluded whether or not the LAFTA existed, rather than a subregional arrangement as defined in the Treaty of Montevideo.

The complementation agreements 1/ between industrial sectors of various LAFTA countries continued to move, but very slowly, during 1969. By the end of that year only nine of these agreements had been concluded since the inception of the LAFTA, and most of these were among Argentina, Brazil and Uruguay. A great number of such agreements were proposed during the 1960's but never came to fruition. Here, too, the LAFTA trend away from multilateral to bilateral arrangements was especially evident in 1969, the two new complementation agreements of that year being actually bilateral agreements between Argentina and Brazil and between Argentina and Mexico. The activities of the Andean Group undoubtedly also drove these larger nations (Argentina, Brazil, and Mexico) closer together in such bilateral, nonregional types of agreements.

1/ Complementation agreements provide for two or more members to establish free trade within the LAFTA for specified products or groups of products. They were designed to facilitate the accelerated development and integration of the industries involved, enabling them to effectively coordinate their plans for diversification, specialization, and expansion. Such industry-by-industry negotiations are binding only for those LAFTA members in whose territory these industries are located.

On the positive side, total trade as well as extraregional and intraregional trade of the LAFTA increased during 1969. However, most of the gains were registered by the "big three"--Argentina, Brazil, and Mexico--whose national economies in recent years have been characterized by expansion of international trade. Gains in intraregional trade have been achieved at least partially at the expense of the United States, especially as regards textiles, minerals and a variety of other raw materials.

As for overall extraregional trade expansion, this too has been accomplished at the expense of the United States. U.S. trade with the LAFTA leveled off in 1968 and 1969 while LAFTA trade with other areas, especially Europe, was on the rise; this was attributable largely to the growing power and influence of socialistic, Marxist, and ultranationalistic forces within the South American members of the LAFTA, particularly the Andean Group nations. Their leadership has been increasingly cool or outright hostile to the United States, and has sought to divert a large share of the purchases formerly made from the United States to European nations and, as far as possible, to intraregional sources.

Trac· Concessions on National Lists

At the Ninth Annual Conference of the LAFTA, held during October-December 1969, around 150 new tariff concessions were added to the national lists of the contracting parties to the Association.1/ (1) Although few in number, these included important concessions on pharmaceutical chemicals and electric generators, transmitters and distributors. (2) By the end of 1969, the total number of these concessions granted and placed on the national lists of the member countries since the inception of the LAFTA amounted to approximately 11,000. About 6,500 of these were concessions granted by four of the eleven participating countries--Argentina, Brazil, Ecuador, and Mexico.

It should be emphasized, however, that the mere number of concessions granted is of little importance in assessing their contribution to the LAFTA program for the reduction of intraregional trade barriers. Most of the concessions (approximately 7,600) were granted during the

1/ The primary goal of the LAFTA, scheduled for accomplishment at the end of a twelve-year transitional period (1962-73), is the elimination of tariffs and other barriers to intraregional trade. The Treaty of Montevideo provided three principal mechanisms to achieve this goal:

(1) National Lists: Each member of the LAFTA agreed to maintain a "national list" composed of import-duty concessions which were to be granted to other member nations at the Annual Conferences of the Association, the first of which was held in 1961. (2) The Common List: The Common List was to be drawn up in four triennial meetings during the 1962-73 period; the first such negotiation took place in 1964. At each of these meetings, commodities accounting for at least 25 percent of the total value of all products traded within the LAFTA during the preceding three-year period were to be added to the list, and by the close of 1973, all import duties and other barriers to intraregional trade were to be eliminated. (3) "Complementation" agreements: Under these agreements, two or more LAFTA members may establish free trade (or a common market with harmonized external duties on imports from nonmembers) for a specific product. For further details, see Operation of the Trade Agreements Program, 19th report, p. 142.

first two years (1961-62) of the Association's existence; during the 1963-69 period, the annual average granted was little more than 500. Many concessions were counted more than once, having been included in most of the individual country schedules. In addition, a large proportion of the products subject to concessions either had never appeared in intraregional trade or never had been produced in the grantor nations. For these reasons, about half of the concessions granted remained unutilized by the end of 1969.1/

By 1969, approximately 90 percent of the value of LAFTA intraregional trade was composed of products on which tariff concessions had been granted. These "concession" products traditionally have been basic raw materials, which still account for the bulk of intra-LAFTA trade. Nontraditional products such as light manufactures and chemicals, however, have been accounting for increasing proportions of this trade during recent years, especially in 1968 and 1969. As for the products involved, most recent concessions have covered mechanical and electrical machinery, organic and inorganic chemicals, cement, tanning materials, tools, photographic equipment, and optical instruments.

Protocol of Caracas

By the time of its Ninth Annual Conference, held in Caracas during October-December 1969, the LAFTA was confronted with a disruption of its schedule for achieving a free trade association among members and with a

1/ For a more detailed evaluation of the role of these reciprocal concessions in the trade liberalization program of the LAFTA, see Operation of the Trade Agreements Program, 20th report, pp. 89-92.

virtual breakdown of its machinery for negotiating intraregional tariff reductions. The member nations were unable to agree on the second triennial stage of the Common List, which initially was to have been negotiated in 1967; understandably, no plans were made for the negotiation of the third stage, originally scheduled for 1970. Furthermore, negotiations for reciprocal duty reductions on the national lists of individual members became increasingly difficult, especially in 1968 and 1969; compared with the early years of the LAFTA, few new concessions were granted.

Accordingly, the delegates to this LAFTA conference sought to achieve realistic solutions to these problems through adoption of the Protocol of Caracas, signed on December 12, 1969, by all contracting parties to the Treaty of Montevideo. The protocol did not abandon the goals envisaged for the LAFTA in the Treaty of Montevideo, but altered materially the original timetable stipulated in the treaty for the realization of these goals. It provided for an extension of the time for completion of the LAFTA program and for slowing down the pace of economic integration and of intraregional liberalization of trade.

The terminal date for the achievement of the free trade area was postponed from 1973, as originally stipulated in the treaty, to 1980. This was the main provision of the protocol, and for all practical purposes simply amounted to a frank admission that actual progress was lagging far behind the original timetable and that more time would be required for the completion of the program. It enabled contracting parties to delay difficult decisions involving international trade competition within the region, while not abandoning their basic commitments to achieve economic integration.

A secondary provision of the protocol modified the basic tariff reduction formula for the national lists provided by the Treaty of Montevideo. Annual product-by-product negotiations are to continue on the respective national lists, but on the basis of a new annual intra-regional duty-reduction rate of 2.9 percent (instead of the original 8 percent) of the weighted average of duties applied against imports from countries outside the LAFTA. This new rate is subject to future revision. The mandatory requirement for the percentage reduction was eliminated.

As for the Common List, the Protocol of Caracas provides that, no later than December 31, 1974, the Contracting Parties will establish new criteria to which this list will be subjected. Fulfillment of the time schedule of the Common List will not be obligatory during the interim period. Furthermore, the concessions agreed upon in December 1964 for the first triennial stage of the Common List will not become effective until the new criteria are established in 1974.

