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UNITED STATES INTERNATIONAL TRADE COMMISSION

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This report was prepared principally in the Commission's
Office of Economic Research, Analysis Division

Anton F. Malish, Project Director
Hilliard H. Goodman
Patricia G. Marx
Wallace W. Fullerton
Eileen S. Slack

Address all communications to
Office of the Secretary
United States International Trade Commission
Washington, D.C. 20436

practices, as set out in an annex which incorporated some points sought by the United States, would be continued.

A draft declaration on balance-of-payments measures required that preference be given to those measures that are the least trade disruptive. As part of the preamble, developed countries were charged to avoid trade restrictions for BOP reasons to the "maximum extent possible." Developing countries were given additional flexibility in taking safeguard action for economic development purposes.

On export restrictions, the MTN participants examined existing GATT provisions and agreed to readdress this issue after the MTN.

Tropical Products

The Tropical Products Group was moribund in 1978 as several developed countries had implemented their offers in 1977 and then considered the negotiations closed. The United States continued to negotiate its Tropical Products requests and offers, but within the wider context of bilateral negotiations on tariffs and NTM's. The United States and India, however, concluded a Tropical Products agreement, which became effective for the United States on October 1, 1978. The agreement negotiated in 1977 with Mexico did not become effective during 1978 because of the Mexican Government's failure to ratify the agreement.

The Group met twice in 1978 to review the status of the negotiations in the Tropical Products area.

Civil aircraft

Shortly before the July 15 target date, the United States, the EC, Japan, Canada, and Sweden agreed to negotiate an agreement that would address some of the problems affecting trade in commercial aircraft. The United States proposed that the following issues needed to be specifically addressed:

(1) Duty elimination on aircraft and equipment, including avionics and parts thereof;

(2) Government action directing national airlines and national aircraft manufacturers to procure aircraft and equipment from national sources;

(3) Government policies that mandate industrial compensation, offset procurement, coproduction and technology transfer as a condition of purchase from a foreign country;

(4) Export credits or other financing attendant to the sale of commercial aircraft;

injurious imports. The United States and Japan would have permitted a selective action if an agreement to that effect had been negotiated between the importing and the exporting countries, or, that failing, after prior approval by a multilateral safeguard committee. Developing countries would permit selective action only where the consent of the affected exporting country had been secured. Despite numerous attempts to bridge these positions, the EC and developing countries tended to harden their stand, and the year ended with the selective issue still deadlocked.

On export restraint measures, the United States wanted substantive rules and the code's dispute-settlement provisions to apply to those export restraint measures involving governmental participation and taken in response to pressures from an importing country. The United States and Japan were at loggerheads on this issue, and no agreed text could be developed.

Likewise, no agreement was possible on special measures, where among other issues, the least developed countries sought general exemption from developed-country safeguard actions.

Framework

The Framework Group had five issues on its 1978 agenda:

(1) The provisions of an enabling clause providing a legal basis for special and differential treatment in favor of developing countries;

(2) Improvement of GATT dispute-settlement procedures;

(3) Rules and disciplines on trade measures taken for balance-of-payments (BOP) purposes;

(4) Increased acceptance of GATT responsibility by developing countries according to their economic development; and,

(5) Elaboration and/or better definitions of measures relating to export controls.

Various drafts on these topics were circulated informally as the group tried to establish a single document under each topic as a basis for future negotiations.

Strongly held views often made negotiations difficult. Developing countries for example, sought a permanent legal basis for such preferential measures as GSP. The United States was willing to consider an enabling clause so long as it was linked to a graduation concept (point 4 above). Ultimately, the United States accepted an enabling clause with a much watered-down graduation commitment.

Under dispute settlement, the United States sought acceptance of a disputant's right to a panel, written records of panel findings, and specified time limits. At yearend, the text recognized that the customary GATT

such knowledge could lead to collusion among bidders for future contracts. As the year progressed, a number of transparency points were accepted. Unsuccessful bidders, for example, were entitled to know that a contract was awarded. Upon request, purchasing entities had to provide unsuccessful bidders with information on why a bid was rejected, including the relative advantages of the winning tender. By yearend, the question of knowing the winning bidder and the winning amount was still under negotiation, but it appeared that such information would generally be made available to the losing bidder's government, which might then disclose it "with discretion."

Negotiations on the government purchasing agencies which would be covered by the code were based on a request/offer procedure. The U.S. Government was prepared to offer a broad scope of its agencies, but no other major participant was prepared to go as far. Without adequate inclusion by our major trading partners of the entities purchasing telecommunications, heavy electrical and transportion equipment, the United States withdrew several agencies from its offer including the Department of Energy, the Army Corps of Engineers and the Tennessee Valley Authority.

The minimum threshold amount at which procurements would be covered was also a key negotiation point. The United States sought a low figure while the EC and Japan favored a threshold of about $250,000. The eventual level decided was SDR 150,000 or about $190,000.

Safeguards

The U.S. objective in this group was to develop a code elaborating on GATT Article XIX, the international counterpart to section 201 of the Trade Act. While U.S. procedures have been open and formalized, some other countries have often provided relief on a nonpublic basis and done so without regard to Article XIX. It was this imbalance that the United States set out to correct.

Although two safeguard hypotheses were on the table in late 1977, it was not until June 1978 that an acceptable draft text was available as a negotiating document. Thereafter, intense informal discussions took place between a developed country drafting group and several developing countries. Although negotiations were in process, numerous differences could not be resolved. For example, no agreement was reached as to whether serious injury, the classic Article XIX condition for relief, had to be sustained by all domestic producers or by only "a major part of all" domestic producers. Similarly, the degree of causation between increased imports and the serious injury remained disputed.

The most troublesome areas of negotiation, however, were selectivity in safeguard action, export restraints, and special and differential measures for developing countries.

On the first issue, the EC demanded that countries be permitted to take safeguard actions on a selective (rather than a nondiscriminatory) basis, thereby imposing restraints only against those countries that supply the

By yearend a code was developed that, in varying degrees, met several U.S. objectives. Export subsidies on nonprimary and primary mineral products were prohibited. An updated illustrative list of export subsidies was provided for. That domestic subsidies can have harmful trade effects was recognized. An improved mechanism for dealing with export subsidies to third countries was worked out, and a dispute-settlement process was negotiated. The United States accepted an injury test. A footnote made clear that the degree of injury contemplated was "material injury," as set out in GATT Article VI. 1/

Quantitative Restrictions Subgroup.--During 1978, quantitative measures were largely negotiated bilaterally under the request/offer procedures adopted for agricultural products and nontariff measures. As a result, Subgroup activities were concerned mostly with developing texts on a licensing code. By July, the draft texts on automatic licensing and restrictive licensing contained the basis for an agreement.

In these negotiations, the United States sought to limit automatic import licensing to specific and well-defined circumstances such as import surveillance in a presafeguard (i.e., import relief) context. In the final 1978 document, the United States settled for a weaker discipline which recognized that automatic import licensing "may be necessary whenever other appropriate procedures are not available." For import licensing to administer quotas or other import restrictions, the text set out that these systems shall not have trade restrictive effects "additional to those caused by the imposition of the restriction." A committee to oversee the operation of the licensing agreement was provided for. Settlement of disputes would take place within the normal GATT mechanism.

Government Procurement Subgroup.--Work on a government procurement code was undertaken as a result of international dissatisfaction with various "buy national" policies that often shut the door to sales by foreign suppliers. With a draft document on the table, negotiators turned their attention in 1978 to the most difficult code elements, i.e., the question of transparency, dispute settlement, and the government purchasing entities that would be covered by the code.

Dispute-settlement provisions were worked out in March following the model established in the Standards code (i.e., a committee of code adherents and recourse to a panel upon request). By June, tendering procedures set out that entities "shall not discriminate among foreign suppliers or between domestic and foreign suppliers." In circumstances where only qualified suppliers are allowed to bid, the basis for qualification had to be published in advance. Proposed purchases must be announced by a public notice which contains the necessary commercial information to submit a usable bid. Other procedures governing time limits and reports of bids were also established.

Knowing who submitted the winning bid and the amount of the award was a key negotiating goal for the United States. The EC, however, thought that

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1/ By a note to the Subsidies/Countervailing measures text, most of the delegations agreed that the text of the International Antidumping Code be brought into conformity.

the evidence of conformity) to national, regional, and international certification systems on an MFN and national-treatment basis.

As part of last-minute negotiations, both the Standards Subgroup and Group Agriculture agreed that the code should cover both agricultural and industrial products.

Customs Matters Subgroup.--At the February meeting of the Subgroup, the EC's proposed valuation code became the basis for negotiations. The negotiations themselves, however, were first the subject of intense U.S.-EC bilateral, and then plurilateral, discussions. The United States decided that the EC proposal, with suitable modification, held the promise of a code, which could eliminate arbitrary and protective features of other valuation systems, and which could, in fact, be fashioned after the less-controversial portions of the U.S. valuation law. As a result of these efforts, "transaction value" was more clearly spelled out as the first alternative valuation standard, and a provision for use of computed value in certain circumstances was added, 1/ and tests were set out to determine whether transaction value was still an acceptable valuation method in related-party transactions. The United States would have to give up its American Selling Price system of valuation applicable to certain products (mostly chemicals). Canada, whose valuation practices incorporate some protective elements, insisted on certain derogations. Developing countries objected to a perceived lack of special and differential treatment and possible revenue losses stemming from the use of transaction value as the primary standard. By December, a text had been put together, but developing countries continued to seek special and differential measures and Canada's adherence was not certain.

Shortly before the July 15 deadline, the United States proposed in the Customs Matters Subgroup that an NTM code on commercial counterfeiting be developed. This code would deprive the parties to a transaction involving improperly trademarked goods the economic benefits of such a transaction. Drawing from U.S. domestic legislation, the U.S. proposal required that counterfeit merchandise be forfeited. Although a number of negotiating sessions were held and the U.S. proposal attracted some support, no consensus text could be developed by yearend 1978.

Subsidies/Countervailing Duties Subgroup.--The difference between the United States and the EC was perhaps greater on the question of subsidies and the application of countervailing duties than on any other issue in the MTN. The United States sought tighter prohibitions on export subsidies for industrial products, clarification of the rules on agricultural export subsidies, and some means of limiting the harmful trade effects of domestic subsidies. The EC, on the other hand, resisted negotiating a discipline on production subsidies for industrial products and on production and export subsidies for agricultural products. Yet, the EC demanded that the United States adopt an injury test before countervailing duties could be imposed. Thus, the first step was to bridge the differences between the United States and the EC, and then by using the informal working group method, to develop an acceptable text.

1/ In this method customs value is built up by adding the costs of materials, fabrication or other processing, profit, general expenses, and so forth.

Nontariff Measures Group .--The NTM "parent" Group remained the oversight body for work largely conducted in its subgroups. Its main functions continued to be the adoption of negotiating procedures and the establishment of new subgroups if that was the Group consensus. Its fall meeting again focused on antidumping. This topic had been brought up several times in past Group meetings as developing countries sought to bring antidumping activities under the MTN framework. Developed countries usually argued that the proper forum to discuss changes in the antidumping code was the Committee on Antidumping Practices, which monitors operations of the code.

Again, no antidumping subgroup was established. It was clear, however, that many nations saw antidumping and countervailing measures as closely related (they are both covered in the same GATT article), and that if a subsidy/countervailing duties code was developed, conforming changes in the antidumping code would be expected.

Standards Subgroup.--Negotiations on standards were designed to develop a code of conduct aimed at preventing product standards and certification systems from becoming obstacles to trade. By early 1978, many of the general procedures and obligations were decided. However, since it was well known that federal governments could not obligate the standards-making activities of local governments in the way unitary governments could, the levels of obligations in the code between the various potential signatories was not balanced. Late in 1977, the EC proposed that if a central government adherent could not bring its local standards-making activities into code compliance, other signatories could avail themselves to the code's dispute-settlement procedures. Since this appeared to set the stage for an acceptable compromise on levels of obligation, attention turned to finalizing a dispute-settlement mechanism.

At its March meeting the Subgroup adopted an outline for dispute settlement. As later refined in the course of negotiations, the text called for a committee of code adherents (The Committee on Technical Barriers to Trade) to investigate disputes with a view to facilitating a mutually satisfactory solution. A technical expert group could be established upon request as a fact-finding body to assist the committee in making recommendations. A panel could also be established to assist the committee by examining the facts of the matter as they apply to code provisions. The committee would seek to resolve disputes in a way consistent with the highest levels of trade liberalization.

Three key areas of the standards codes--levels of governmental obligations, rights and obligations in regional certification systems, and coverage of agricultural products--were not settled until December. As finalized, the code provided two levels of obligations: Central governments "shall ensure" that standards and certification systems are not adopted to create barriers to international trade. Central governments "shall use all reasonable means" to ensure that local governments and nongovernmental standards bodies within their jurisdictions also comply. Essentially the same "all reasonable means" requirement for a central government was accepted with respect to international and regional certification systems in which they might be members. The United States insisted, and the code requires, that foreign suppliers be granted access (including the mark of the system, i.e.,

In the second half of 1978, the approaching expiration of the U.S. countervailing duty waiver authority 1/ greatly influenced these negotiations. Key cheese request items for the EC, the Nordic countries, Austria, and Switzerland would be subject to countervailing duties when the waiver expired. The U.S. response to the requests for improved market access for cheese would be an important factor in determining how other countries responded to U.S. requests.

Meat and Dairy Subgroups.--Dairy meetings in 1978 often centered on the legal relationship between understandings being developed in the emerging international commodity agreement for dairy products and those in the GATT. The EC often spoke of "concerted disciplines" for dairy trade, but these remained a vague concept essentially aimed at securing access for its subsidized dairy exports. U.S. preferences were for a largely consultative arrangement. Ultimate U.S. adherence to the emerging arrangement was also dependent upon achieving a satisfactory agreement on subsidies and countervailing duties.

By midyear 1978, the text of the arrangement was largely complete, but disagreement continued on the role of export subsidies, health and sanitary measures, the GATT relationship, and the inclusion of a cheese protocol.

Within the Meat Subgroup, the United States favored an information exchange/consultative agreement and was not interested in various "orderly and regular" marketing concepts. By the end of the year, it appeared that the International Meat Council, which would be the central body of the arrangement, would primarily monitor and assess the world market for meat.

Nontariff measures

During 1978, methods of negotiating the nontariff measure codes of conduct were changed. While subgroup meetings continued, code-writing activities shifted to informal working groups. These "core" groups usually included representatives of the United States, the EC, Japan, Canada and sometimes other delegations. As a consensus was reached in the core group, new participants were drawn in, usually key developing countries, and eventually a new subgroup document would be issued. Although this method was a necessary step to speed up the negotiations, it gave rise to numerous complaints by developing countries--frequently voiced at the Trade Negotiations Committee level 2/--that they had been "marginalized" in the negotiations.