Another important provision of the protocol called for the completion by the Permanent Executive Committee of the LAFTA, before December 31, 1973, of the studies authorized in Article 54 of the Treaty of Monetvideo. This article stipulates that the Contracting Parties will make maximum efforts to orient their economic policies twoards creation of favorable conditions for the eventual establishment of a common market and that studies will continue to facilitate planning to that end.

Complementation Agreements 1/

Two new complementation agreements were signed in 1969. Argentina was a party to both agreements which in effect were bilateral arrangements. One was signed with Mexico and was concerned with glassware products; both countries ratified this agreement--Argentina in August 1969 and Mexico early in 1970. The other was signed with Brazil and was concerned with products for the generation, transmission, and distribution of electricity; neither signatory had ratified this agreement by the close of 1969.

Prior to 1969, seven other complementation agreements had been ratified by LAFTA members. A number of new agreements were proposed or were in various stages of negotiation during 1969; these involved household electronic equipment, household refrigerators, canned fruits and vegetables, electronics and communication equipment, plastics, petrochemicals, office machines, and instruments and apparatus for the medical and associated professions.

At the Caracas conference, a protocol was approved by eight LAFTA countries which extended the earlier complementation agreement on chemicals by including 195 new concessions on 95 new products. No alterations of the basic rules governing complementation agreements were made at the conference.

1/ For additional information, see Operation of the Trade Agreements Program, 18th and 19th reports.

Industrial Sector Meetings

During 1969, a total of 24 sectoral meetings were scheduled by the LAFTA, each for a different industrial group. 1/ At the meetings, representatives of LAFTA industries and governments were to recommend products for inclusion on the national lists of the member countries or as subjects of complementation agreements, to stimulate and expand the Association's program of free trade and economic integration.

The 24 sectoral meetings yielded recommendations for tariff reductions on a total of 366 industrial items. This included 345 items for inclusion on national lists (i.e., available to all LAFTA members), of which 90, or 23 percent, were adopted by the LAFTA governments; the remaining 21 items were recommended for special lists available only to the less developed members. At sectoral meetings between January 1, 1963 and December 31, 1969, over 4,000 concessions were suggested for inclusion on national lists, of which 1,138, or 28 percent, were adopted. During 1969, a total of 1,455 items were recommended by the LAFTA industrialists for complementation agreements.

1/ The LAFTA industrial sectors participating in these meetings were as follows: office machines, lumber and furniture, perfumery and toilet articles, valves, machine tools, chemicals, drugs (pharmaceuticals), refrigeration and air-conditioning appliances, electronics and electric communication equipment, equipment for the generation and transmission of electricity, electric lighting equipment, fish and shellfish, canned fruits and vegetables, canned meat, citrus products, bakery products, plastics, photographic equipment, hides and skins, instruments and equipment for the medical and related professions, ceramics, alcoholic beverages, (fresh) meat, and security equipment for industrial establishments.

The Andean Group 1/

During 1969, the Andean Group made considerable headway in implementing its subregional agreement within the framework of the LAFTA. On May 26, 1969, five members--Bolivia, Chile, Colombia, Ecuador, and Peru--signed the Andean Group Subregional Integration Agreement in Bogota, Colombia. 2/ It was submitted in June to the Permanent Executive Committee of the LAFTA for evaluation of its compatibility with the Treaty of Montevideo; on July 9 the Agreement was approved formally by the LAFTA, through representatives of all 11 contracting parties. It was ratified by Chile and Colombia in September and went into effect on October 16, 1969, upon deposit with the Permanent Executive Committee of the required third ratification, that of Peru.

Although taking a prominent part in the nearly three years of negotiations producing this subregional agreement, Venezuela was not one of its signatories. Venezuelan interests opposing it, especially in the private business sector, were able to block official approval of the agreement in the form in which it was passed. Venezuelan participation, however, eventually may be realized. In the hope that Venezuela still might be able to overcome domestic opposition to the pact, the agreement

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1/ The Andean Group was originally composed of six South American countries: Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela. It was projected initially by the Declaration of Bogota, signed in 1966 by all of these nations except Bolivia. It was to be carried out within the framework of the LAFTA, as provided in the Treaty of Montevideo in 1960 and in the Declaration of the American Presidents at Punta del Este, Uruguay, in 1967.

2/ This agreement has generally been referred to as the Treaty of Cartagena, the port city of Colombia in which the work of drafting the agreement was performed.

provided for an 18-month period of grace during which Venezuela could adhere to the agreement with the same charter status as any of the five original signatories.

The integration program projected by the agreement is concerned primarily with industrial development and trade liberalization. Integration of the economies of the Andean Group countries is to be brought about through the following measures:

1. Harmonization of economic and social policies and coordination of the national legal provisions in pertinent fields;
2. A trade liberalization program which is to proceed at a faster pace than the LAFTA program;
3. Joint programming to strengthen the subregional industrialization process and execution of "sectoral industrial development programs;"
4. A common external tariff with a minimum common external tariff as a preliminary stage;
5. The channeling of resources both from within and from outside the subregion to provide financing for the investments necessary for the integration process;
6. Programs to accelerate development of agriculture and commerce;
7. Preferential treatment for Bolivia and Ecuador.

In 1969, trade liberalization appeared to constitute the area of primary concentration in implementing this integration agreement. All nontariff restrictions on trade were scheduled for elimination by the close of 1970. 1/ Import duties on specific products were scheduled

1/ Bolivia and Ecuador were permitted to delay elimination of nontariff restrictions or the import duties substituted for them.

for reduction by the same date to the lowest existing rates in Chile, Colombia, or Peru. Such initial duty reductions will proceed at a slower pace for the less developed members of the Group, Bolivia and Ecuador, each of which was expected to make such adjustments by the end of 1973. The regular schedule of duty reductions within the subregion provides for 10 annual reductions in existing rates of 10 percent each, beginning on January 1, 1971 and ending by December 31, 1980, when all trade restrictions among the five signatories are to have been eliminated. The removal of all duties and restrictions on those products included in the first stage (1964) of the LAFTA Common List was scheduled for completion within 180 days after the agreement became effective. 1/

Industrial development in the Andean countries is to be stimulated through sectoral industrial programs similar to the complementation agreements of the LAFTA. These programs will relate to products already being manufactured and those not yet manufactured in the subregion. Each industrial program will decide on the location of plant and have its own regulations concerning investments, as well as a separate schedule of tariff liberalization.

Products to be involved in these sectoral industrial development programs were scheduled to be announced by the end of 1970. Particular

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1/ This stage of the LAFTA Common List comprised 183 items accounting for approximately 25 percent of the volume of intra-LAFTA trade during 1961-63. Individual products include coffee, cacao (cocoa), fish meal and refined fish oil, raw cotton, iron, copper (ore and refined), chemical pulp, machine tools, and milling machinery.

emphasis is being placed on metals, nonmetallic minerals, electrical products, auto parts, paper and pulp, and processed foods.

The Commission and the Council

The two administrative organizations of the Andean Subregional Agreement are the Commission, the principal governing body, composed of representatives of the participating governments; and the Council, a technical agency of three officials pledged to function only on behalf of the interests of the subregion as a whole. In 1969, definite progress was achieved by the group in setting up these organs.