1/ Under the Trade Act, the Secretary of the Treasury could waive the application of countervailing duties on subsidized imports under certain conditions for a 4-year period. The administration sought to extend the waiver, but Congress adjourned in 1978 without enacting the necessary legislation.

2/ The TNC, composed of all MTN participants, is the supreme oversight body for MTN activities.

But, while pressing other countries for improvements, the EC took some exceptions of its own. Japan sought improvements on U.S. offers on textiles, ball bearings, and ceramic dinnerware. Canada was interested in duty eliminations on a wide range of low-duty items exported to the United States. Negotiations were intense, but by yearend the United States had virtually completed tariff negotiations with Japan, Switzerland, Austria, Sweden, and Finland.

Negotiations in agriculture

Negotiations on agricultural products took place on several levels during 1978. At one level, negotiations focused on a Multilateral Agricultural Framework or a general understanding on international agriculture trade. Bilaterally, countries pursued their tariff and nontariff measure requests. In the Meat and Dairy Subgroups, international commodity arrangements were drafted. 1/

The Multilateral Agricultural Framework.--As the July 15 target date neared, the United States discussed with the EC the possibility of developing an overall understanding on agricultural principles and policies so as to avoid continuing confrontations in trade in agricultural products. In the July "Framework of Understanding," 2/ several nations agreed to work toward "an improved level of international cooperation among participants in their efforts to secure adequate farm incomes, stabilization of food prices and expansion of trade . . . ." Within GATT, an agricultural consultative committee was envisioned. Later negotiations focused on a statement of principles to be incorporated in the framework and on the specific role to be delegated to the consultative committee.

Bilateral negotiations.--Major MTN participants tabled initial agricultural tariff and NTM offers in January in response to requests made the previous November. Thereafter, negotiations focused on clarifying and setting priorities on the importance of unsatisfied requests.

U.S. requests covered numerous products including poultry, citrus, beef, tobacco, vegetable proteins, fruits and vegetables, and specialty crops. U.S. requests (as well as the requests of all other countries) for concessions on fishery products were also handled under agricultural procedures. Better access to the U.S. dairy market was the most important foreign request made to the United States.

1/ Although a Grains Subgroup was also established in the MTN, by the end of 1977 the focus for grains discussions had shifted to the UNCTAD conference on renewing the IWA (see p. 38).

2/ "Statement by Several Delegations on the Current Status of the Tokyo Round Negotiations," GATT, Geneva, July 13, 1978, p. 4.

greater-than-formula cuts and duty eliminations to offset exceptions. 1/ The initial U.S. offers achieved a trade-weighted overall depth of cut of about 40 percent.

(2) The EC applied the Swiss formula (at 16) but took no initial exceptions.

(3) Japan applied the Swiss formula (at 14), took some initial exceptions, and offered deeper-than-formula cuts including duty eliminations. Its initial offer was in excess of 40 percent overall.

(4) Canada's initial offer was on the basis of the Swiss formula (at 12) with an adjustment factor of 0.7 to achieve a trade-weighted average cut of 40 percent. Like the United States and Japan, Canada took some initial exceptions and offered deeper-than-formula cuts.

Several other developed countries ultimately made offers on a formula basis. A few countries, with exports concentrated in certain sectors, negotiated on a request/offer basis. Negotiations with developing countries were conducted entirely on a request/offer basis.

Beginning with the first bilateral meetings, the United States and the EC had major differences. The EC favored a shallow overall depth of cut (25 to 30 percent), emphasized tariff harmonization, and was unwilling to give negotiating credit for greater-than-formula cuts. The United States, on the other hand, wanted a 40-percent overall depth of cut, took more of its exceptions in the higher duty ranges (where the formula called for deepest cuts), and offered numerous eliminations of low duties (not called for by the formula). U.S. negotiations with Canada and Japan tended to be less formula bound and usually emphasized specific product improvements. The United States also sought to eliminate (or at least greatly reduce in scope) the "Made in Canada/Machinery Program." These provisions of the Canadian tariff have caused problems in United States-Canadian trade since, on certain items on which the duty is normally remitted, they provide for a duty of usually 15 percent ad valorem, if a competitive article goes into production in Canada (see p. 94).

As negotiations progressed, country pairs progressively refined their priorities. The United States placed highest priority on obtaining tariff concessions on paper, semiconductors, computers, photographic film, certain chemicals, a wide range of machinery products, and certain other products. The EC wanted the United States to offer formula reductions on woolen fabrics and apparel, glassware, and "high fashion" footwear, among other products.

1/ In negotiating parlance, an exception means that a tariff item is either offered for a smaller reduction than that called for by the formula, or not offered at all.

CHAPTER II

THE MULTILATERAL TRADE NEGOTIATIONS, THE GENERAL AGREEMENT ON TARIFFS AND TRADE, AND BILATERAL AGREEMENTS

The Multilateral Trade Negotiations

At the beginning of 1978, the Multilateral Trade Negotiations were on the threshold of a new negotiating phase. The preparatory work was largely completed. Procedures and timetables were in place to complete negotiations during the year. Within the various code-negotiating groups, emphasis shifted from expounding concepts to developing texts. Proposals for two international commodity arrangements were compiled into individual documents. Key elements of a safeguards code were identified, and even in the particularly difficult subsidy/countervailing duties area, an "outline of an approach" was being circulated. These developments were so encouraging that the GATT Secretariat predicted that "there are good grounds for expecting 1978 to be the decisive year for the MTN."

This prediction was very largely realized. While the Tokyo Round was not concluded by July 15, the target date endorsed by most Tokyo Round participants, or by the subsequent target date of December 15, the pressure of these approaching deadlines--and the political commitment they represented--imparted a negotiating vigor unlike that previously experienced. By January 1979, the President was able to notify the Congress of his intention to enter into the MTN agreements. 1/

Industrial tariff negotiations

In January, the major developed-country participants tabled offers on industrial tariffs. These offers were based on a "working hypothesis" originally devised by the United States and the EC. 2/ Since the tendency in trade negotiations is towards withdrawing rather than expanding offers, these initial offers were good indicators of the eventual outcome. As summarized below, these early offers suggested a maximum package:

(1) The United States made offers on industrial tariffs on the basis of the Swiss formula (at a coefficient of 14) with

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1/ The President's notice (44 F.R. 1928, Jan. 8, 1979) contains summaries of each of the MTN codes and reports on the status of negotiations as of January 1979.

2/ A key element of the hypothesis was adoption of Switzerland's proposed tariff harmonization formula Z=AX divided by A+X, where Z is the resulting new rate, X is the starting rate, and A a simple coefficient between 12 and 16. An unspecified adjustment factor was provided for as an optional method of obtaining an offered overall depth of cut. While in all cases higher duties are reduced proportionately more than lower duties, lower coefficients produce a deeper overall depth of cut.

the first time, the President must first seek the advice of the Commission as to the probable economic effect of such duty-free treatment on domestic industries and on consumers. The advice of the Commission has sometimes also been requested with respect to products being considered for removal from the list of eligible articles. Since the program was established until the close of 1978, the President had approved 61 requests for the designation of products for addition to the original list and 7 requests for deletion of products. When the TPSC began its annual review in the summer of 1978, 179 requests for changes in product coverage were pending.

The Trade Act contains criteria for designating countries and products eligible for GSP treatment, and for suspending such treatment if certain developments occur. 1/ It also contains a competitive-need criterion that requires the President (subject to certain exceptions) to suspend GSP treatment on a product-country basis if a beneficiary developing country's exports of a designated article to the United States during a calendar year have an appraised value whose--

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

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

In all, about 300 TSUS items have been removed from GSP treatment when imported from countries that exceeded either the dollar ceiling or the 50-percent ceiling during the previous year. Because of the dynamic nature of the ratio link to GNP, the dollar ceiling applicable in 1978 was $33.5 million. A ceiling of $37.3 million was set for 1979.

1/ For detailed accounts of eligibility requirements and the reasons for denying preferential treatment, see Operation of the Trade Agreements Program, 27th Report, 1975, pp. 26-29, and 28th Report, 1976, pp. 23 and 24.

authorized the extension of credits and credit guarantees by the U.S. Export-Import Bank to Hungary. The President's action came under section 2(b)(2) of the Export-Import Bank Act of 1945, as amended. With MFN treatment, Hungary became eligible for the Commodity Credit Corporation's export financing.

During 1978, the President recommended to the Congress a 12 month extension of the freedom of emigration waiver applicable to Romania under section 402 of the Trade Act. The waiver was automatically extended on July 3, 1979, since Congress did not disapprove. The U.S.-Romanian Trade Agreement of 1975 was also automatically renewed for a 3-year period (extending through August 3, 1981).

Frequent private and semiofficial U.S. contacts in 1978 with the People's Republic of China preceded the opening of diplomatic relations on January 1, 1979, between the two countries. Probably the most significant contact was made in the last quarter of the year, when the U.S. Secretary of Agriculture visited China to discuss U.S. grain sales, among other matters. China became eligible to receive Commodity Credit Corporation financing with the passage of the Agricultural Trade Act of 1978 (Public Law 95-501). Early in 1979, U.S. and Chinese officials began negotiations concerning the orderly growth of Chinese textiles and apparel imports into the United States. Negotiations to conclude a bilateral agreement under Title IV of the Trade Act also appeared imminent. U.S. trade with China surged upward in 1978, reaching $1.1 billion. It had been less than $400 million the year before.

The Generalized System of Preferences

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

The authority for the U.S. Generalized System of Preferences (GSP) is provided by Title V of the Trade Act of 1974. 1/ The statute authorizes the President to grant duty-free treatment to eligible articles imported from designated beneficiary developing countries for a period not to exceed 10 years from January 3, 1975. Since the inauguration of the U.S. GSP in January 1976, almost 140 developing countries and dependent territories have been designated as beneficiaries. In 1978, U.S. imports receiving duty-free treatment under GSP were valued at $5.2 billion.

The original list of products under GSP numbered more than 2,700. Changes in the list are preceded by review, including public hearings, by the interagency Trade Policy Staff Committee (TPSC). To put an item on the list

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1/ Internationally, preferences for, or between, developing countries are acceptable under the GATT, by virtue of specific "waiver" decisions from Article I, taken in 1971. In 1978, GSP remained without permanent legal recognition (see p. 53).

Table 12.--United States-Canadian automotive trade, 1964-78

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports	Canadian imports less U.S. imports
1964	76	640	563
1965	231	889	658
1966	819	1,375	556
1967	1,406	1,889	485
1968	2,274	2,634	360
1969	3,061	3,144	85
1970	3,132	2,935	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	426
1974	5,544	6,777	1,233
1975	5,801	7,643	1,842
1976	7,989	9,005	1,016
1977	9,267	10,290	1,063
1978	10,493	10,964	471

Source: U.S. Department of Commerce.

Note.--Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

U.S. trade relations with Communist countries

Section 410 of the Trade Act of 1974 requires the U.S. International Trade Commission to monitor U.S. trade with nonmarket economy countries (NME's) and to publish a summary of this trade data at least quarterly. During 1978, the Commission submitted quarterly reports numbered 13 to 16 to the Congress and to the East-West Foreign Trade Board. These reports, besides detailing leading imports and exports between the United States and Communist countries, analyzed the importation of products which have a growing significance in the U.S. market. The first quarterly report in 1979 (No. 17, March 1979) also highlighted 1978 trade developments on an annual basis.

In 1978, the most important development in U.S. trade relations with Communist countries was the signing of a bilateral agreement with Hungary, and the subsequent enactment of the United States-Hungarian Trade Agreement Act in July 1978. This agreement, which provided for most-favored-nation treatment for each country's products by the other within the context of the agreement, is discussed more fully on page 68. On August 13, 1979, the President

Table 11.--U.S. automotive trade motor vehicles and parts: U.S. imports for consumption and U.S. exports of domestic merchandise; total trade, and trade with Canada, 1964-78

Year	U.S. imports			U.S. exports			U.S. 2-way trade			Net surplus or deficit (-) in trade	
	Total	From Canada	Ratio from Canada	Total	To Canada	Ratio to Canada	Total	With Canada	Ratio with Canada	Total	With Canada
	Million dollars	Million dollars	Percent	Million dollars	Million dollars	Percant	Million dollars	Million dollars	Percent	Million dollars	Million dollars
1964 1/	823	111	13	3,050	667	22	3,873	778	20	2,227	556
1965 1/	1,063	257	24	2,185	914	42	3,248	1,171	36	1,122	657
1966 1/	1,980	929	47	2,641	1,324	50	4,621	2,253	49	661	395
1967 1/	2,720	1,619	60	3,010	1,798	60	5,730	3,417	60	290	179
1968 1/	4,440	2,633	59	3,707	2,425	65	8,147	5,058	62	-733	-208
1969 1/	5,502	3,509	64	4,166	2,802	67	9,668	6,311	65	-1,336	-707
1970	6,161	3,608	59	3,912	2,514	64	10,073	6,122	61	-2,249	-1,094
1971	8,270	4,650	56	4,659	3,275	70	12,929	7,925	61	-3,611	-1,375
1972	9,724	5,302	55	5,450	3,980	73	15,174	9,282	61	-4,274	-1,322
1973	11,442	5,993	52	6,655	4,763	72	18,097	10,756	59	-4,787	-1,230
1974	12,984	6,260	48	8,709	5,930	68	21,693	12,190	56	-4,275	-330
1975	12,622	6,511	52	10,930	6,748	62	23,552	13,259	56	-1,692	-237
1976	17,108	8,926	53	12,118	7,702	64	29,226	16,628	57	-4,990	-1,227
1977	20,417	10,074	49	13,081	8,556	65	33,498	18,630	56	-7,336	-1,517
1978	25,863	11,132	43	14,343	9,081	63	40,206	20,213	50	-11,520	-2,051

1/ Partly estimated.

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

Other Trade Actions

United States-Canadian Automotive Agreement

The Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada, signed in 1965 and implemented by the United States through the Automotive Products Trade Act of 1965 (APTA), created the basis for an integrated United States-Canadian automotive industry and market. The agreement provided that each country accord duty-free treatment to imports of specified automotive products, for use as original equipment, made in the other country. 1/ Because the United States did not extend this customs treatment to automotive products of other countries with which it has trade agreement obligations, the United States obtained a waiver of its most-favored-nation obligations under GATT insofar as they pertain to automotive products. The APTA requires that the President submit an annual report to Congress on the implementation of the act.