The ministers of foreign affairs of the five Andean Subregional Agreement countries met in Lima, Peru, during November 1969, and designated that city as the seat of the Commission and the Council. Lima could also become the seat of the Andean Development Corporation, should Venezuela remain outside the agreement for an extended period.

In addition, the foreign ministers agreed to hold annual meetings, issued a joint communique supporting subregional economic integration, and established themselves as an organization for the political advancement of the agreement. They resolved to function as a unit within the LAFTA, and agreed to designate the Andean Group Subregional Agreement as the "Cartagena Agreement."

The ministers decided to assign the position of secretary general to a Peruvian, the presidency of the Andean Development Corporation to a Bolivian, and the three council memberships to representatives of Chile, Colombia, and Ecuador. They delegated to the council the necessary juridical powers to discharge its responsibilities.

They stipulated that their policy would be to grant preferences to domestic capital and enterprises of the five member nations in the subregional program for economic development. They reaffirmed their commitment to the broader goal of eventually creating a Latin American market through their support of the LAFTA, maintaining that the subregional arrangement was a transitional stage, not an end in itself.

Andean Development Corporation

On October 12, 1969, the Articles of Agreement of the Andean Development Corporation (Corporacion Andina de Fomento--CAF) went into effect with the submission of Ecuador's ratification.1/ This was the third ratification required to make the agreement operative, previous ratifications having been deposited by Peru and Colombia.

The agreement creating the Andean Development Corporation was signed in Bogota, Colombia, in February 1968 by the five Andean Group countries and Venezuela. The corporation was initially capitalized at $100 million, with Caracas designated as its administrative headquarters. It was designed to stimulate economic development within the subregion and especially to finance new or expanding industries, whether owned privately or by a particular government, that could be established only on a subregional basis. The corporation also was to provide financing and administrative and technical assistance to subregional projects.

The membership of Venezuela in the Andean Development Corporation has been considered by the other five member nations as concrete evidence of its continuing interest in subregional economic integration

1/ Formal announcement of the activation of the agreement was delayed until Jan. 31, 1970.

and its eventual adherence to the Cartagena Agreement. At the 1969 conference of foreign ministers of the five Andean countries held in Lima--a special delegation from Venezuela in attendance, the ministers formally expressed their desire for the prompt incorporation of Venezuela in the agreement. The Venezuela delegation affirmed their country's interest and, significantly, its continuing desire to maintain the headquarters of the Andean Development Corporation in Caracas. At this conference, the Venezuelan delegation was formally notified of the assignment of the presidency of the corporation to a Bolivian.

Prospects

The members of the Andean Group must overcome formidable geographic, economic, and political obstacles in order to achieve expansion of intraregional trade and economic development and integration. Their situation in the rugged Andean chain, and at least partially in the western reaches of the Great Amazonian jungle (not to mention other physical obstacles such as the desert area of northern Chile), has traditionally served to discourage overland communication among these countries. Intraregional transportation, whether by highway, rail, or coastal shipping, has been developed to only a rudimentary extent, owing to both geographic obstacles and lack of sufficient financing. In order to increase the intraregional trade and promote the economic integration of the Andean nations, an adequate transportation network must be built.

Historical trading patterns constitute another obstacle to Andean economic development. The economies of the five nations are largely complementary, being dominated by agriculture and mining. In the case of mineral products, various ores (tin, copper, lead, zinc, etc.) are exported to developed countries; up to the present time, Andean countries generally have lacked adequate facilities for refining and fabricating. These countries have always looked overseas both for markets for their exportable commodities and for sources of their import needs; less than 5 percent of the value of the total imports of the Andean Group countries has originated within the subregion.

Successful realization of economic development plans, particularly in the industrial sector, is largely dependent on availability of financing. Even in Chile and Colombia, development has not progressed to anything near the extent of that in such LAFTA countries as Argentina, Brazil or Mexico, nor are comparable sources of funds available. Although the CAF will be able to provide some necessary financing, the principal source of funds for development still appears to be private foreign investment.

The investment code of the Andean Group, however, has discouraged such investment. Within 10 years (15 years for mining enterprises) at least 51 percent of the equity, and thus the control of all foreign companies in the subregion must be held by nationals of the country in which they are operating. New companies are obliged to observe this regulation on majority participation of domestic capital before commencing operations. Foreign companies are required to seek necessary financing outside the host country. No new direct foreign investment will be permitted by the code in such vital economic activities as banking and insurance, transportation, communications, and public utilities.

Such restrictions understandably have had an adverse effect upon investment in the subregion--many U.S. companies have indicated their intention to cancel projected investment or reinvestment in these countries. It also would appear that this investment code encourages speculators, who would try to realize a quick profit and then withdraw, rather than stable, long-term investors desiring to participate in the growth of the economies of the Andean countries.

As in the case in the LAFTA itself, the inequality of economic development of the member nations has been a handicap to the Andean Group, despite special concessions for the less developed countries, Bolivia and Ecuador. Countries such as Chile and Colombia enjoy faster rates of economic growth and considerably higher per capita incomes than those of the other members of the group.

Political instability is another factor clouding the future of the Andean Group. Frequent changes of regimes and a variety of political philosophies ranging from rightwing dictatorships to leftwing socialist and Marxist governments have made cooperation difficult among the member countries. As previously noted, this situation also has inhibited foreign investment in the area and has adversely affected commercial and other relations with the United States.

River Plate Basin (Cuenca del Plata) Group

On April 23, 1969, the ministers of foreign affairs of the five River Plate Basin countries--Argentina, Bolivia, Brazil, Paraguay, and Uruguay--signed the Treaty of Brasilia in the capital city of Brazil. This treaty guaranteed the institutionalization of the subregional group, which had been initiated in 1967, and pledged the joint efforts of the signatory nations to foster the harmonious economic development and integration of the Basin.

The Treaty of Brasilia limits its objectives to specific fields, such as the development and expansion of the infrastructure of the subregion, the increased utilization of the water resources of the five countries, mutual cooperation on projects concerned with education and health, the establishment of a group development bank and the achievement of industrial complementation on a regional scale involving industries considered essential to the economic development of the Basin. It does not provide for more reduction of intraregional tariff barriers, or for trade promotion, or for the creation of a subregion common market; it makes no attempt to coordinate the overall economic policies of the member countries.

The Treaty of Brasilia was entered into by the River Plate Group outside the framework of the LAFTA, although all five nations are contracting parties to the Association. There is no mention of the LAFTA in this treaty. It does not conform to the objectives and norms for subregional agreements stipulated in resolution 222 of the LAFTA (1967). The specialized aims of the group, and the procedures by which they are to be realized, as stated in the treaty, bear no direct relationship to the stipulated objectives and methodology of the LAFTA.

In effect, the treaty simply formalizes the association of the River Plate countries, which have had tacit agreement for some time on their desired economic objectives. Joint development of the Basin by the countries concerned has been a longstanding aspiration, first projected in the modern era at the Regional Conference of River Plate Basin Countries in 1941. Bilateral agreements already in force between individual countries of the River Plate Basin contain provisions for economic cooperation of the type mentioned in the treaty. In addition, these countries, as members of the LAFTA, have exchanged trade concessions on their national lists and their industrial sectors have concluded complementation agreements. Therefore, the Treaty of Brasilia has added very little to economic relations among the member nations, but has simple reiterated and formalized their association for mutual benefit.