The United States-Canadian agreement has been a great stimulus to trade in automotive products between the two countries. In 1978, such trade was larger than in any previous year. In 1965, U.S. automotive imports from Canada were valued at $0.26 billion, and in 1978, at $11.1 billion. They were equivalent to 24 percent of aggregate U.S. imports of automotive products in 1965, peaked at 64 percent in 1969, and have since trended downward to 43 percent in 1978. U.S. automotive exports to Canada rose from $0.9 billion in 1965 to $9.1 billion in 1978. They were equivalent to 42 percent of U.S. exports of automotive products in 1965, peaked at 73 percent in 1972, and have since trended downward to 63 percent in 1978 (see table 11).

Previous research has identified several problems with the data used in table 11. U.S. export statistics, for example, sometimes fail to capture as automotive items, products having a variety of end uses (e.g., engine parts, nuts, bolts, screws, etc.). Apparently a substantial amount of automotive exports have also gone unreported. Consequently, a joint-U.S.-Canadian committee studying overall trade statistics agreed that each country should use its own import statistics to report its imports, and use the other's import statistics to report its exports. The result is the "import/import" method of reporting automotive trade used in table 12. A second difference between tables 11 and 12 is the valuation base of U.S. imports. In table 11, the import statistics reflect values constructed by U.S. Customs. In table 12, data on U.S. imports represent transaction values of the articles at the foreign port of exportation. The trade balances shown in the tables indicate that while the magnitude and direction of changes are generally similar, the import/import method, with its better capture of U.S. exports and more comparable import values, usually shows a surplus, while official U.S. trade statistics usually show a deficit. Both tables include trade in items in addition to those covered by the agreement. For example, table 12 includes tires and tubes.

1/ For a more detailed treatment of the history, terms, and impact of the agreement, see Canadian Automobile Agreement, Committee on Finance, U.S. Senate, 94th Cong., 1st. sess., January 1976.

and donations of commodities under Public Law 480 1/ in carrying out its commitments. In 1977, the minimum annual obligation of the member countries was 4.2 million metric tons, with the United States contributing 1.9 million tons and the EC 1.3 million tons.

During the 1978 conference, a target obligation of 10 million tons was being negotiated. The United States was willing to more than double its pledge, but total food aid pledges amounted to only 7.6 million tons. With substantial progress made on the operative provisions of a new Food Aid Convention, the United States supported adoption, but a number of other countries opposed the adoption of a new Food Aid Convention while the Wheat Trade Convention remained unsettled.

A new element of the negotiations was the work toward a Coarse Grains Trade Convention. 2/ Without substantial economic provisions, the convention would have been a consultative one, aimed at furthering international cooperation, liberalizing coarse grain trade, and stabilizing international grain markets. A tentative agreement was reached, but could not be carried through without a new Wheat Trade Convention.

In February 1979, the conferees decided that it was not possible to conclude the negotiations on the basis of existing positions. Accordingly, the conference adjourned, recommending that the 1971 convention be extended and holding open the possibility of renewed negotiations if it appeared likely that negotiations could be successfully concluded.

Other commodity negotiations.--During 1978, the United States participated in negotiating conferences aimed at a natural rubber agreement, and in preparatory meetings, which could lead to negotiating conferences, for agreements on a number of commodities under the UNCTAD integrated program.

The negotiating conference on natural rubber ended with producer and consumer countries divided on the size of the buffer stock and the pricing mechanism. Preparatory conferences for a new International Cocoa Agreement were completed during the year, and a negotiating conference on cocoa was scheduled to open in early 1979. The United States also participated in preparatory meetings, or working group meetings, for other possible commodity agreements including iron ore, tea, cotton, copper, tungsten, and tropical timber. In general, the United States took the position that, for U.S. participation, commodity agreements would have to be grounded on sound economic principles, i.e., they would have to (1) provide for price stabilization around longterm market trends, (2) avoid resource transfer mechanisms or artificial measures to decrease supply, (3) include a balance of rights and obligations between producer and consumer countries, as well as a balance of costs and benefits, and (4) leave sufficient room within the price spread for free-market forces to operate.

1/ The Agricultural Trade Development and Assistance Act of 1954, as amended.
2/ Coarse grains include corn, barley, rye, oats, sorghum and millet.

Grain.--During 1978, the United States actively pursued negotiations directed at replacing the International Wheat Agreement of 1971 (IWA). The IWA, consisting of a Wheat Trade Convention and a Food Aid Convention, contains no provisions for target prices, buffer stocks, or export quotas. Without such economic provisions, the IWA has served principally for collecting and exchanging trade data used in providing food aid to developing countries, and for consultations among members. The replacement agreement would have added economic provisions to the Wheat Trade Convention and would have established a consultation and information exchange for coarse grains.

An objective of the 1978 negotiations was to devise a new Wheat Trade Convention to avoid extreme price fluctuations in the world wheat market. Agreement was reached on the concept of nationally held reserves that would be accumulated when prices were low and released when prices were high. An indicator-price mechanism would be used to trigger stock action and other measures. However, negotiators could not agree on the details of the specific size of the buffer stock, price levels at which obligations would be triggered, and separate economic provisions for developing countries.

The United States proposed a reserve of 30 million metric tons, of which it was prepared to hold appoximately 5 million metric tons. As the conference neared its end, a stock size of 18 million to 19 million tons--far less than the United States considered sufficient--was being discussed. The EC, which the United States had hoped would hold some 4 million tons in wheat stocks, had offered to hold only 2.8 million tons instead. Consequently, unless the United States were willing to shoulder a much greater burden of holding wheat stocks, the total reserves would not be adequate to support the objectives of the convention.

Regarding floor prices, most developed countries probably would have agreed on $140 per ton to fill up half the maximum buffer stock, with the second half to be filled at $125 per ton. Developing countries could possibly have agreed on the accumulation prices but, on the price at which stocks would be released, no consensus was in sight. Developing countries suggested sales from the buffer to begin at $155 per ton, while the United States suggested $215 per ton. The EC would probably have accepted $195 per ton.

As a special provision for developing countries, India proposed a stock financing fund to be created by direct contributions from developed contries. The fund would be used to provide interest-free loans to developing countries to enable them to hold stocks. While developed countries were willing to negotiate special measures for developing countries, they considered that existing aid institutions should be relied on instead of creating a separate fund.

Through the Food Aid Convention, members carry out a program of aid to developing countries based on contributions of wheat, coarse grains, derived products, and/or cash equivalents. The United States makes concessional sales

The purpose of the buffer stock is to enable its manager to take action when necessary in order to avoid short-term price fluctuations and to obtain balance between production and consumption. The Council establishes the buffer stock price ranges, with a ceiling price, upper, middle, and lower sectors, and a floor price, all subject to change by the Council.

If necessary, the floor price can be supported in two ways--purchases of tin for the buffer stock and the application of export controls on producing members. Past tin agreements have been more successful in defending the floor price than they have been in defending the ceiling price.

The agreement envisages maintenance of the ceiling price through sales of tin from the buffer stock. In periods of strong demand, however, the Council has had great difficulty in defending the ceiling price and stimulating additional supplies in response to rising prices. Although the fifth ITA provided for doubling the buffer stock to 40,000 metric tons, 1/ its inventory of tin metal became exhausted in January 1977, and remained exhausted through 1978. In fact, the buffer stock has not received tin metal since the fifth ITA went into effect.

As a new ITA member, the United States did not contribute to the buffer stock during 1978. Such contributions, if made, would probably consist of tin metal from the U.S. Government stockpile. Upon receipt of this contribution, the buffer stock manager would be obliged to sell the tin in order to close or narrow the gap between market prices and the ceiling price. Such action would disturb the producer members. Indeed, uncertainties over disposals from the United States stockpile appear to have had a restraining influence on market prices. Cash contributions to the buffer stock would not be helpful unless they were needed to enable the manager to purchase tin in order to defend the lower threshold price.

In 1978, only 325 long tons of tin were sold from the U.S. stockpile. However, in 1976, the Federal Preparedness Agency had recommended the release of the bulk of the Government's tin stockpile. Some 168,000 long tons remain for disposal subject to Congressional authorization. During 1978, numerous bills were introduced in Congress to authorize disposals. One of these bills provided for the sale of up to 45,000 long tons of tin. A part of the proceeds would have been used to purchase up to 225,000 short tons (approximately 201,000 long tons) of copper for that metal's stockpile.

On July 14, 1978, the ITA's Council increased the floor price of tin from an equivalent 382.18 cents per pound to 429.95 cents per pound, and the ceiling price from an equivalent of 447.72 cents per pound to 541.42 cents per pound. This figure was still below the market price. In July 1978, the average price, ex-works, Penang, Malaysia was equivalent to 544.60 cents per pound. In December 1978, the comparable average price was 621.20 cents per pound.

1/ A key problem with past agreements has been that authorized buffer stocks were too small to absorb the quantities necessary to defend the floor price and export controls were used instead. Consequently, enough tin metal has not been available to defend the ceiling price.

Table 10.--Sugar: New York average duty-paid prices, by quarters, 1975-78 1/

(In cents per pound)

Quarter	1975	1976	1977	1978
January-March	34.91	15.57	11.23	13.83
April-June	20.43	15.31	11.40	13.71
July-September	19.45	11.90	10.59	13.44
October-December	15.09	10.44	10.29	14.56

1/ Quarterly data are averages calculated from monthly data which pertains to the following: Data prior to October-December 1977 are spot prices for Contract No. 12 bulk sugar, delivered to Atlantic or gulf ports, plus duty where applicable. Data after November 1977 are estimates calculated from the London daily price (spot) adjusted to f.o.b. stowed at greater Caribbean ports, plus the cost of freight and insurance, (to New York), plus U.S. customs duty for 96 degree raw sugar.

Source: Compiled from official statistics of the U.S Department of Agriculture. Since November 1977, the average duty-paid price has been estimated by the U.S. International Trade Commission.

Tin.--The Fifth International Tin Agreement (ITA) entered into force definitively in 1977, and it is the first ITA of which the United States has been a member. It has a term of 5 years, but it can be terminated sooner or extended. Like the previous agreements, the fifth agreement provides for a Council on which all participating countries are represented, an Executive Chairman, a Manager of the Buffer Stock, and a staff. In 1978, tin remained the only metal subject to an international commodity agreement between producing and consuming countries.

The tin agreement entered into force during a period of tin shortage and sharply rising prices. These conditions have prevented the buffer stock manager from acquiring tin metal (aside from a small stock remaining at the end of 1976) and have left the agreement without an effective tool for intervening against above-ceiling market prices.

The ITA provides that producing countries make contributions to the buffer stock in cash, tin metal, or both, amounting (for these countries as a group) to the equivalent of 20,000 metric tons of tin metal. The Council decides each producing country's contribution. 1/ Upon conditions agreed to by the Council, consuming countries may also make contributions to the buffer stock in cash, tin metal, or both up to an additional amount (for these countries as a group) equivalent to 20,000 metric tons.

1/ Contributions are allocated in proportion to each country's production of tin metal. The tin-metal equivalent of a cash contribution is based on the floor price (established by the Council) in effect at the time of the contribution.

In order for the United States to fully participate in the ISA, both Senate ratification of the treaty and passage of necessary implementing legislation must occur. For example, legislation is necessary to allow the U.S. Customs Service to deny entry to sugar not accompanied by a certification of contribution to the buffer stock financing fund.

In 1978, bills to implement the ISA and establish a domestic sugar program were introduced in both Houses of Congress. In August 1978, the House Agriculture Committee reported out a bill which, among other things, would have, if passed, provided the President with the authority to implement the ISA, including the authority to prohibit entry of sugar without the documentation required by the ISA. This bill also would have established a price objective of 16 cents per pound for the 1978 sugar-crop year, with adjustments to price to be made thereafter. A global sugar quota would have been used to attain the price objective. This bill was largely rewritten in the Ways and Means Committee, where the price objective for sugar was dropped to 15 cents per pound with a reliance on special import duties (in addition to existing duties) as the first means to achieve the price objective. This bill, with floor amendments (one of which provided for adjustments to the price objective after Oct. 1, 1979) passed the House on October 6, 1978.

The Senate also passed a sugar bill (on Oct. 12, 1978) which would have provided the President with ISA implementation authority, but it set 16 cents as the price objective, provided for future adjustments, and envisioned a mandatory fee on imported sugar as the primary method of obtaining the price objective.

In the conference committee, the conferees agreed to establish a market price objective, achieved through special import duties and quotas, if necessary, of 15 cents per pound for the 1978 sugar year and 15.8 cents per pound for the 1979 sugar year, and with additional price adjustments through the 1982 sugar year. Direct payments to sugar producers in the 1978 crop year would have assured the equivalent of 15.75 cents per pound. The conference report passed the Senate, but it was rejected by the House. Shortly thereafter, Congress adjourned without Senate ratification of the ISA.

In 1978, average quarterly duty-paid prices for sugar ranged from 13.44 to 14.56 cents per pound (see table 10). The increase of about 3.5 cents per pound over the price prevailing in July--December 1977 represented increased import fees proclaimed by the President in January 1978, under section 22 of the Agricultural Adjustment Act, as amended. In October-December 1978, sugar prices had firmed, although the world price (f.o.b. Caribbean) was still only about 8 cents per pound.

A revision of the trigger prices is on the agenda of the next Council meeting, scheduled for September 1979.

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

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

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

The agreement provides that members assigned basic export tonnages are to hold special stocks in the aggregate amount of 2.5 million metric tons, pro rated according to the export tonnage of each such member. Members assigned an annual export entitlement rather than a basic export tonnage may, if they wish, withhold up to 10,000 metric tons as special stocks. 3/ The ISA also contains provisions for a stock financing fund.

1/ Provisional within the limitation of national legislative and budgetary procedures. Because the ISA is a treaty, the President must have the Senate's advice and consent for ratification.

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

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

prices; (3) economic growth and development of member countries; (4) increased purchasing power of coffee-exporting countries; (5) the promotion of coffee consumption; and (6) the facilitation of international cooperation in connection with world coffee problems.

The International Coffee Agreement does not provide for price ceilings or for buffer stocks under central control. However, it does contain an incentive for the holding of stocks by exporting members and provides for export quotas based on a complex system of formulas. The prices at which export quotas can be triggered range from 63 to 77 cents per pound, inclusive, depending upon the circumstances described in article 33 of the agreement.

At its September 1978 meeting the Council reviewed the prices at which export quotas would be implemented; however, no agreement was reached between importing and exporting countries. Instead, a special resolution to require the monitoring of world coffee prices was passed. In essence, a base-price reference point was established at $1.5151 per pound. If, during the coffee marketing year, the composite indicator price for 20 consecutive market days remained on the average 15 percent above or below the reference price, the Executive Board of the ICO would review the market situation and consider appropriate action. The 15-percent spread would call for the Board to meet if prices were $1.2878 per pound or less or $1.7424 or above. As shown in table 9, 1978 prices were nearing the $1.2878 floor.

Table 9.--Green coffee: ICO's 1978 Monthly Composite Indicator Prices, 1976 Agreement

(In U.S. dollars per pound)

Month	Price
January	1.9165
Feburary	1.8606
March	1.6637
April	1.6168
May	1.5286
June	1.5982
July	1.3017
August	1.3334
September	1.5112
October	1.5189
November	1.4521
December	1.3158

Source: Coffee Intelligence.

the participating international commodity agreements would be drawn on to purchase stocks. Other differences in concepts in the fund's financing, and in the modalities of the fund's operations, also separated developed and developing countries.

In November 1978, the Western developed countries offered a compromise. Some directly assessed government contributions would form a reserve asset to assure the Common Fund's worthiness. A so-called "second window" to finance other measures would be acceptable, but it would be supported by voluntary contributions, and its activities would be limited to financing specific measures not covered by existing development institutions.

In March 1979, an UNCTAD resolution on the Common Fund was adopted. While leaving a number of issues to be resolved in future negotiations, the resolution called for: (1) "first window" operations contributing to the financing of buffer stocks within the framework of international commodity agreements; (2) "second window" operations to finance such measures as research and development, productivity improvements, market promotion and technical assistance, these measures having a commodity focus and intended to avoid duplication of the activities of existing international financial institutions; (3) direct government contributions of $400 million to the first window, composed of paid-in capital of $300 million and $100 million in callable capital; (4) a contribution of $70 million (volunteered from each country's "dues" for joining the fund) and other voluntary contributions for the "second window" toward a targeted $350 million. Although decisions in the fund would be, wherever possible, taken without a vote, voting shares would be distributed among member countries to the fund with the objective of securing the following outcome:

Developing countries	47 percent
Western developed countries	42 percent
Communist countries	8 percent
People's Republic of China	3 percent

While the United States considered the above solution as the basis for future work leading to the drafting of articles of agreement for the Common Fund, the United States rejected the specific allocation of voting shares.

Specific Commodity Negotiations

Coffee.--The International Coffee Agreement of 1976 entered into force for the United States on October 1, 1976; it is scheduled to expire in 1982. In early 1978 there were 66 member countries (including the United States), of which 42 were net exporters and 24 were net importers. The agreement is administered by the International Coffee Organization (ICO), under rules and regulations established by the International Coffee Council. All members of the Organization are represented on the Council.

Among the stated objectives of the agreement are: (1) the achievement of longterm equilibrium between production and consumption at prices remunerative to producers and fair to consumers; (2) the stabilization of supplies and

U.S. Participation in International Commodity Agreements

In 1978, the United States continued to play an increasingly active role in the negotiation of, and participation in, international commodity agreements. Such agreements, negotiated between producing and consuming countries, are generally aimed at stabilizing prices of commodities subject to the agreements, long run maximization of producer earnings, and the delivery of a steady, adequate, and reasonably priced supply to customers. The United States may participate in international commodity agreements through executive agreements, through treaties requiring ratification by a two-thirds majority of the Senate, or by enacting specific legislation. The basis for U.S. participation has normally been by treaty.

Although international commodity agreements have had a generally unenviable record in meeting their objectives, a strong international pressure continues to favor them, perhaps because they have been more successful in protecting minimum prices, and hence export earnings in producer (generally developing) countries. During 1978, the United States was a member of international commodity agreements for coffee, tin, and wheat, and was a provisional member of the International Sugar Agreement pending Congressional approval. The United States participated in negotiations toward agreements on a number of other commodities.

The Integrated Program for Commodities and the Common Fund

The principal focus for negotiating commodity agreements has been under an Integrated Program for Commodities, arising from resolution 93 of the fourth session (1976) of the United Nations Conference on Trade and Development (UNCTAD). Eighteen commodities are in this program, and discussions have focused on 14 raw materials of interest to developing countries for which no international agreement exists. The program has involved negotiations on a "Common Fund" to support the financial activities of possible agreements.

As originally conceived by developing countries, the Common Fund would consist of a several-billion-dollar pool generated in large part by direct mandatorily assessed contributions by governments. This fund would then be used to support the stocking arrangements 1/ of existing commodity agreements, future agreements to be negotiated, and other measures not necessarily related to financing buffer stocks. Western developed countries accepted the concept of a Common Fund but saw it as a smaller scale venture where the resources of

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1/ Most international commodity agreements have as their price stabilizing mechanism, so-called "buffer stocks." As commodity prices fall to some predetermined level, the agreements' authorities begin to buy to halt the price decline and build up stocks. Conversely, at some predetermined ceiling price, the stocks are sold to defend the ceiling.

Table 8.--Bilateral restraint levels on exports of textiles to the United States, by sources, 1978

Source	Fibers included in group or specific limits	Aggregate limits 1/
		Million equivalent square yards
Brazil	Cotton	2/ 130.5
Colombia	Cotton, wool, and man-made fiber	3/ 37.0
Haiti	do	4/ 88.5
Hong Kong	do	957.7
India	do	186.2
Korea	do	582.1
Macau	do	38.2
Malaysia	do	22.8
Mexico	do	5/
Pakistan	Cotton	150.2
Philippines	Cotton, wool, and manmade fiber	255.1
Poland	do	44.5
Romania	Wool and man-made fiber	33.5
Singapore	Cotton, wool, and manmade fiber	232.0
Taiwan	do	758.9
Thailand	do	6/ 53.0
Yugoslavia	Wool and manmade fiber	.7

1/ Not all of the aggregate limits shown above are comparable. Whereas most of the bilateral agreements are more comprehensive, those with Brazil, Mexico, Pakistan, Romania, Thailand, and Yugoslavia do not restrain exports in all categories.

2/ Limit applicable to period Apr. 1, 1978-Mar. 30, 1979.

3/ No aggregate limit, but apparel is limited to 37.0 million equivalent square yards and non-apparel items have certain limitations by categories.

4/ Limit applicable to Jan. 1, 1978-Mar. 31, 1979.

5/ A limit of 247.7 equivalent square yards applied to the period May 1-Dec. 31, 1978. If one-third of the limit provided for the previous agreement period (12 months ending April 30, 1978) were applied to Jan. 1-Apr. 30, 1978, a limit of 366.0 million equivalent square yards would be applicable to the 1978 calendar year.

6/ Limitation is for apparel only; numerous fabrics were given consultation levels.

During 1978, the United States had bilateral textile agreements with 28 countries. Of these, 17 agreements included quantity limits on those countries' exports to the United States, and 11 other agreements were essentially agreements to consult. The agreements that provide quantity limits generally include an aggregate restraint level and category or "specific" restraint levels (limits applied to specific textile categories or product lines). Both types of agreements provide for consultations to avoid market disruption.

Generally, quota-imposing agreements have "carryover" and "carry forward" provisions. Thus, an unused restraint portion of one year can be added (to a given extent) to the restraint level of a receiving period. Similarly, a portion of the restraint level of the following period can be transferred (to a given extent) to the limit of the receiving period. Quota agreements may also have a "swing" provision whereby exports within a group or category may exceed the restraint level(s), up to a stipulated percentage, provided there is an offsetting charge against other groups or categories. In addition to the foregoing flexibility factors, quota-imposing agreements also provide for annual growth rates. In its agreements, the United States generally takes into account the historical position of the exporting country as a supplier of textiles, and permits that country to diversify its textile exports to the United States.

A substantial share of U.S. agreements cover articles of cotton, wool, and/or of manmade fiber. Articles wholly or in chief value and in chief weight of silk or a vegetable fiber other than cotton are not subject to the provisions of any of the textile agreements or to the MFA. Neither are certain hand-loomed or traditional folklore handicraft products, provided they are properly certified.

Effective January 1, 1978, a new agreement with Egypt providing for consultations to avoid market disruption replaced an agreement that had contained restraint levels. During 1978, the United States initiated negotiations with Yugoslavia and Japan to place limits on their exports of certain textiles and/or textile products. The agreement with Yugoslavia established an export limit of 152,400 men's and boys' wool and manmade fiber suits for 1978. The negotiations with Japan continued into 1979.

Among the bilateral agreements that already contained limits on exports, 12 were extended or amended in 1978. Additionally, early in 1979, the agreement with Mexico was extended retroactively from May 1, 1978, through December 31, 1981. The restraint levels provided for in bilateral agreements for the calendar year 1978 (except where otherwise noted) are shown on the following page.

During 1978, the United States had bilateral agreements providing for consultations and possible limitations with Czechoslovakia, Egypt, Greece, Hungary, Jamaica, Japan, Malta, Nicaragua, Peru, Portugal and Spain.

Nonrubber footwear.--Following an affirmative determination by the Commission in an investigation under section 201, the United States negotiated OMA's covering nonrubber footwear with Taiwan and the Republic of Korea. Restraint periods run from June 28, 1977, to June 30, 1981, as shown in the following tabulation (in millions of pairs): 1/

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

The only kinds of nonrubber footwear not covered by these OMA's were wool felt footwear, provided for in tariff item 700.75, and disposable footwear, designed for one-time use, provided for in tariff item 700.85.

Effective November 1, 1978, Hong Kong agreed to supply certificates of origin, to help the U.S. Customs Service monitor imports, and prevent trans-shipments from Taiwan and Korea intended to evade the limitations.

Mushrooms.--Since 1977, STR has monitored imports of canned mushrooms. STR received assurrances from Taiwan and Korea that their exports of canned mushrooms would not disrupt the U.S. market during the marketing year ending June 30, 1977. In 1978, Taiwan indicated its shipments for the 1978 and 1979 calendar years would be held at 44.4 million pounds. The United States also moved to guard against possible transshipments of mushrooms from Taiwan through Hong Kong. With Korea, the United States continued to expect that its shipments of canned mushrooms in 1978 and 1979 would not disrupt the U.S. market.

Textiles.--Under the authority of section 204 of the Agricultural Act of 1956, as amended, the President has directed that bilateral agreements be negotiated with foreign governments to limit their exports of textiles and textile products to the United States. 2/ In negotiating these agreements, the provisions of the Multifiber Arrangement (MFA)--flexibility of administration, growth rates for restraints, and so forth--are taken into account (see p. 65).

1/ See Presidential Poclamation 4510, June 22, 1977.

2/ When agreements with supplying countries cover a significant part of world trade in the subject articles, sec. 204 also authorizes the President to control the imports from countries that have not signed agreements with the United States.

Since the effective date of the OMA between the United States and Japan, the President has terminated import relief in part on two occasions. 1/ However, these actions did not alter the total limitation of any restraint period of the OMA.

Color television receivers.--The OMA on color television receivers between the United States and Japan, has continued in effect without change. For each 12-month period during July 1, 1977, to June 30, 1980, Japanese exports of television receivers to the United States were and are limited to 1.56 million complete color receivers (assembled or unassembled) and 190,000 incomplete receivers. Among other things, this import relief measure provides that the Government of Japan may initiate consultations with the Government of the United States if third-country exports to the United States disadvantage Japan as a result of Japan's adherence to the OMA.

In connection with his responsibilities for monitoring the OMA with Japan, the Special Representative for Trade Negotiations determined that imports of color television receivers and certain subassemblies from Taiwan and the Republic of Korea had increased to such an extent as to disrupt the effectiveness of the OMA with Japan. Accordingly, OMA negotiations were concluded in December 1978 with Taiwan and Korea, with the following results: 2/

Country and article	Restraint level (Units)
Taiwan:	
Color television receivers, having a picture tube, exported during--	
Feb. 1, 1979-June 30, 1979	127,000
July 1, 1979-June 30, 1980	373,000
Certain subassemblies thereof, exported during--	
Feb. 1, 1979-June 30, 1979	270,000
July 1, 1979-June 30, 1980	648,000
Republic of Korea:	
Color television receivers, having a picture tube, and certain subassemblies thereof, exported during--	
Feb. 1, 1979-Oct. 31, 1979	153,000
Nov. 1, 1979-June 30, 1980	136,000

1/ Following investigations by the Commission (Inv. Nos. TA-203-2 and TA-203-3), the President removed, from quantitative restrictions, bearing steel in 1977, and chipper knife and band-saw steels in 1978, respectively.
2/ See also Presidential Proclamation 4634, Jan. 26, 1979.

Orderly marketing agreements; negotiated export restraints

From time to time, the United States has negotiated restrictions with foreign governments to limit the kind or amount of certain exports destined for the United States. Such negotiations and agreements, in the form of orderly marketing agreements (OMA's), were recognized as a form of import relief under section 203 of the Trade Act, and since 1975, have become a common form of relief. Such OMA's are usually deemed preferable to safeguards in the form of unilaterally imposed tariff increases or quotas because the country most directly affected agrees with the measure, thereby minimizing international repercussions, and sometimes will help in administering the measure as well.

During 1978, OMA or negotiated export restraints were in effect with respect to specialty steels, color television receivers, nonrubber footwear, certain meats (already discussed), mushrooms and textiles. All of these bilateral agreements were negotiated in accordance with U.S. domestic legislation and the international rights and obligations of the United States.

Specialty steel.--The first OMA under the Trade Act of 1974 was negotiated between the United States and Japan and provided for quantitative import limitations on certain stainless and alloy tool steel. Knowing that the United States intended to provide import relief in the form of quotas, Japan decided to negotiate an OMA. Japan's action was based on the expectation that Japan would receive a larger allocation of the quota under an OMA than otherwise. The agreement was in effect from June 14, 1976, to June 13, 1979, inclusive, and the limitations applied to three 12-month periods.

The base limits for Japan were as follows:

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

Maximum percentage increases by tariff item were provided for each restraint period. If the Government of Japan requested an increase over the base limit for one item, an equal reduction in the quota quantity for one or more other items had to occur.

In addition to the OMA limitations that were negotiated between the United States and Japan, the United States unilaterally imposed absolute quotas on specialty steels from other countries. Allocated by country or instrumentality, the European Community received the largest share of the residual. Total restraint levels (OMA and quotas) for the three restraint periods were 147,000, 151,500, and 155,000 short tons, respectively.

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

Under authority of section 204 of the Agricultural Act of 1956, as amended, but after passage of the Meat Import Act, the United States negotiated many bilateral agreements limiting meat exports to the United States. The annual restraints, in the aggregate, have usually been below the corresponding calendar-year trigger levels. In 1978, the reverse was the case.