Growth of Intraregional Trade

In 1969, the value (in U.S. dollar equivalents) of the intraregional imports of LAFTA countries totaled nearly $1.3 billion, or better than 20 percent above the 1968 value and in excess of twice the 1961 level--on the basis of preliminary calculations.1/ This increase was attributable primarily to the expanding value of Argentine and Brazilian

1/ Calculated from official statistics of the LAFTA contracting parties; as 1969 data for Ecuador and Bolivia were not available, the value of intraregional imports for that year was calculated with 1968 values for these two countries.

trade within the LAFTA; during 1968 and 1969, these two member countries together accounted for over 60 percent of the value of intra-LAFTA exports and for about 55 percent of the value of intra-LAFTA imports.1/

The increase of Argentine and Brazilian trade resulted, at least in part, from the large number of concessions on the national lists granted and received by these two LAFTA nations and from the fact that singly or together they were party to eight of the nine complementation agreements signed by the close of 1969. On the other hand, such factors as the traditional patterns of trade of Argentina and Brazil, with each other and with their smaller neighbors, as well as their leading roles in the River Plate Basin agreement for cooperation in specialized fields of economic development within that region, also were responsible for the expansion of the commerce of those two countries.

It should not be forgotten, however, that intraregional trade still accounts for a minor share of total LAFTA trade. In each of the years 1968 and 1969, intra-LAFTA trade accounted for about 13 percent of the value of global LAFTA trade, little more than in some other years in the 1960's and 1950's. The value of LAFTA trade with countries outside the region also increased considerably during the 1960's, at about the same rate as that of intraregional trade.

1/ The statistics presented cover only the original nine members of the LAFTA: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay. Bolivia and Venezuela were not included in the comparative statistics of the LAFTA, because of their later accession (1966-67) and the desire to preserve comparability with statistics compiled for the earlier years.

Extraregional Trade

During 1969 the extraregional trade of the LAFTA as a whole continued to increase; in terms of value, it was approximately 10 percent greater than in 1968--at almost $20 billion for exports and imports combined.1/ Most of this increase was accounted for by the substantial gains of Argentina, Brazil, Mexico, and Chile. Although Venezuela's trade with countries outside the LAFTA increased very slightly in 1969, it accounted (as in 1968) for about 25 percent of the total value of extraregional trade in that year.

U.S. exports

U.S. exports to the LAFTA were about the same in value in 1969 as in 1968.2/ Shipments to the nine original LAFTA countries in each of these years were valued at approximately $3.3 billion, compared with $2.6 billion in 1961. U.S. sales to the LAFTA's 11 countries totaled a little more than $4 billion annually in 1969 and 1968, compared with $3.1 billion in 1961. The failure of U.S. exports to gain during 1969

1/ The rate of increase was about the same for the 11 countries as for the original nine contracting parties to the LAFTA. These percentages were calculated from official statistics of the LAFTA for individual contracting parties; as 1969 data for Ecuador and Bolivia were not available, totals were calculated on the basis of 1968 values for these two countries.

2/ U.S. exports to the LAFTA in 1969 calculated on the basis of U.S. Department of Commerce estimates of the U.S. share of the total imports of these countries in that year. The percentages shown were calculated from these statistics and the constructed totals for extraregional, intraregional, and global imports of the LAFTA countries, as previously noted.

even though global LAFTA imports rose resulted in a decrease of the U.S. share of the LAFTA market, from about 42 percent in 1968 to about 38 percent in 1969. A 20-percent increase in the value of intra-regional LAFTA imports in 1969 undoubtedly was an important cause of the declining U.S. share. Another factor was the expressed desire of some of the South American members of the LAFTA to obtain more geographic diversification of their imports, with emphasis on expanded purchases from the European countries. LAFTA imports from Western Europe (the OECD, less the United States, Canada, and Japan) reached $3.4 billion in 1969, up 13 percent over 1968.1/

1/ I.e., exports of "OECD Europe" to 11 LAFTA countries.

CENTRAL AMERICAN COMMON MARKET

The Central American Common Market (CACM)1/ suffered a severe setback during 1969 as a result of the war between El Salvador and Honduras. Normal intraregional trade channels were disrupted, not only between the combatants but throughout Central America. Intraregional production and transportation of goods were adversely affected. Numerous new trade restrictions imposed by all five CACM countries in the wake of the conflict reversed the trade liberalization process, at least temporarily. Until 1969, the CACM had been the most successful regional organization for economic integration and development in Latin America.2/

The remarkable rate (averaging about 25 percent) of annual growth in the intraregional trade of the CACM since its initiation in 1961 came to a halt in 1969, when total intra-CACM trade actually declined in value by about 3 percent from the 1968 level. This was attributable to decreased imports and exports of El Salvador and Honduras, which more than offset trade gains registered by other CACM countries.

Extraregional exports also suffered during 1969, not only because of the losses to agricultural production and increased transportation difficulties directly attributable to the war, but also because of natural disasters, such as hurricane "Francelia" which caused much crop

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1/ The Central American Common Market is composed of five countries: Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. It became operative in 1961.

2/ For a complete listing of the network of trade and economic integration treaties of Central America, see Operation of the Trade Agreements Program, 20th report, pp. 115-117.

damage in Honduras and Guatemala. To a lesser extent, extra-regional imports also slowed in 1969, owing largely to the effect of the 30-percent surcharge levied, under the Protocol of San Jose, by four of the CACM members (Costa Rica excepted) on all imports originating outside the area. Although nearly all items of the uniform tariff schedule of the CACM had become subject to a common external tariff by 1969, no further progress was realized during that year in liberalizing the remaining items. U.S. exports to the CACM rose slightly in absolute value in 1969 but declined slightly in share of the CACM market, compared with 1968.

Following the war in the summer of 1969, a wide variety of restrictions were placed by the different CACM countries on numerous individual commodities important to trade within the region. These frequently provoked retaliatory restrictions; a series of bilateral meetings between the countries, however, succeeded in easing some of these barriers by the end of the year.

During 1969, the continued reluctance of Costa Rica to ratify the Protocol of San Jose resulted in additional disunity. The other four countries, feeling themselves at a disadvantage because of their 30-percent surcharge on extraregional imports, threatened Costa Rica with possible retaliatory measures. This served to intensify complaints about inequitable distribution of CACM benefits among the individual members, a difficulty which had threatened to disrupt the CACM even before the war.

The progress of industrialization during 1969 was mixed, but generally slower than in earlier years. Although the integrated-industry program was dealt a severe blow by the war, some progress was made under the regional fiscal incentives program to provide financing for industrial development in the least developed CACM countries, particularly Honduras. The United States, mainly through the Agency for International Development, made funds available to the financial institutions of the CACM for industrial investment. Industrialization has entailed a considerable strain on the relatively weak economies of Honduras and Nicaragua; there has been a heavy drain on their limited exchange reserves for the importation of machinery and equipment required for the program, which has had the effects of slowing industrial growth and curtailing their participation in the growing intraregional trade. Industrialization throughout the CACM also suffered from a shrinkage of private investment, both domestic and foreign, as a result of the hostilities.