On June 8, 1978, the Secretary of Agriculture announced his estimate that imports would exceed the trigger level. He also announced that quotas would be proclaimed and suspended and that new voluntary restraint agreements would be negotiated at a level of 1492.3 million pounds. On July 4, 1978, the President proclaimed and suspended quotas under the Act, citing that the supply of meat was inadequate to meet domestic demand at reasonable prices. The renegotiated voluntary restraint agreement levels for 1978 were as follows:

Country	Million pounds
Australia	766.2
New Zealand	314.8
Canada	88.0
Mexico	72.9
Costa Rica	65.2
Nicaragua	59.5
Honduras	43.6
Guatemala	41.8
Dominican Republic	17.5
El Salvador	14.0
Panama	5.9
Haiti	2.3
Belize	0.6
Total	1,492.3

Actual entries amounted to 1,471.7 million pounds in 1978.

In late 1978, the President vetoed H.R. 11545, the Meat Import Act of 1978, which, among other things, would have caused the quota quantities to be counter-cyclical to domestic production, and would have extended coverage of the meat restraint program to meat of cattle, prepared whether fresh, chilled, or frozen, but not otherwise preserved.

sugar (the vast amount of U.S. sugar imports are unrefined) and an increased fee of 3.6 cents per pound for unrefined sugar, with backup quotas for the latter if the fee failed to accomplish its purpose. 1/

In November 1978, the President reduced the existing sugar quota of 7 million tons to 6.9 million tons and allocated the bulk of it to members of the International Sugar Agreement. In December 1978, he proclaimed variable import fees linked to sugar prices. 2/

During 1978, quantitative limits imposed under the authority of section 22 continued in effect on the following other products:

Condensed or evaporated milk
Most cheeses made from cow's milk
Butter and butter oil
Powdered milk
Frozen cream
Ice cream
Chocolate crumb
Certain edible preparations containing butter fat.
Animal feeds containing milk and milk derivatives.
Peanuts, whether or not prepared or preserved, but not peanut butter.
Cotton, not carded, not combed, and not otherwise processed, except harsh or rough cotton under 3/4 inch.
All spinnable cotton wastes
All fibers of cotton, processed but not spun

Meat Import Act of 1964

Public Law 88-482, the so-called Meat Import Act of 1964, among other things, provides that the aggregate imports of fresh, chilled, or frozen beef and veal, and mutton and goat meat, entered in any calendar year after 1964, should not exceed a base quantity which is adjusted annually. The statutory formula for computing the adjusted base quantity is 725.4 million pounds, increased or decreased to assure that imports maintain about the same ratio to domestic commercial production of these meats, as they did, on the average, in the years 1959-63. This ratio is about 7 percent.

1/ A detailed description of the Commission's findings and recommendations is contained in Sugar: Report to the President on Investigation No. 22-41 Under Section 22 of the Agricultural Adjustment Act, as Amended (USITC Publication 881, April 1978).

2/ For details, see Presidential Proclamation Nos. 4610 and 4631, dated Nov. 30, 1978, and Dec. 28, 1978, respectively.

to the detriment of competitive U.S. wheat exports to those markets.

Status: Section 301 Committee scheduled public hearing for Feb. 15 and 16, 1979.

Section 22 of the Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act, as amended, is designed to prevent or remedy import impairment of U.S. Department of Agriculture programs. The act directs the Secretary of Agriculture, when he believes such impairment exists or is imminent, to advise the President. If the President agrees that there is reason for such belief, he directs the Commission to conduct an investigation and to report to him its findings and recommendations. 1/ The Commission can recommend, and the President can proclaim, quantitative restrictions, embargoes, or import fees, in addition to regular tariff duties, if any. Moreover, he can take emergency action pending the completion of the Commission's investigation.

Following receipt of advice from the Secretary of Agriculture, the President, in November 1977, directed the Commission to determine whether certain sugars, sirups, and molasses, classified under tariff items 155.20 and 155.30, were being, or were practically certain to be, imported under such conditions and quantities as to render or tend to render ineffective, or materially interfere with, the price-support operations of the U.S. Department of Agriculture for sugar cane or sugar beets, or to reduce substantially the amount of any product being processed in the United States from domestically grown sugar cane or sugar beets. Concurrently, the President took emergency action to impose import fees. Under other authority, contained in a headnote to subpart A, Part 10, of Schedule 1 of the Tariff Schedules of the United States, the President also increased the regular import duties applicable to such articles.

In January 1978, after the Secretary of Agriculture advised the President that the emergency import fees (noted above) were insufficient, the President proclaimed increased import fees on the sugars classified under tariff items 155.20 and 155.30. At the same time, the President directed the Commission to enlarge the scope of its investigation to include products containing sugar.

In April 1978, the Commission unanimously found, with respect to the sugars described in tariff items 155.20 and 155.30, that imports of sugar materially interfered with price support programs. On the products containing sugar, however, the Commission was split--three Commissioners making no finding, two finding affirmatively, and one finding negatively. The Commission recommended an absolute quota of 40,000 short tons for refined

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

Thrown-silk (301-12)

Date of receipt of petition: Feb. 14, 1977

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

Status: Discussed with Japan before receipt of petition. Reviews by Section 301 Committee led to an acceleration of discussions. Following lack of progress, complaint was made to GATT, but before GATT panel made its report, bilateral discussions resulted in a satisfactory settlement (see p. 61).

Leather (301-13)

Date of receipt of petition: Aug. 4, 1977

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

Status: Following hearing and a Section 301 Committee review, bilateral discussions were initiated but were unsuccessful. Following the U.S. complaint to the GATT, a panel was formed in late 1978 (see p. 59). Meanwhile, bilateral discussions with Japan have continued.

Marine insurance (301-14)

Date of receipt of petition: Nov. 10, 1977

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

Status: Following bilateral discussion and processing of the complaint, the STR submitted a report to the President. In June 1978, the President determined that the U.S.S.R.'s practices, as to marine insurance on United States-U.S.S.R. cargoes, were an unreasonable burden and restriction on U.S. commerce. The President directed the establishment of an interagency committee to consider a way to bring about elimination of the Soviet practices. A United States-U.S.S.R. meeting in Oct. 1978 produced an agreement in principle. Technical discussions continued in 1979.

Income tax practices of Canada (301-15)

Date of receipt of petition: Aug. 29, 1978

The issue: Denial of deduction, for Canadian income tax purposes, for any tax-paying entity incurring expenses for advertising, directed principally to Canadian markets, through broadcasts on non-Canadian stations.

Status: Section 301 Committee held hearing on Nov. 29, 1978. With receipt of posthearing briefs, the committee began its review in Jan. 1979, of information gathered.

Wheat (301-16)

Date of receipt of petition: Nov. 2, 1978

The issue: Alleged unfair trade practices by the EC through export subsidies for wheat sold to third-country markets,

Malt (301-5)

Date of receipt of petition: Nov. 13, 1975
The issue: EC's subsidization of exports, to the detriment of U.S. exports to Japan and other countries.
Status: This issue would be covered by the subsidies/countervailing duties code being negotiated in the MTN.

Wheat flour (301-6)

Date of receipt of petition: Dec. 1, 1975
The issue: EC's payments of export subsidies to wheat millers
Status: Following a U.S. request for formal consultations with the EC under the GATT, Australia and Canada notified the GATT of their desire to join the discussions. Consultations with the EC took place in 1977. At yearend this case was still under discussion and the issue would be covered by the subsidies/countervailing duties code being negotiated in the MTN.

Sugar added in canned fruits and juices (301-7)

Date of receipt of petition: Mar. 30, 1976
The issue: Variable levy on added sugar in canned fruits and juices imported into the EC, with impairment of value of concessions under GATT.
Status: Being discussed bilaterally in the MTN.

Soybeans vs. nonfat dry milk (301-8)

Date of receipt of petition: Mar. 30, 1976
The issue: EC requirement for the use of skimmed milk powder of EC origin in livestock feed displaced meaningful quantities of other protein substances including soybeans, and soybean cake imported principally from the United States.
Status: GATT panel found in favor of United States and submitted its findings to the Contracting Parties. Objectionable system was terminated in 1977 (see p. 60). Case terminated in 1978.

Steel (301-10)

Date of receipt of petition: Oct. 6, 1976
The issue: Alleged diversion of significant quantities of Japanese steel to the United States, as a result of a bilateral agreement between the European Coal and Steel Community and Japanese Ministry of International Trade and Industry.
Status: Following a public hearing, the Section 301 Committee reviewed the case. In January 1978, the President discontinued review on the grounds of insufficient merit to the allegations.

Citrus products (301-11)

Date of receipt of two petitions: Nov. 12, 1976
The issue: EC's preferential rates of duty on imports of orange and grapefruit juices and other citrus products, from certain Mediterranean countries, to the detriment of U.S. citrus juice producers.
Status: Being discussed in the MTN (see also p. 81).

Section 603 of the Trade Act of 1974 authorizes the Commission to conduct preliminary investigations and also directs or authorizes the Commission to perform other functions. The Commission has used this authority to determine whether the information developed in a preliminary investigation justifies a full investigation under section 337 of the Tariff Act of 1930, as amended.

In 1978, the Commission conducted a preliminary investigation on the possible existence of misrepresentation of country of origin by an importer who labeled and advertised certain replica black-powder firearms as "Made in USA." The Commission issued a consent order that, in addition to other things: (1) terminated the investigation, (2) ordered the importer to cease and desist from advertising or representing the subject firearms as "Made in USA" until and unless they were "substantially manufactured" in the United States, and (3) provided means for the Commission's monitoring the importer's compliance with the terms of the consent order.

Certain practices of foreign governments and instrumentalities.--Section 301 of the Trade Act of 1974 directs the President to take all appropriate and feasible steps to obtain the elimination of certain trade practices of foreign governments and instrumentalities whenever he determines that such practices constitute an unjustifiable, unreasonable, or discriminatory burden, or restriction on the commerce of the United States. Within this context, "commerce" includes services related to international trade. If his attempts to eliminate such practices are unsuccessful, the President is empowered to (1) deny the offending country or instrumentality the benefits of trade agreement concessions, (2) impose special import restrictions, and (3) impose fees or other restrictions on the services of the foreign entity.

An interdepartmental Section 301 Committee conducts investigations (including hearings if requested) based on petitions alleging section 301 violations. If the committee finds that a complaint has merit, it may recommend consultations with the foreign country or instrumentality involved. If appropriate, the GATT may be used as a forum for attempts to settle a dispute.

A summary of cases terminated during the year, or pending on December 31, 1978, is as follows:

Egg albumen (301-3)
Date of receipt of petition: Aug. 7, 1975
The issue: EC's various levies on imports
Status: Bilateral discussions; also being discussed in the MTN.

Canned fruits, juices, and vegetables (301-4)
Date of receipt of petition: Sept. 25, 1975
The issue: EC's minimum import prices and import license/surety deposit system.
Status: In June 1978, the EC discontinued use of the mechanism objected to, and switched to system of production subsidies (see p. 60). Case terminated.

Table 7.--Section 337 investigations completed by the Commission in 1978

Investigation No.	Article	Commission determination
337-TA-29	Certain welded stainless steel pipe and tube.	Violation 1/
337-TA-30	Certain photo display cubes	Violation 2/
337-TA-31	Certain toy vehicles	No violation
337-TA-34	Certain numerically controlled machining centers and components thereof.	No violation
337-TA-35	Certain golf balls	Violation 2/
337-TA-37	Certain skateboards	No violation
337-TA-38	Certain food slicers	No violation
337-TA-39	Certain luggage	Violation 2/
337-TA-41	Certain ceramic tile setters	No violation
337-TA-46	Certain telescopic sight mounts	No violation

1/ The Commission issued a cease-and-desist order.

2/ The Commission ordered that the offending item be excluded from importation.

The following investigations were pending at yearend:

Doxycycline
Certain plastic fasteners
Monumental wood windows
Certain electric slow cookers
Certain centrifugal trash pumps
Certain roller units
Certain combination locks
Certain flexible foam sandals
Alternating pressure pads
Certain attache cases
Certain synthetic gemstones
Certain cigarette holders
Certain apparatus for the continuous production of copper rod.
Swivel hooks
Certain multicellular plastic film
Novelty glasses
Certain thermometer sheath packages
Certain cattle whips
Certain fabricated steel plate products from Japan.
Pump-top insulated containers
Certain automatic crankpin grinders
Certain compact cyclotrons with a pre-septum.

prohibited 11 respondent producers or traders of welded stainless steel pipe and tube manufactured in Japan from pricing the product below the average variable cost of production without commercial justification. 1/

On the only occasion in which he has disapproved a Commission section 337 determination under the Trade Act of 1974, the President prevented the Commission's cease-and-desist order from taking effect. In his notification of disapproval, the President gave these major policy considerations that entered into his decision:

1. Imposition of the remedy would have had a detrimental effect on the national economic interest, and on the international economic relations of the United States.

2. The Commission did not suspend its investigation after notifying the Secretary of the Treasury of the possible applicability of the Antidumping Act to the same subject matter. By not doing so, overlapping and duplicate investigations existed. Under these circumstances, imposition of a cease-and-desist order would be an irritant in U.S. trade relations, and would generate considerable expense to the parties involved.

3. The detrimental effects on the national and international economic interests, and on the sound administration of U.S. unfair trade practice legislation, would not be counterbalanced by any likely significant benefit to the industry, or its employees, or to consumers.

The investigations on which the Commission made determinations are listed in table 7 on the following page.

1/ Among other things, the Commission considered "commercial justification" to mean "pricing not intended to injure competition in the United States in welded stainless steel pipe and tube."

A three-judge panel of the customs court unanimously ruled in favor of Zenith. On appeal, the Court of Customs and Patent Appeals by a 3-to-2 vote, reversed the lower court. Zenith, in turn, appealed to the Supreme Court. In June 1978, the Supreme Court, in a unanimous vote, affirmed the judgment of the Court of Customs and Patent Appeals. In so doing, the Supreme Court upheld Treasury, ruling that the remission of the commodity tax was not a countervailable bounty or grant because the remission was "nonexcessive" (i.e., not larger than the amount of tax paid or otherwise due).

Following the Supreme Court's decision in the Zenith case, in which U.S. Steel had filed an amicus curiae brief, U.S. Steel and the U.S. Government entered into a stipulation on which the customs court dismissed the steel case without prejudice.

Unfair practices in import trade.--Section 337 of the Tariff Act of 1930, as amended by section 341 of the Trade Act of 1974, provides for investigations by the Commission to determine whether unfair methods of competition exist in the importation of articles into the United States, or in their sale. The effect or tendency of such unfair practices must be to: (1) destroy or substantially injure an efficiently and economically operated domestic industry; (2) prevent such an industry's establishment; or (3) restrain or monopolize commerce in the United States. If the Commission determines that a violation exists, and finds that remedial action would not have an adverse effect on certain public interest considerations, the Commission must then order a remedy for the violation. The remedy may be an order excluding the offending article from entry into the United States or the issuance of a cease-and-desist order to halt the unfair methods or acts involved. In 1978, as in previous years, most complaints of unfair acts brought before the Commission alleged infringement of a U.S. patent by imported merchandise.

The Trade Act allows the President 60 days in which to approve an affirmative Commission determination or, for policy reasons, to disapprove it. If the President disapproves, the Commission's determination has no force or effect. If the President does not disapprove the Commission's affirmative determination within the 60-day period, or if he approves the determination, it becomes a final determination. Persons adversely affected by either a negative or an affirmative final determination have the right to judicial review.

During 1978, the Commission completed 10 investigations under section 337. In four cases, the Commission found a violation of the statute; in six cases, the Commission found no violation because: (1) the evidence was insufficient; (2) the complainant granted a patent license to the respondent(s); or, (3) the respondents signed an agreement to cease supplying the imports in question.

In connection with certain welded stainless steel pipe and tube (337-TA-29) the Commission, by a 4-to-2 vote, issued its first cease-and-desist order against a predatory pricing practice. Specifically, the order

Table 5.--Section 303 investigations completed by the Commission in 1978

Investigation No.	Article	Commission determination
303-TA-2	Leather wearing apparel from Uruguay	Injury
303-TA-3	Certain fish from Canada	No injury
303-TA-4	Certain wool yarns from Uruguay	Pending
303-TA-5	Certain wool yarns from Brazil	Pending
303-TA-6	Certain leather wearing apparel from Colombia.	Pending
303-TA-7	Certain leather wearing apparel from Brazil.	Pending
	Glove and linings from Brazil	Pending

The investigations pending at yearend were completed in February 1979. In all five the Commission made a negative determination.

Judicial review of countervailing duty cases.--The year 1978 saw the first completion of judicial review regarding a negative countervailing duty determination by the Secretary of the Treasury. Prior to the enactment of the Trade Act of 1974, his negative determinations could not be challenged in the courts, although the Secretary's affirmative determinations had been litigated, from time to time, since the turn of the century.

The first petitioner for review of a negative determination was the United States Steel Corp., after Treasury had determined that rebates of value-added taxes in conjunction with exports and adjustments of border taxes by seven members of the European Community did not constitute a "bounty or grant" within the meaning of section 303 of the Tariff Act of 1930, as amended. Discovery proceedings in this case, however, were so comprehensive that, before the customs court could decide the case, a comparable case, Zenith Radio Corporation v. United States, was decided by the U.S. Supreme Court.

In 1976, the Secretary determined that the remission by the Japanese Government of a commodity tax on consumer goods when exported and various Japanese export-promotion measures and techniques on consumer electronic products did not constitute a bounty or grant within the meaning of section 303. Under the provisions of the Trade Act of 1974, Zenith took the Secretary's determination to the customs court.

The customs court was able to decide Zenith Radio Corporation v. United States quickly. The actions of the Japanese Government were not in dispute; the issue was whether the aforementioned remission of a commodity tax must be deemed to be the bestowing of a bounty or grant countervailable under section 303.

Determinations in the negative:

Diuron from Israel
Textile mill products and men's and boys' apparel from Korea.
Electrical sound equipment and electrical music equipment from Japan.
Bromine and brominated compounds from Israel.

Cases pending at yearend:

Footwear from Argentina
Leather wearing apparel from Argentina.
Optic liquid level-sensing systems from Canada.
Bicycle tires and tubes from Korea.
Bicycle tires and tubes from Taiwan
Papermaking machinery from Finland
Footwear from India
Oleoresins from India
Ampicillin trihydrate from Spain
Oleoresins from Spain
Rayon staple fiber from Sweden
Textile mill products and men's and boy's apparel from Malaysia
Textile mill products and men's and boys' apparel from Singapore.
Textile mill products and men's and boys' apparel from Thailand.
Textile mill products and men's and boys' apparel from Pakistan.
Textile mill products and men's and boys' apparel from Mexico.
Amoxicillin trihydrate from Spain
Tomato products from the EC.

During 1978, the Commission initiated seven injury investigations after affirmative determinations that bounties or grants were being paid with respect to duty-free imports. With the exception of certain fish from Canada, the duty-free treatment was attributable to the products' eligibility under the U.S. Generalized System of Preferences (GSP). The outcome of those cases is summarized on the following page.

become subject to countervailing duties with the expiration of the waiver authority (see p. 48).

Mainly to accommodate the EC, which threatened to disrupt the MTN over this issue, legislation to extend the Secretary's waiver authority was introduced in 1978. Because of the logjam of closing business prior to adjournment of the 95th Congress, legislation was not enacted prior to the expiration date of this authority, January 2, 1979. Early in 1979, however, the Congress enacted legislation which, in effect, extended the Secretary's waiver authority from January 3, 1979, to July 26, 1979, the date of enactment of the Trade Agreements Act of 1979.

During 1978, the Secretary of the Treasury made final determinations under section 303 as follows:

Determinations that a bounty or grant existed:

Butter cookies from Denmark (CVD's waived).
Iron or steel chains and parts thereof from Spain.
Leather wearing apparel from Uruguay (CVD's waived).
Leather handbags from Colombia (CVD's waived).
Leather handbags from Uruguay (CVD's waived).
Iron or steel chains and parts thereof from Japan.
Fish from Canada (two separate cases; CVD's waived in each).
Textile mill products and men's and boys' apparel from Argentina.
Textile mill products and men's and boys' apparel from Brazil.
Textile mill products and men's and boys' products from Columbia.
Textile mill products and men's and boys' products from Uruguay.
Textile mill products and men's and boys' products from India.
Textile mill products and men's and boys' products from Philippines.
Textile mill products and men's and boys' products from Taiwan.
Sugar from the EC
Nonrubber footwear from Uruguay (CVD's waived).

steel firms during crisis periods should not shift the burden of adjustment to other countries.

The Steel Committee held its first meeting in November 1978, and it scheduled its second meeting for January 1979. The committee's first chairman was the U.S. Deputy Special Representative for Trade Negotiations.

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

Section 303(b) of the Tariff Act of 1930, as amended, provides that if the Secretary makes a final affirmative determination (as to the aforementioned bounty or grant) with respect to a duty-free article, and if international obligations of the United States require a determination as to injury to a domestic industry, the Secretary must forward his determination to the U.S. International Trade Commission. 1/ The Commission, within 3 months, must determine "whether an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such article . . . into the United States. . .," and must notify the Secretary of its determination. If the Commission's determination is in the affirmative, the Secretary must order the assessment and collection of the aforementioned countervailing duties.

Section 303 of the Tariff Act, as amended by the Trade Act, provided that, for 4 years beginning on January 3, 1975, the Secretary could waive the imposition of countervailing duties if he determined that: (1) steps were being taken "to reduce substantially or eliminate . . . the adverse effect of . . ." the subject bounty or grant; (2) trade-agreement negotiations showed "reasonable prospect . . . for the reduction or elimination of barriers and other distortions of international trade;" and (3) the imposition of a countervailing duty "would seriously jeopardize the satisfactory completion of such negotiations."

The approaching expiration of the Secretary's waiver authority greatly troubled the European Community. The EC had approximately 290 million dollars' worth of agricultural exports to the United States which would have

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1/ GATT Part II, Article VI has required an injury determination since 1947. Under U.S. legislation in effect in 1947, duty-free articles were not countervailable, and on dutiable articles domestic legislation did not require an injury test. The United States accepted Part II to the extent that it was not inconsistant with then existing legislation. In bringing duty-free items under the CVD statute in the 1974 act, the United States also added an injury determination with respect to duty-free articles.

the importer. If circumstances warrant, Customs initiates an antidumping investigation. The first two cases initiated by Customs under the TPM began in October 1978. 1/

During 1978, from time to time, Treasury added various steel mill products to the list subject to the TPM, and it made quarterly increases in the trigger prices. These upward revisions were attributable to increases in Japanese costs of production, and to the rapid appreciation of the yen vis-a-vis the dollar.

The Steel Committee.--The problems in steel trade which led to the establishment of the trigger-price mechanism were not confined to the United States. The crisis caused by world over-capacity in steel also prompted the European Community to establish a base-price system for steel mill products at about the same time that the TPM was established, and Canada also followed suit. The United States sought a multilateral solution to steel problems, proposing at one time a steel sector negotiation in the MTN, before deciding to pursue the steel issue in the Organization for Economic Cooperation and Development (OECD.)

In connection with dumping and other matters concerning steel, the United States participated actively in the sessions of the OECD's Ad Hoc Working Group on the Steel Industry. In order to intensify international cooperation in seeking solutions to cyclical and structural problems of steel industries, the United States proposed that the OECD establish a Steel Committee as successor to the ad hoc group.

In October 1978, the OECD established an International Steel Arrangement, whose primary operative element is a Steel Committee 2/. The Steel Committee is basically a consultative body where participants can exchange data on steel trade, market conditions, and government actions. Among the initial commitments for participants were two that covered the subject of price guidelines such as the TPM: First, members of the committee agreed that price guidelines should be in harmony with the International Antidumping Code, and are appropriate only during "crisis periods." Additionally, such guidelines should be expeditiously removed or liberalized as conditions improve. Secondly, price guidelines should "neither exceed the lowest normal prices in the supplying country, or countries where normal conditions of competition are prevailing," nor exceed the full cost of production (including overheads) plus profit in the supplying countries. Such guidelines may include delivery costs and import duties if the importing country establishes guidelines on a delivered basis. Participants also agreed that domestic actions to sustain

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1/ Carbon steel plate from Poland and from Taiwan.

2/ Membership in OECD is held by the United States, Canada, Japan, Turkey, Australia, 16 Western European countries, and the EC. One nonmember, Yugoslavia, has special status. All OECD members are participants on the Steel Committee. Overtures have been made for some non-OECD steel interest countries to become participants on the committee, but, as of mid-1979, none had yet accepted.

Bicycle tires and tubes from Korea
Bicycle tires and tubes from Taiwan
Stainless steel roundwire from Japan
Rayon staple fiber from Italy
Rayon staple fiber from Sweden
Methyl alcohol from Canada
Perchloroethylene from Italy
Perchloroethylene from Belgium
Percholroethylene from France
Kraft capacitor tissue from France
Kraft capacitor tissue from Finland
Sugar from Belgium
Sugar from France
Sugar from West Germany
Titanium dioxide from Belgium
Titanium dioxide from France
Titanium dioxide from the United Kingdom
Titanium dioxide from West Germany
Certain fresh produce from Mexico
Hot rolled carbon steel plate from Poland
Hot rolled carbon steel plate from Taiwan
Spun acrylic yarn from Japan
45 r.p.m. adapters from the United Kingdom
Carbon steel plate from the United Kingdom
Carbon steel plate from Belgium
Carbon steel plate from France
Carbon steel plate from West Germany
Carbon steel plate from Italy

Trigger-price mechanism.--In late 1977 the Department of the Treasury announced that it would inaugurate a trigger-price mechanism (TPM) for use in monitoring the prices of imports of steel mill products. On January 3, 1978, Treasury announced its first trigger prices. The TPM was designed to enable the U.S. Customs Service to initiate antidumping investigations on a "fast-track" basis without waiting for the receipt of complaints. The purpose is to alert Customs to the possibility of sales at less than fair value.

Each trigger price has several elements, including a base price plus additional costs for ocean freight, handling at the U.S. port, and interest, all elements expressed in U.S. dollars per metric ton. These additional costs are differentiated on the basis of four U.S. regions having maritime ports--west coast, gulf coast, Atlantic coast, and Great Lakes. There are also extras for special characteristics regarding dimensions, chemical composition, and surface preparation. Each trigger price also includes a charge for insurance, equivalent to 1 percent of the sum of the base price, extras, and ocean freight. Trigger prices are based on the full costs of producing steel mill products in the most efficient foreign steel industry, which currently is deemed to be the Japanese.

The prices of all imports below trigger prices are closely scrutinized at Customs headquarters. In this connection, Customs sends a questionnaire to

During 1978, the Commission completed 12 full antidumping investigations, five of which resulted in affirmative injury determinations and seven in the negative. As of December 31, 1978, four cases were pending. Determinations and status were as shown in table 4.

Table 4.--Investigations under the Antidumping Act, 1921, completed by or pending in the Commission in 1978

Investigation No.	Article	Commission determination
AA1921-176	Impression fabric of manmade fiber from Japan.	Injury
AA1921-177	Ice hockey sticks from Finland	No injury
AA1921-178	Polyvinyl chloride sheet and film from Taiwan.	Injury
AA1921-179	Carbon steel plate from Japan	Injury
AA1921-180	Welded stainless steel pipe and tube from Japan.	No injury
AA1921-181	Rayon staple fiber from Belgium	1/
AA1921-182	Steel wire strand for prestressed concrete from India.	No injury
AA1921-183	Sorbates from Japan	No injury
AA1921-184	Portland hydraulic cement from Canada	No injury
AA1921-185	Nylon yarn from France	No injury
AA1921-186	Rayon staple fiber from Belgium	Injury
AA1921-187	Motorcycles from Japan	No injury
AA1921-188	Steel wire strand for prestressed concrete from Japan.	Injury
AA1921-189	Certain steel wire nails from Canada	Pending
AA1921-190	Rayon staple fiber from France	Pending
AA1921-191	Rayon staple fiber from Finland	Pending
AA1921-192	Silicon metal from Canada	Pending

1/ Terminated. The Commission instituted a new investigation, AA1921-186, rayon staple fiber from Belgium, upon reconsideration by the Secretary of the Treasury of his determination.

At yearend, the following antidumping investigations were pending before the Treasury Department:

Pneumatic marine fenders from Japan
Certain structural carbon steel shapes from the United Kingdom
Certain steel plates from the United Kingdom
Carbon steel bars from the United Kingdom
Carbon steel strip from the United Kingdom
Cumene from Italy
Cumene from the Netherlands
Rayon staple fiber from Austria
Silicon metal from Japan

is being prevented from being established. When an affirmative determination is made by both agencies, a finding of dumping is issued calling for the assessment of an antidumping duty (in addition to other duties, if any) equal to the difference between the LTFV price and the fair value.

Section 201(c) of the Antidumping Act authorizes the Secretary of the Treasury, if he concludes that there is substantial doubt that the requisite injury to a domestic industry exists by reason of possible sales at LTFV, to refer the case to the Commission for a preliminary injury determination. If the Commission determines that there is no reasonable indication of injury to a domestic industry or likelihood thereof, or prevention of an industry's establishment, Treasury's antidumping investigation is terminated. If the Commission determines that there is such a reasonable indication, Treasury continues its investigation. The Commission has 30 days in which to conduct such an inquiry.