Despite the difficulties encountered during 1969, the CACM made some effort to increase economic cooperation with other areas, with special emphasis on broadening its circumscribed trading area. Conferences to this end were held during the year with some of the individual countries of the LAFTA and with the Caribbean Free Trade Association (CARIFTA).

At the end of the year, all five countries of the CACM finally joined in a conference to explore means for repairing the damage and continuing the progress in trade expansion and industrial development which already had been achieved. Although the fundamental causes of the Salvadorean-Honduran conflict were not resolved by that time (or in 1970), and an eventual solution was difficult to foresee because of the complex substantive and emotional issues involved, responsible public and private opinion in each of the CACM countries recognized the great contribution of the CACM to the recent economic growth of these countries and realized that it must be preserved and improved for the benefit of all concerned. The urgent need of these countries for greater balance-of-payments stability can best be achieved through the CACM with its export expansion program, regional fiscal incentives, and monetary stabilization fund, as means to solving the problems of slow export growth, a propensity to import beyond the means of payment, and insufficient tax revenues.

Intraregional Trade

During 1969, the value of intraregional trade of the CACM totaled almost $250 million, about 3 percent below the 1968 total; in 1961, the value of this trade had amounted to only $37 million. Between 1961 and 1969, the ratio of intraregional trade to total foreign trade of the CACM rose from 7 percent to about 30 percent.

Growth has been attributable mainly to the extensive reduction of trade barriers within the region, along with the policy of substituting products of regional origin for a wide variety of products formerly imported from outside the region. The overall regional expansion of trade, however, has not been evenly divided; El Salvador and Guatemala have had sizable surpluses, owing primarily to their greater production and exportation of manufactured commodities; but Honduras and Nicaragua have recorded considerable deficits in trade with fellow members of the CACM, being unable to achieve a rapid expansion in the volume of their predominantly agricultural exports. In 1969, trade in manufactured products accounted for slightly more than 55 percent of the total value of intraregional trade, compared with about 37 percent in 1961.

By the close of 1969, restrictions had been eliminated on intraregional trade in about 98 percent of the items of CACM origin listed in the Uniform Central American Customs Nomenclature (NAUCA). 1/ The remaining items, however, included commodities important to the trade of the region, such as refined petroleum products, coffee, wheat, and sugar; these items have accounted, in recent years, for approximately 20 percent of the total value of intraregional trade, as well as a similar share of the total customs revenues collected by the five CACM countries.

Common External Tariff 2/

By the end of 1969, the five members of the CACM were imposing common duties on about 95 percent of the items in the NAUCA that were

1/ Nomenclatura Arancelaria Uniforme Centro America.

2/ The duties and charges of the CACM countries on imports entering from extraregional sources are governed by the Central American Agreement on Equalization of Import Duties and Charges of 1959, which became effective in 1960. The agreement, along with several protocols added to it in subsequent years, has provided guidelines for the establishment of the common external tariff of the CACM.

being imported from outside the region. By 1972, when the Protocol of Guatemala 1/ (to the Central American Agreement on Equalization of Import Duties and Charges) is to become fully operative, the individual CACM countries are to equalize their import duties on approximately 96 percent of the NAUCA items. The remaining 4 percent, accounting for about 80 NAUCA items, either have not been scheduled for equalization or are on equalization schedules that are not yet in force. In terms of value, however, these items account for about 15 percent of the total global imports of the five CACM countries. Individual commodities involved include principally automotive vehicles, fuels and lubricants, radio apparatus, wheat, and wheat flour.

Before the brief war between El Salvador and Honduras in the summer of 1969, most commodities of Central American origin had been circulating virtually free of trade restrictions within the region; this situation was severely modified in the aftermath of the hostilities. As for goods originating in third countries, it was still impossible at the close of 1969 for them to move freely from one CACM country to the other; it has been necessary to pay the common external duty on such products at each national border. It is evident, therefore, that the successful economic growth of the CACM requires a customs union to achieve a truly free flow of commodities and services within the region, along with a system for the collection and equitable distribution among the five countries of revenues provided by CACM duties on

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1/ This protocol was signed in Guatemala City, on August 1, 1964.

extraregional imports; by the end of 1969, the prospects for realization of these goals had deteriorated substantially, primarily because of the Salvadorean-Honduran conflict.

Extraregional Trade

The foreign trade of the five CACM countries operates under the Central American Uniform Customs Code (CAUCA), 1/ the code under which the common external tariff is administered, and the Central American Uniform Tariff Nomenclature. Specific duties are levied per unit of gross weight or measure plus an ad valorem duty based on the c.i.f. value of the imported commodity. Imports of raw materials and goods considered essential are dutiable at low rates; imports of luxury goods, consumer goods, and commodities competitive with regional production are dutiable at higher rates. The CACM trade policy has been designed primarily to increase export earnings and to encourage imports utilized in the economic development of the region.

During 1969, as in 1968 and 1967, the CACM experienced a substantial deficit in extraregional trade, amounting to the equivalent of about $94 million, as in 1968; the 1967 deficit, however, was about $174 million. In 1969, the rate of increase of extraregional exports over the 1968 level was only 2 percent; in 1968 the rate of increase over the preceding year was about 11 percent. In 1969 and also in 1968, the annual rate of increase of extraregional imports over the levels of the preceding years was about 2 percent; the rate of increase of 1967 over that of 1966, however, was about 10 percent. Total extra-

1/ Codigo Aduanero Uniforme Centroamericana.

regional imports of the CACM in 1969 amounted to the equivalent of almost $817 million, while total extraregional exports amounted to almost $723 million.

During 1969, increases of both the exports and imports of Guatemala and Costa Rica were more than offset by decreases of both the exports and imports of El Salvador, Honduras, and Nicaragua. For Guatemala, the 1969 increases amounted to about 12 percent for exports and less than 1 percent for imports. For Costa Rica, the 1969 increases amounted to about 11 percent for exports and to about 15 percent for imports. For El Salvador, the 1969 decreases amounted to nearly 5 percent for exports and about 2 percent for imports. For Honduras, the 1969 decreases amounted to about 7 percent for exports and to less than 1 percent for imports. For Nicaragua, the 1969 decreases amounted to more than 2 percent for exports and to about 4 percent for imports.

This situation was attributable principally to a sharp rise in recent CACM imports of capital goods and raw materials for the expanding industries and the new development projects within the region. Imports of raw materials and of capital goods for industry were the categories registering the greatest gains during 1958-69; during this period these imports more than doubled in annual value, with an average annual growth rate in excess of 8 percent. In recent years, raw materials have accounted for about 40 percent and capital goods for industry, about 15 percent of the annual value of the extraregional imports of the CACM. Imports of consumer goods, capital goods for transportation and agriculture, and building materials, shared to a lesser extent in the expansion of extraregional imports, as a result of heightened economic activity and increased per capita income within the CACM.