During 1978, the Commission completed 16 preliminary inquiries under the Antidumping Act. In connection with 4 inquiries, the Commission found that there was "no reasonable indication" that a domestic industry was being or was likely to be injured by reason of the importation of the merchandise under investigation by Treasury. Thereupon, Treasury terminated its investigation. In connection with 12 inquiries, the Commission found that there was a reasonable indication of injury or likelihood of injury. Findings of the Commission were as follows:

Table 3.--Preliminary inquiry investigations under the Antidumping Act, 1921, as amended, completed by the Commission in 1978

Investigation No.	Article	Commission determination
AA1921-Inq.-8 and 9	Carbon steel bars and carbon steel strip from the United Kingdom.	Indication
AA1921-Inq.-10	Uncoated free sheet offset paper from Canada.	No indication
AA1921-Inq.-11 and 12	Photographic color paper from Japan and West Germany.	No indication
AA1921-Inq.-13	Methyl alcohol from Canada	Indication
AA1921-Inq.-14, 15 and 16	Perchloroethylene from Belgium, France and Italy.	Indication
AA1921-Inq.-17	Stainless steel round wire from Japan	Indication
AA1921-Inq.-18	Standard household incandescent lamps from Hungary.	No indication
AA1921-Inq.-19	Certain automotive and motorcycle repair manuals from the United Kingdom.	Indication
AA1921-Inq.-20, 21 and 22	Sugar from Belgium, France and West Germany	Indication
AA1921-Inq.-23	Titanium dioxide from Belgium, France, the United Kingdom and the Federal Republic of Germany.	Indication

Table 2.--Section 406 investigations completed by the Commission in 1978

Investigation No.	Article	Commission determination
TA-406-1	Certain gloves from the Peoples's Republic of China.	Negative
TA-406-2	Clothespins from the People's Republic Of China.	Affirmative
TA-406-3	Clothespins from the Polish People's Republic.	Negative
TA-406-4	Clothespins from the Socialist Republic of Romania.	Negative

In connection with the affirmative clothespin investigation, the President decided that, in view of the Commission's import-relief investigation of clothespins (TA-201-36), the question of relief for the domestic industry would be more appropriately decided in the context of the Commission's determination in that case. Early in 1979, following an affirmative determination in the section 201 investigation, the President proclaimed a global quota on clothespin imports, valued not over $1.70 per gross, of 2 million gross annually for 3 years.

U.S. actions on unfair trade practices

Various U.S. trade laws provide remedies or countermeasures when foreign governments, or foreign entities, engage in certain practices that are detrimental to U.S. domestic or foreign commerce or when importers, foreign exporters or sellers engage in unfair methods of competition in the importation or sale of foreign merchandise in U.S. markets. The Antidumping Act, 1921, deals with sales of imports at less than fair value. Section 337 of the Tariff Act of 1930, as amended, directs the Commission to deal with unfair methods of competition and unfair acts in the importation of articles into the United States or in their sale. Section 303 of the Tariff Act of 1930, as amended, provides for countervailing duties on imports receiving any foreign bounty or grant (i.e., subsidies). Section 301 of the Trade Act of 1974 deals with the elimination of certain trade practices of foreign governments that constitute an unreasonable or discriminatory burden or restriction on the commerce of the United States.

Antidumping investigations.--The Antidumping Act, 1921, is designed to counter unfair competition involving U.S. imports sold at less than fair value (LTFV). The act provides for levying antidumping duties if: (1) a class or kind of foreign merchandise is being, or is likely to be, sold in the United States or elsewhere at LTFV, and (2) an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation of such merchandise into the United States. The responsibility for determining whether sales at LTFV are occurring, or likely to occur, is vested in the Secretary of the Treasury. If he makes an affirmative determination, the U.S. International Trade Commission then determines whether injury or likelihood thereof exists or whether an industry

additional economic problems not directly related to increased imports, EDA has encouraged such communities to petition under the programs covered by the Public Works and Economic Development Act of 1965, as amended, rather than under the more restrictive Trade Act criteria for community adjustment assistance.

National security.--Section 232 of the Trade Expansion Act of 1962, as amended by section 127 of the Trade Act of 1974, provides for action to adjust imports to safeguard national security. When the Secretary of the Treasury, following investigation, advises the President that a given article is being imported in such quantities or under such conditions as to threaten to impair the national security, the President may act to control the entry of such article and its derivatives. Within 60 days after he takes any action under section 232, the President is required to report to the Congress the action taken and the reasons therefor.

During 1978, the Secretary conducted one such investigation on bolts, nuts, and screws. He concluded that imports of such articles were not threatening impairment of the national security. Another investigation on petroleum was pending at the end of the year.

Market disruption.--Section 406 of the Trade Act of 1974 provides for investigations by the U.S. International Trade Commission to determine, "with respect to imports of an article which is the product of a Communist country, whether market disruption exists with respect to an article produced by a domestic industry." Section 406(e)(2) declares that market disruption exists within a domestic industry "whenever imports of an article, like or directly competitive with an article produced by such domestic industry, are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury, or threat thereof, to such domestic industry." If the Commission determines that market disruption exists, it must "find the amount of the increase in, or imposition of, any duty or other import restriction on such article which is necessary to prevent or remedy such market disruption . . ." An affirmative determination reported to the President gives him essentially the same options as those provided under section 202 and 203 of the Trade Act. The President's action, however, may be directed at only those products from the country or countries involved.

During 1978, the Commission completed four investigations under this section. Table 2 lists those investigations and indicates the Commission's determinations.

In compliance with established procedures under GATT Article XIX, the United States notified the GATT Contracting Parties of the results of its section 201 investigations. The article requires, generally, that Contracting Parties with a substantial interest as exporters of the product concerned be given an opportunity to consult before a concession rate is modified or withdrawn.

Adjustment assistance.--Title II of the Trade Act provides for adjustment assistance in the form of trade readjustment, training and relocation allowances for workers, technical and financial assistance for firms, and assistance and loan guarantees to communities adversely affected by increased imports. The U.S. Department of Labor administers the program for displaced workers, and the Department of Commerce, through its Economic Development Administration (EDA), administers the programs for firms and communities.

During 1978, the Department of Labor instituted 1,733 investigations on the basis of petitions for eligibility to apply for adjustment assistance, and it certified 845 petitions covering an estimated 114,000 workers as eligible. In the same year, 148,140 workers received their first payments in the form of trade readjustment allowances. The total amount paid in such allowances during the year was about $277 million. Other benefits received by workers, adversely affected by imports, consisted of testing, counseling, job training, job-search allowances, referrals, and allowances for moving expenses to new job locations.

During 1978, the Department of Commerce certified 129 firms as eligible to apply for trade adjustment assistance. EDA approved the adjustment proposals of 70 firms. It authorized 75 million dollars' worth of financial assistance, almost equally divided between direct loans and guarantees of bank loans. EDA also approved technical assistance projects for 112 trade-impacted firms at a cost of about $3.8 million.

In order to improve the delivery of trade adjustment assistance, EDA established 10 Trade Adjustment Assistance Centers (TAAC's) throughout the country, all operated by nonprofit organizations under EDA grants. Each TAAC has a package of services available to trade-impacted firms. Among these services are guidance in preparing petitions for certification and, for EDA-certified firms, comprehensive assistance in carrying out their recovery plans.

In 1978, EDA awarded 15 grants, totaling $6.3 million, to communities adversely affected by import competition. Two-thirds of the total funds consisted of a grant awarded to the Pittsburgh Countywide Corp., Inc., which was created by the city of Pittsburgh and the county of Allegheny, Pennsylvania. This nonprofit corporation is providing $4.4 million as the local share of a Steel Industry Unemployment Buffer Program, to diversify the area's economic base, recycle industrial land and deteriorated buildings, create and develop new industrial land, and construct certain public works at and near a redevelopment site. Another objective is to retain steel-related employment.

Trade adjustment assistance is only one of several available EDA programs for helping communities. Because many trade-impacted communities have

where clothespins are manufactured--would have been greater than the economic costs associated with an import-limiting measure.

Section 203 of the Trade Act of 1974 enables Congress to override the President's granting modified relief, or his denial of import relief, if both Houses (by an affirmative vote of a majority of Members of each House present and voting) pass a concurrent resolution giving effect to the action recommended by the Commission. If the Congress wishes to override the President's action it must do so within 90 legislative days after the date on which the President notifies Congress as to his action or his determination not to provide import relief. If a Congressional override resolution were to pass, the President would be required (within 30 days after the adoption of such resolution) to proclaim the import relief measures recommended by the Commission.

Since the enactment of the Trade Act, Congress has not exercised this right of override, although an override resolution on a 1977 affirmative Commission determination on bolts, nuts, and large screws (TA-201-27) had passed the Subcommittee on International Trade of the Committee on Ways and Means. Ultimately, the committee asked the Commission to reinvestigate the matter, and after finding good cause to reinvestigate a matter subject to a section 201 investigation within 1 year, the Commission did so with the results already noted. The high-carbon ferrochromium case (TA-201-35) was similarly the result of a Ways and Means Committee request for a reinvestigation.

At yearend, investigation No. TA-201-38, on certain machine needles, was pending. Early in 1979, the Commission made a negative finding.

Section 203 of the Trade Act of 1974 also provides that the Commission advise the President of its judgment as to the probable economic effect on industries of extending, reducing, or terminating import relief already in effect. In 1978, after receiving a request from the Special Representative for Trade Negotiations, the Commission conducted a section 203 investigation with respect to certain ceramic articles (dinnerware). Conducted concurrently was a section 131(b) investigation providing advice to the President on the probable economic effects of making tariff concessions on those dinnerware articles then subject to import relief. These investigations were prompted by a desire of the executive branch to modify the tariff nomenclature applicable to ceramic dinnerware, and to make MTN tariff offers on certain items then subject to import relief and therefore, mandatory exceptions under section 127. The Commission advised the President that the probable economic effect of termination would be minimal. Following receipt of this advice, the President terminated import relief, and shortly thereafter began the international procedures to revise the tariff nomenclature and make MTN offers (see p. 62).

In its only other section 203 activity during the year, the Commission investigated the probable economic effect of terminating the import-relief measures applicable to stainless steel and alloy tool steel. The import relief in effect on these items was scheduled to end at the close of June 13, 1979. The Commission's action was taken in response to a petition from the Tool and Stainless Steel Industry Committee and the United Steel Workers of America, AFL-CIO. At yearend this case was still in progress.

affirmatively in seven cases, negatively in one case, and in one case pertaining to certain fishing tackle, the Commission made an affirmative determination with respect to certain articles and a negative determination with respect to other articles within the scope of the investigation.

Table 1.--Section 201 investigations completed by the Commission in 1978

Investigation No.	Article	Commission determination
TA-201-29	Citizens band radio receivers	Affirmative 1/
TA-201-30	Certain stainless steel flatware	Affirmative 2/
TA-201-31	Unalloyed unwrought zinc	Negative
TA-201-32	Unalloyed unwrought copper	Affirmative 2/
TA-201-33	Bicycle tires and tubes	Affirmative 2/
TA-201-34	Certain fishing tackle:	
	Fishing hooks, rods, reels, and parts	Negative
	Artificial baits and flies	Affirmative 2/
TA-201-35	High-carbon ferrochromium	Affirmative 1/
TA-201-36	Clothespins	Affirmative 1/
TA-201-37	Bolts, nuts, and large screws of iron or steel	Affirmative 1/

1/ The President proclaimed import relief that differed from the Commission's recommendation.

2/ The President determined that providing import relief would not be in the national economic interest.

The President denied relief in four of the eight affirmative determination. In all instances, he gave a number of reasons for his decision, drawing from considerations listed in section 202. In three cases, stainless steel flatware, bicycle tires and tubes, and artificial baits and flies, he concluded that import relief would not be effective for longrun economic adjustment. In the first two cases, elements of the domestic industry were considered competitive and profitable. In artificial baits and flies, market conditions had improved. In two cases (stainless steel flatware and copper) he noted that former employees of impacted firms were already receiving adjustment assistance. In denying relief to the copper industry, the President noted that import relief would have: (1) undermined the competitiveness of U.S. copper-fabricating industries; (2) had a widespread inflationary impact; and (3) had a major negative impact on the MTN.

In four cases, CB radios, high-carbon ferrochromium, clothespins, and bolts, nuts, and large screws, the President granted import relief, although the relief was not that recommended by the Commission. In all four cases, he determined that the modified relief would have a much smaller impact on overall domestic inflation than the recommended remedy. In two cases (clothespins and bolts, nuts, and large screws), the President received commmitments from the respective industries to comply with anti-inflation guidelines, and noted those commitments in announcing import relief. In the clothespin case, the President reasoned that the social costs of not granting relief--very few alternate employment opportunities exist in the small towns

on trade-sensitive industrial and agricultural sectors. Finally, the Commission was asked to provide the committee with its judgment as to the probable economic effect on industries, labor, and consumers, of U.S. tariff reductions, and to prepare a similar judgment with respect to foreign offers on U.S. exports. The House Ways and Means Committee also joined in this request.

Under the legislative "fast-track" provisions (sec. 151) of the Trade Act, implementing legislation for NTM trade agreements would be introduced in Congress without being subject to amendments. Accordingly, the Commission's response to the committees' requests would be especially important since the information provided would serve to identify areas where changes, either in the agreements or in the implementing legislation, would be desirable before an MTN implementing bill was introduced in Congress.

U.S. actions under provisions for import relief

Title II of the Trade Act of 1974 sets the procedures under which domestic interests may seek relief from injurious import competition. Import relief for domestic industries can, for example, take the form of import-limiting measures. In addition, adjustment assistance may be provided to workers, firms, and communities adversely affected by increased imports. U.S. trade law also provides for adjusting imports to safeguard national security and for the prevention or remedy of market disruption caused by imports from a Communist country.

Safeguard actions.--Sections 201 through 203 of the Trade Act of 1974 authorize the President to provide import relief when an article is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing an article like or directly competitive with the imported article. The Commission determines whether the domestic industry involved meets the statutory criteria for relief. If the Commission decides affirmatively, it then recommends to the President a measure necessary to prevent or remedy the injury. Import relief can be provided for not more than 5 years, with the possibility of no more than one 3-year extension. Relief can be in the form of new or increased duties, tariff-rate quotas, quantitative import restrictions, negotiated limits on exports of foreign countries (orderly marketing agreements or OMA's), or any combination of such measures, although the Commission is not authorized to recommend OMA's as a form of relief. If the Commission determines that adjustment assistance can effectively remedy the injury, the Commission must recommend the provision of such assistance. While the act requires that the Commission focus only on a remedy necessary to correct or prevent the injury, the President's decision, by law, must take into account many additional factors, including the effect of import relief on the international interests of the United States and on consumers.