Extraregional exports of the CACM have not increased in value at the same pace as imports, largely because the principal export items have been agricultural commodities. Some of these products are subject to international agreements, such as coffee, cotton, and sugar. Consumer demand for most of these export commodities has not increased appreciably in recent years. In addition, the Salvadorean-Honduran war in 1969 and a number of natural disasters have reduced the volume available for export and have increased the difficulties of transportation to ports of embarkation.

Trade with the United States

During 1969, U.S. exports to the CACM rose slightly to $353 million; this was about the same level as in 1968 and 1967. In 1961, the year when the CACM became operative, U.S. exports to this market were valued at $210 million. During the 1961-69 period, the share of the United States in the value of annual global imports of the CACM declined slowly but steadily, from about 46 percent to 38 percent, despite the increased value of these shipments. Expansion of intraregional trade was the principal factor responsible for this decline.

In recent years, an increasing volume of U.S. investments has been made in new industries in the CACM countries, which has served to maintain U.S. exports of machinery and equipment. U.S. funds are being channeled into such enterprises as petroleum refineries, chemical and fertilizer plants, and mines. The CACM development program has contributed heavily to the demand for U.S. products, especially machinery and equipment for agriculture and infrastructure; most of these CACM purchases, however, were financed by the Agency for International Development or other agencies of the U.S. Government.

In 1969, U.S. imports from the CACM increased to $368 million, compared with $343 million in 1968 and about $300 million annually in 1967 and 1966; 1/ the total in 1961 was nearly $200 million. While the annual value of coffee exported by the CACM to the United States remained fairly constant during the 1961-69 period, considerable gains were realized in the exportation of bananas, beef, and shrimps.

War Between El Salvador and Honduras

In July 1969, a disastrous war erupted between El Salvador and Honduras. Although lasting only for about five days, at which point both combatants accepted the mediation of the Organization of American States (OAS), it was reported that about 3,000 citizens of both countries lost their lives in the fighting. The economic loss was high for two countries that could ill afford it. Population pressure, resulting in hundreds of thousands of Salvadoreans leaving

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1/ The principal CACM commodities imported by the United States have been bananas, coffee, beef, sugar, and shrimps.

their small, overcrowded country, crossing the border, and settling in relatively large and underpopulated Honduras, was considered to be the basic cause of the conflict; others included longstanding border disputes and Honduras dissatisfaction with its share of the benefits from the CACM. So severe has been the disruption that the future of the Common Market has been threatened; disuniting influences have been intensified, not only in El Salvador and Honduras, but throughout Central America.

In 1969, El Salvador's imports from Honduras were valued at more than $7 million, or about 12 percent of total imports from the CACM valued at more than $60 million. In the same year, Honduran imports from El Salvador were valued at more than $12 million, or about 27 percent of total imports from the CACM valued at $44 million. Guatemala was the chief source of intraregional imports of both El Salvador and Honduras in 1969, accounting for better than 60 percent of the value of El Salvador's CACM imports and about 40 percent of such imports by Honduras.

In 1968, El Salvador's imports from Honduras were valued at about $15 million, or about 23 percent of total imports from the CACM valued at about $66 million. In the same year, Honduras imports from El Salvador were valued at about $23 million, or about 47 percent of total imports from the CACM valued at about $49 million. Guatemala was the chief source of intraregional imports for El Salvador in 1968, accounting for about 55 percent of the value of El Salvador's CACM imports. El Salvador, however, was the chief source of Honduras imports from the CACM in 1968.

Thus, Salvadorean imports from Honduras in 1969 were 53 percent below the 1968 level, and Honduran imports from El Salvador in 1969 were down 48 percent. In partial compensation for this loss, both countries registered increased imports in 1969 from the other three CACM members--Guatemala, Nicaragua, and Costa Rica; the value increase of such imports over their 1968 levels amounted to about $2 million for El Salvador and about $6 million for Honduras. The overall decline from 1968 in the value of CACM imports in 1969, however, was 9 percent for El Salvador and 10 percent for Honduras.

The immediate after effect of the war on the CACM economy was the termination of the considerable trade between Honduras and El Salvador and the contraction of commercial relations maintained by the rest of the CACM members through these two countries. By the end of 1969 (and in 1970), trade and diplomatic relations between the two countries had not been reestablished, and Honduras continued to deny transit of Salvadorean persons and goods on the Honduran portion of the Inter-American Highway. This proved to be a major setback for the regional trade and economic integration effort of the entire CACM.

El Salvador had been one of the two major trading nations of the CACM (Guatemala was the other), in terms of value of exports and imports. Yet following the war, not only was El Salvadore's trade with Honduras terminated but its shipments to Nicaragua and Costa Rica, also CACM countries, and to Panama, were greatly hampered by Honduras closing of the Highway. El Salvador instituted a ferry service accross the Gulf of Fonseca to Nicaragua, and airlifted a limited volume of goods to other countries in the area; shipments by these means were not at anywhere near former levels, however, as these "emergency" methods were either slower and more cumbersome or more costly than established highway transit. In 1969 the total value of both imports and exports of El Salvador and Honduras fell below the 1968 level; all CACM countries suffered loss in income, directly or indirectly, as a result of the conflict.

The Salvadorean-Honduran war and the unresolved issues that persisted long after fighting ceased inhibited badly needed investment of both foreign and domestic capital in the region. Reliable estimates for foreign and domestic investments within the CACM were not available at the time this report was prepared. Regional gross capital investment, however, rose from the equivalent of $333 million in 1961 to $858 million in 1968. Direct private investment of U.S. capital in the CACM grew from $342 million in 1960 to $564 million in 1967.

The disruption of regional trade adversely affected all CACM countries. Tensions were at a high level throughout Central America, resulting in the imposition of numerous restrictions by individual CACM countries on a wide variety of imports from other member countries. These intraregional trade restrictions further endangered the economic development of the CACM. Generally, transit of goods from country to country within the CACM became more difficult after the conflict, some items being especially affected.

Shipments of eggs from El Salvador to other CACM countries were confronted with a variety of obstacles. In August 1969, the Governments of El Salvador and Costa Rica entered into a bilateral agreement under which the appropriate authorities of both countries were to conclude a permanent arrangement to assure free trade in eggs between the two countries.

Also in the postwar period in 1969, El Salvador prohibited the importation of Costa Rican dairy products. In their bilateral agreement of August 1969, the two countries agreed to arbitrate this restriction, through representatives of their respective ministries of economy and agriculture, and in accordance with the provisions of the General Treaty for Central American Economic Integration (GTEI), the basic charter of the CACM.

Other products discussed at the time of the Salvadorean-Costa Rican bilateral agreement were containers (bottles and plastic bags) and bakery products (biscuits) from Costa Rica, subjected to restrictions by El Salvador, and alcoholic beverages and rice from El Salvador, subjected to restrictions by Costa Rica. Although no definite commitments were made, the representatives of both Governments agreed to review the circumstances involved.

Also in August 1969, further bilateral discussions took place between Honduras and Nicaragua, Nicaragua and Costa Rica, and Guatemala and El Salvador. The talks involved trade restrictions on such commodities as soap, dyes, oats, phonograph records, plywood, baby foods, eggs, and milk.

Agriculture in Honduras and El Salvador suffered badly during the war. Time and money were needed to repair the damage. In 1969, both countries had to inform the International Coffee Organization that they would be unable to cover their export quotas for an undetermined period; the ICO granted an extension to both countries. The widespread damage caused throughout Central America by hurricane "Francelia" was particularly severe in Honduras and Guatemala where crops were destroyed and the transport of goods was hampered further.

The program for integrated industries, which had been beset with difficulties and resentments before the war, further deteriorated after the conflict, despite official support by the five governments and private business. These industries, which have been so important to the economic growth of the CACM, depend on the regional markets; without them, the economic development of Central America would be substantially impaired.

The disruption of trade patterns of the CACM, therefore, has intensified the economic difficulties and the fiscal problems of the five countries. A general realization of the common need to preserve the Common Market, however, provides some cause for optimism. In December 1969, for the first time since the conflict, all five countries joined in a conference to explore means for restoring and continuing the economic progress that had been achieved by the CACM; additional meetings were scheduled by the conferees for future dates.

Costa Rica and the Protocol of San Jose

In 1969, another situation fraught with danger to the CACM arose from the delay of Costa Rica in ratifying the Protocol of San Jose to the GTEI, signed by all five countries in June 1968. As the only CACM country not observing this protocol, Costa Rica enjoyed an advantage over the other four member nations with respect to extraregional imports. 1/ As a result, there was a threat that the others would impose restrictions on their imports of Costa Rica commodities. Pending congressional ratification of the protocol, the Costa Rican Government extablished an interim sales tax system in lieu of the provisions of the protocol.

The Protocol of San Jose required a 30-percent surcharge on all products imported by ratifying countries of the CACM from third countries, except for a number of items considered essential. It also provided for optional consumption taxes 2/ to be levied by individual CACM members on all imported products regardless of origin, including especially a sales tax of from 10 to 20 percent on nonessential or "luxury" goods. The dual purpose of the protocol was to improve the balance-of-payments situation of the CACM countries by discouraging imports of nonessential commodities, and at the same time to provide compensation to the individual CACM governments for the loss of revenue resulting from reduced imports. By the end of 1969, this protocol had provided some stimulus to intraregional trade and had become a contributing factor in the declining share of U.S. exports to the CACM. 3/

1/ The protocol became effective for the four ratifying countries--Guatemala, El Salvador, Honduras, and Nicaragua--in March 1969. By mid-1970, all four nations were applying the surcharge it called for.
2/ Generally ranging from 10 to 30 percent on selected commodities.
3/ For a further discussion of the Protocol of San Jose, see Operation of the Trade Agreements Program, 20th report, pp. 110-112.

Financial Developments

By 1969, loans made by the Central American Bank for Economic Integration (CABEI) 1/ to promote balanced economic development of the individual CACM countries totaled nearly $146 million. The largest source of CABEI funds has been the Agency for International Development (AID) of the U.S. Government; other sources have included the International Development Bank (IDB) and several U.S. commercial banks. More than 60 percent of those loans were made for urgent infrastructure requirements; about 85 percent of the infrastructure loans were devoted to highway construction and improvement.

During 1969, despite the disruption of the war, CABEI continued to grant loans to Honduras, the least developed country of the CACM, in an effort to lift the development of that country to the levels of other CACM members in accordance with the provisions of the Protocol of 1966 to the Central American Agreement on Fiscal Incentives to Industrial Development. As an indication of the extent to which the CABEI favors Honduran industry, by the end of 1969 Honduras had received about 65 percent of total CABEI loans for industrial feasibility studies and about 25 percent of the loans for infrastructure; Honduras also received about 30 percent of the nonindustrial loans of the CABEI.

In October 1969 the Central American Monetary Council signed an agreement to establish a Central American Monetary Stabilization Fund, with the Central Bank of Guatemala designated as its agent bank. The fund is expected to work closely with the International Monetary Fund

1/ The CABEI was chartered in 1961, located in Tegucigalpa, Honduras, and capitalized by mixed U.S. and Central American funds.

in assisting the individual CACM governments to cope with temporary balance-of-payments problems. By December 31, 1969, the CACM contribution to the fund was to amount to $7.5 million, increasing to $10 million by April 30, 1970, and eventually to reach a total initial commitment of $20 million. At the end of 1969, a U.S. loan to the fund through AID, as well as loans from other extraregional governments, were under consideration.

Cooperation With Other Countries

During 1969 the CACM continued efforts to expand its trading area by improving economic relations with other regional trading groups and with individual countries. No further progress was made, however, in moving toward the possibility of Panama's membership in the CACM, although Panama continued to participate in several CACM agencies. 1/

In November 1969, an official mission of the Venezuelan Government met with officials of the Secretariat of the CACM in Guatemala City. The conferees explored the possibilities for increased trade between Venezuela and the CACM, cooperation on industrial complementation arrangements, coordination of studies on air and maritime transportation, technical cooperation, and cooperation between the government and commercial banks of Venezuela and financial institutions of the CACM such as the Central American Bank and the Central American Monetary Stabilization Fund.

1/ See Operation of the Trade Agreement Program, 18th report

Also in November 1969 the Government of Colombia appointed an official observer for various organisms of the CACM. This was a further manifestation of CACM cooperation with this country and with other LAFTA countries.

In September 1969 the Secretariat of the CACM named one of its leading officials as advisor to the Caribbean Free Trade Association (CARIFTA), upon request from that group. This advisor participated in the September CARIFTA conference on harmonization of financial incentives to development, held in Port-of-Spain, the capital of Trinidad and Tobago.

CARIBBEAN FREE TRADE ASSOCIATION

At the close of 1969, the Caribbean Free Trade Association (CARIFTA) consisted of 11 nations and territories of the British Commonwealth, situated in or on the Caribbean Sea: Antigua, Barbados, Guyana, Trinidad and Tobago, Dominica, Grenada, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, Jamaica, and Montserrat. The Association became effective in 1968, although the original agreement establishing the CARIFTA had been signed in 1965 at Antigua by Antigua, Barbados, and Guyana.

During its first two years of operation, the CARIFTA confronted no serious problems and made no noteworthy progress. It did provide for the removal of intraregional trade restrictions and inaugurated a potentially sweeping program for economic development; in these activities, special privileges and concessions were granted to the less developed members of the Association. The principal benefits of the CARIFTA, however, appear to have been enjoyed by the larger, more industrialized member nations, especially Jamaica and Trinidad and Tobago.

Although by the end of 1969 it was still early to measure the effect of the CARIFTA on regional trade, overall intraregional trade up to that time had been comparatively small. Gains were registered during 1969, however, by Jamaica and Trinidad and Tobago, especially on the export side. Such obstacles as complementary economies, limited cultivable land, and transportation difficulties have generally limited the expansion of trade within the area. The creation of a customs union and the adoption of a common external tariff for the CARIFTA continued in the planning stage.

Development in the CARIFTA, especially of industry, apparently has stimulated trade with the United States. In 1969, U.S. exports to the CARIFTA rose by about 14 percent over the 1968 value, and the prospects are for continued increases in subsequent years. Industrialization in the area has resulted in expanded purchases of a variety of U.S. manufactures and raw materials, as well as partially finished goods for further processing, completion, or assembly.

The chief financial development in the CARIFTA by early 1970 was the formal establishment of the Caribbean Development Bank. The bank is designed to stimulate the economic growth and development of participating countries of the Caribbean region by encouraging economic integration and cooperation, with special attention to the problems of the smaller, less developed members.

Intraregional Trade

Since May 1968, when the CARIFTA became effective, intraregional trade among the 11 British Commonwealth nations and territories has been free of restrictions, except for duties on certain specified commodities, i.e., Guyanese petroleum products, 1/ products on special Reserve Lists, 2/ and products protected in a member country by an agreement between the producer and the government. Most quantitative restrictions on trade within the CARIFTA have been eliminated; such barriers were expressly prohibited in the agreement 3/ with certain

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1/ Article 38 of the CARIFTA Agreement granted Guyana the right to protect any petroleum-refining industry that it may establish in the future, up to a third of its annual consumption of petroleum products.

2/ See Operation of the Trade Agreements Program, 20th report, pp. 119-120.

3/ Articles 13 and 14.

specified exceptions: agricultural commodities listed in the Agricultural Marketing Protocol; 1/ and products involving balance-of-payments difficulties, the reduction of domestic employment and product, and the protection of health, law and order, and public morals. Duties on commodities still excepted from liberalization are to be lowered progressively among the CARIFTA members so that free trade is to be realized for most products within five years for the more developed countries and within ten years for the less developed countries.

The extent of the increase of trade within the entire region since the establishment of the CARIFTA is difficult to measure. Apparently the principal benefits have accrued to the comparatively larger and more industrialized island nations of Jamaica and Trinidad and Tobago. Partial data for 1969 (January-July) indicate that the value of Jamaica's intraregional exports was more than 60 percent higher than in the comparable period in 1968, while Jamaica's imports from other CARIFTA countries were up by more than 40 percent.

Overall intraregional trade is not expected to increase materially within the near future. The difficulties of expanding intra-CARIFTA trade are formidable, as most of the members have predominantly agricultural economies with largely complementary products. Distances between CARIFTA countries are comparatively great, and transportation facilities are far from ideal. Basic agricultural conditions are not conducive to crop expansion, as the region has a relatively small

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1/ See Operation of the Trade Agreements Program, 20th report, pp. 121-122.

amount of cultivable land, the soil has low fertility, and rainfall is unreliable.

The incentives provided by the CARIFTA, therefore, are more likely to stimulate growth of industry. New and existing regional industries should enjoy an increasing demand for their products in the CARIFTA market, and should absorb some to the numerous farm workers who have lost their jobs largely because of mechanization of and the limited opportunities in agricultural production.

By the end of 1969, no progress had been achieved towards the formation of a CARIFTA customs union, with a common external tariff, as projected in the agreement. Wide disparities in such matters as production potentials and per capita income between the various member nations increase the difficulties involved in the realization of this goal. During 1961, however, the CARIFTA actively considered the establishment of a common external tariff, along with proposals for expansion of the scope of the Association. CARIFTA officials also agreed to facilitate the increase of intraregional trade in agricultural products by adopting uniform animal and plant quarantine regulations.

Trade with the United States

The U.S. market in the CARIFTA appears to be expanding. In 1969, U.S. exports to this region were valued at nearly $300 million, compared with $264 million in 1968. Increasing industrialization has augmented regional demand for U.S. raw materials, components, and unfinished manufactures, as well as finished manufactures. Neither the growth of intraregional trade nor the advantage of preferential duty rates within the British Commonwealth have appreciably affected the CARIFTA market for U.S. goods. 1/

Jamaica

The United States continues to be Jamaica's most important trading partner. In 1969, the United States accounted for about 42 percent ($185 million) of Jamaica's imports, compared with approximately 39 percent in 1968, and this share was expected to increase further in 1970. Principal purchases of U.S. products included foodstuffs, machinery, construction materials, and hotel equipment. Jamaican demand is growing fastest for U.S. foods, textiles, automobiles, electrical appliances, and other consumer goods. Expansion of Jamaican industry also should stimulate demand for construction equipment, mining equipment, and some raw materials.

The leading products imported by the United States from Jamaica in 1969 were sugar, bananas, citrus fruits, cocoa, copra, and ginger. As in 1968, about 40 percent of Jamaican exports, were destined for the United States.

Trinidad and Tobago

In 1969, as in 1968, the U.S. share in the total value of the imports of Trinidad and Tobago was about 15 percent, or about $70 million. The U.S. products purchased were principally crude oil, machinery, transportation equipment, foodstuffs, and chemicals. Local demand for

1/ In 1968, Jamaica, Guyana, and Trinidad and Tobago accorded duty-free entry to imported raw materials utilized by domestic industries. This placed U.S. suppliers of such commodities in an equal competitive position with British Commonwealth suppliers in these three CARIFTA countries.

U.S. building materials, construction materials and equipment, hotel equipment, and raw materials for domestic processing should continue to increase, if the country's five-year plan for 1969-73 is to meet its targets; the plan emphasizes the development of tourism, light industry, and food production. Imports of U.S. equipment for petroleum refining and the petrochemical industry are also expected to increase. The government program for agricultural diversification and self-sufficiency should raise sales of U.S. agricultural machinery and equipment.

The leading exports of Trinidad and Tobago to the United States in 1969 were mineral fuels, lubricants and other petroleum products, sugar, chemicals, fertilizers, coffee, and fruits and vegetables. As in 1968, U.S. purchases accounted for more than 40 percent, or around $200 million, of the country's exports.

Caribbean Development Bank

The Caribbean Development Bank, founded in May 1968, was formally inaugurated in January 1970, with Barbados confirmed as its headquarters. As of early 1970, all the CARIFTA countries, the Bahamas, British Honduras, and, from outside the region, Canada and the United Kingdom, were members. Ratification by the parliaments of all these nations was achieved after a number of organizational difficulties were overcome.

The bank seeks to coordinate the economic development programs of and the available labor in the Caribbean countries in order to attain more efficient utilization of resources and markets. It aims to stimulate complementary growth and orderly trade among the diverse national economies of the region by combining planning and technical assistance with loans and investments. Initial emphasis is to be placed on tourism, agricultural diversification, and the development of light industry--a program which should prove especially beneficial to the smaller, less developed members.

The initial capitalization of the bank, reportedly exceeding $50 million, was provided by the United Kingdom, Canada, and the more developed CARIFTA countries. In addition, a large proportion of the special funds of the bank are to be contributed by the more developed members of the CARIFTA.

The United States, through the Agency for International Development, was expected to loan the bank $10 million in 1970, for medium and long-term financing of special development projects. Although the United States is not a member of the bank, it has indicated willingness to cooperate with it and the CARIFTA through development loans of this type. In order effectively to utilize this as well as other external financing, the bank created a special fund for high priority development loans with longer maturities, longer grace periods, and lower interest rates than those that have been obtainable in the region.