In 1978, the Commission completed 9 investigations under the provisions of section 201 of the act. As shown in table 1, the Commission found

the advisory committees began an assessment of foreign offers and considered what response, if any, was required of the United States. In many cases, private sector advisors found both the U.S. and foreign offers wanting, and devoted the remainder of 1978 to narrowing the scope of their concerns and providing justifications for the changes they sought.

As the pace of the negotiations quickened during 1978, the committees became an active source of information, providing advice ranging from overall negotiating objectives and strategy to negotiating tactics at the individual tariff line level. Similarly, the advisory process offered changes in specific draft nontariff measures (NTM's) code language. Advisors were invited to the U.S. MTN delegation in Geneva to review sector objectives and concerns. Advice from these private sector groups was often the deciding influence as to whether a specific foreign offer should be accepted, subjected to continuing negotiating pressure, or rejected. As 1978 ended, the U.S. offers were being adjusted in response to accepted foreign offers, and to what the advisory committees considered a satisfactory outcome in their individual areas of responsibility. As required by the Trade Act, the advisory committees also reported on those bilateral agreements concluded in advance of the general MTN, i.e., the United States-Mexican Trade Agreement and the Tropical Products Agreement with India (see p. 54 and p. 69).

To further bolster the advisory process, the act provided for Congressional delegates to be official advisors. These official advisors, other Members of Congress, and designated Congressional staff members participated both in Washington and in Geneva. During 1978, meetings and contacts with the Congressional advisors were frequent, although it was in 1979, when the MTN implementing legislation was being prepared, that cooperation on the trade agreements program between the executive and legislative branches reached its highest level.

The U.S. International Trade Commission also greatly increased its activities in support of the negotiations. Early in 1978, in response to requests from STR, it increased its tariff advisors at the U.S. MTN delegation to enable the delegation to have an on-site tariff expert covering the major bilateral negotiations, and covering particularly difficult commodity areas such as chemicals. The Commission also provided legal assistance in negotiations on the safeguards code.

In Washington, the Commission was already devoting extensive manpower to the STR in the economic and technical areas needed to support the negotiations. The policy decision to accept a valuation code requiring the United States to abandon its American Selling Price system of customs valuation, for example, could not have been made without extensive Commission research and investigation (including public hearings) into the proposed code and into the appropriate rate of duty adjustments that might accompany such a decision.

On August 9, 1978, the chairman of the Senate Committee on Finance asked the Commission to study each emerging MTN code to identify those sectors of the U.S. economy that would be significantly affected by U.S. adherence. In addition, the Commission was to study the impact of all agreements and codes

CHAPTER I

THE TRADE AGREEMENTS PROGRAM, COMMODITY AGREEMENTS AND OTHER TRADE ACTIONS

U.S. Activities Relating to the Trade Agreements Program

Supporting the MTN negotiations

To supplement the interagency support and policy coordination activities associated with the Tokyo Round, the Trade Act of 1974 directed the President to actively seek private sector advice on negotiating objectives and bargaining positions. To formalize this advisory process, the act directed the establishment of a series of committees designed to provide policy guidance and technical advice. In addition, the committees were required to report to the President, Congress, and the Office of the Special Representative for Trade Negotiations (STR) whether or not completed agreements served the interests of the United States and provided equity and reciprocity within specific sectors.

Three levels of committees authorized by the law were established in 1975. The Advisory Committee for Trade Negotiations, composed of consumer, business, agriculture, labor, and Government representatives, was charged with providing overall policy guidance. A second level, composed of industry, labor, and agricultural interests, was established to provide general policy guidance on specifically proposed trade agreements. These second-level groups were designated the Industry, Labor, and Agriculture Policy Advisory Committees, respectively. The third level was established to provide specific and technical sector assistance to U.S. negotiators. In all, 27 Industry Sector Advisory Committees, 6 Labor Sector Advisory Committees, and 8 Agricultural Technical Advisory Committees were created. In total, almost 1,000 non-U.S. Government persons participated in the advisory process.

The advisory process had its roots in a widely-held belief that the access U.S. business, labor, and agricultural interests had to U.S. negotiators in the Kennedy and Dillon Rounds should be improved in any future negotiation. The formalized private sector advisory process enacted in the Trade Act of 1974 was seen as the primary means of achieving this objective.

The participation of these advisory committees became more important as the Tokyo Round moved out of the preparatory phase and into one of active negotiations. In late 1977, they provided specific product recommendations that were incorporated in the initial circulation of U.S. requests and offers. After other MTN major participants circulated offers in January 1978,

Developments in 1978 suggest that the negotiation of international commodity agreements will be an important element of U.S. commercial policy for some time to come.

The value of world trade increased to about $1.3 trillion in 1978, or by about 16 percent (in dollar terms) and about 6 percent in volume over the previous year. In a return to a longtime trend, international trade increased at a faster rate than world production. U.S. exports (in dollar terms) increased by about 18 percent to $144 billion, while imports increased at a slightly slower rate (16 percent), to $172 billion. U.S. trade deficits with Canada and Japan grew, while the surplus with the European Community (EC) was reduced. While trade trends are not analyzed in this report, the continued unsettled economic conditions in U.S. major trading partners were contributing factors to the record trade deficit posted for the United States in 1978, in spite of the more rapid growth in U.S. exports.

This report was prepared principally in the Commission's Office of Economic Research.

Introduction

Section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) directs that, at least once a year, the United States International Trade Commission submit to the Congress a factual report on the operation of the trade agreements program. This report is the 30th report to be submitted under section 163(b) and its predecessor legislation.

Executive Order 11846 of March 27, 1975, defines the trade agreements program as including:

> all activities consisting of, or related to, the negotiation or administration of international agreements which primarily concern trade and which are concluded pursuant to the authority vested in the President by the Constitution, Section 350 of the Tariff Act of 1930, as amended, the Trade Expansion Act of 1962 as amended, or the /Trade/ Act /of 1974/.

The period covered in this report is calendar year 1978, although occasionally, to enable the reader to more fully understand developments, events in early 1979 are also reported.

The principal thrust of the trade agreement program during 1978 centered on efforts to revitalize and move forward the Multilateral Trade Negotiations, perhaps the most complex trade negotiations ever undertaken. In this effort the United States succeeded. By the end of the year, it became apparent that the negotiations were near completion.

The year 1978 marked a renewed interest in trade disputes and in the dispute-settlement mechanism of the General Agreement on Tariffs and Trade (GATT). This is not suprising, since the success of the codes of conduct being negotiated in the MTN will largely depend on how effectively such conflicts are resolved.

Apart from the MTN, international commodity agreements received increased attention. Here, U.S. trade policy continued to change as is best illustrated by the views expressed in the President's Report on the Trade Agreements Program. The President's 20th report on the Trade Agreements Program (covering developments in 1975) stated:

> U.S. policy remains firmly based in the long-held belief that the market should continue to perform its central role in allocating supply and demand and determining equilibrium price.

Just 3 years later the report noted:

> We have a strong interest in measures to improve the stability of international commodity markets, to secure adequate long-term supplies of raw materials . . ., and to ensure market access for our commodity exports.

CHAPTER III

DEVELOPMENTS IN MAJOR TRADING PARTNERS

CHAPTER II

THE MULTILATERAL TRADE NEGOTIATIONS, THE GENERAL AGREEMENT ON TARIFFS AND TRADE, AND BILATERAL AGREEMENTS

CONTENTS

(5) Certification rules and standards that operate to restrict the sale of aircraft; and

(6) Government support of the development, manufacture, and marketing of commercial aircraft.

As negotiations progressed, coverage broadened to include all civil aircraft, ground-flying trainers, foreign repairs on civil aircraft, and a relatively broadly defined aircraft parts coverage. The NTM's proved more difficult to negotiate, but by December an agreement was clearly in sight.

The General Agreement on Tariffs and Trade

If the MTN was the primary vehicle for negotiating new trade agreements, the ongoing activities under the General Agreement constituted the main method for maintaining existing obligations. These activities--settling disputes, implementing of the agreement, monitoring the rights and obligations of GATT members, assisting developing countries, and so on--were carried out by the Contracting Parties acting in unison, the Council of Representatives, by the GATT Director-General and the Secretariat, and by numerous special and standing committees, consultative groups, panels and working parties. All GATT forums were busy in 1978, a reflection in part of the continued protectionist pressures, and in part, of commitment by GATT members to use the system even as they were negotiating changes in it.

Contracting Parties - 34th session

The Contracting Parties (CP's) met in their 34th session in November 1978. 1/ The wide differences in levels of economic development colored the various presentations, but common themes--concern about continued monetary difficulties, low investment levels, widespread unemployment, and recurring protectionist pressures--emerged. Notwithstanding, most countries considered that, excepting some failings in specific sectors, the international community had resisted protectionist policies. This resolve, some concluded, was stiffened by the ongoing MTN and the existence of the GATT itself. Many countries pointed to the ultimate success of the MTN as an essential element of their commercial policy, and looked forward to the full and prompt implementation of its results.

Key issues before the GATT Council

The GATT Council of Representatives, is enpowered to act for the Contracting Parties and is responsible for overseeing the operation of the General Agreement between sessions of the CP's. It met seven times during 1978, considering some 60 topics in all. These topics involved examining controversial or difficult issues in light of GATT rules, and the settlement of disputes.

Procedurely, the Council has usually relied on working parties to examine issues, and on panels for findings and recommendations to aid in settling disputes. Because dispute settlement has become so important an issue, panel organization and the reports of panels are discussed more fully on page 59. Working parties are established to examine a wide variety of issues (see p. 57 and p. 66), and participation is open to any Contracting Party having an interest. 2/ As many as twenty delegations might be involved.

1/ As of November 1978, 84 countries were full members, 3 were provisional members, and 24 former territories of Contracting Parties were applying the GATT de facto, pending final decisions as to their future commercial policy.

2/ Infrequently, a party to a dispute has asked for the establishment of a working party instead of a panel. When this happens, the countries which are parties to the dispute take part in working party proceedings but with the same status as any other delegation.

Working parties strive for consensus, but if differences exist, all views are reported. Working party reports are considered advisory in nature. They are adopted by the Council acting for the Contracting Parties.

Seven issues before the Council in 1978 are discussed here. These seven either directly involved the United States, or had important implications for the future conduct of world trade.

Adjustments of specific rates of duties under floating exchange rates.--GATT Article II:6 permits a member to increase its bound specific duties in response to currency depreciation, provided the CP's concur that such action does not impair the value of concessions. 1/ When the article was drafted, however, GATT members maintained the value of their currencies in terms of gold (or dollars of a fixed gold content). When Israel asked the CP's for concurrence in its adjustment of specific duties, the request could be made only in accordance with the principle of Article II:6 inasmuch as floating exchange rates had rendered key portions of the article obsolete.

Council action on Israel's request would establish important precedents. In 1978, about a quarter of the tariff lines of the major industrialized countries were subject to specific duties. If, for example, the Council insisted on a strict interpretation, Article II:6 would remain inoperative, countries could not adjust rates, and the declining incidence of specific duties would promote expanded trade. A second Council option would be insistence that adjustment occur by converting to ad valorem rates under procedures well established in Article XXVIII. Other options would involve adapting Article II:6 to the current monetary system. 2/ Israel's request brought these issues foursquare before the the Council. The Council reacted by establishing a working party to examine the methods of applying Article II:6 in the current monetary situation. The working party's report is expected in 1979.

Export inflation insurance schemes.--During 1976, the United States complained that certain schemes designed to guard export contracts against inflationary impact were, in fact, subsidies and trade distorting 3/. The GATT Council established a working party to examine these schemes, but the party was divided as to whether such schemes were compatible with the General Agreement. Canada, therefore, with the support of the United States and Japan, asked for an independent panel of experts to provide a finding as to "whether and under what conditions export inflation insurance schemes are export subsidies within the meaning of Article XVI:4." Such a panel was established at the Council's June meeting.

1/ Currency depreciation makes imports more expensive in terms of the home currency and consequently reduces the protective effect of rates expressed in terms of units of weight, measure quantity, etc., instead of value. Without some flexibility to respond to currency revaluations, most countries would have been reluctant to bind (i.e., promise not to increase) concessions on specific duties.

2/ See Frieder Roessler, "Specific Duties, Inflation and Floating Currencies," GATT Studies in International Trade, No. 4.

3/ See Operation of the Trade Agreement Program, 28th Report, P. 47.

The U.S. Domestic International Sales Corporations and income tax practices in France, Belgium and the Netherlands.--In 1976, GATT panels found that the U.S. Domestic International Sales Corporations (DISC's) and certain tax practices in three EC Member States, were subsidies in conflict with GATT Article XVI:4. 1/ Despite a Presidential proposal to phase out the DISC, it has remained in U.S legislation. At the same time, the three Member States did not terminate the offending tax practices. At the March Council meeting, delegations of some countries expressed concern over the nonimplementation of a panel report, and over the apparent bilateralization of these trade complaints. Both the United States and the EC denied the intention of seeking a bilateral solution, but neither called for placing the issue back on the Council's agenda after it was deferred from the March session.

Selective safeguards.--The ability to take emergency action against imports originating in one or two countries as opposed to taking action on a nondiscriminatory (most-favored-nation) basis has been a key issue for the EC, which sought to include such a concept in the MTN Safeguards code. Long established interpretations of GATT Article XIX indicate that a nondiscriminatory application of safeguard actions is what the drafters of the General Agreement intended. Despite this fact, the Council heard complaints that two selective Article XIX actions had been taken.

During 1977, the United Kingdom anticipated a substantial increase in imports of portable monochrome TV sets from Korea. Bilateral consultations reached no agreement and unilateral quotas were imposed on Korean sets. During 1978, numerous Council representatives registered their serious concern over this action. Consultations between the United Kingdom and Korea eventually established an export restraint agreement on TV's. In the meantime, the Council asked the GATT Secretariat to prepare a study of Article XIX and its application. The study noted: "This case is the only one in the history of the GATT in which Article XIX action has been taken on a discriminatory basis with regard to a single source of supply in a fully transparent manner."

As a result of a bilateral agreement negotiated under the Multifiber Textile Arrangement, Hong Kong restricted certain textile exports to Norway until the end of 1977. Negotiations to renew the arrangement took place, but Norway unilaterally introduced an import licensing system with severe cutbacks on shipments from Hong Kong. The EC and the European Free Trade Association countries were not subject to the licensing measure. Hong Kong claimed that Norway acted in violation of GATT principles, and sought recourse under the dispute settlement procedures of Article XXIII:2. The Council moved to establish a panel but to close the issue, Norway invoked Article XIX on certain textiles on a global basis.

EC sugar export subsidies.--Australia complained that the EC's sugar export policy constituted a subsidy inconsistent with the EC's obligations under Article XVI:3. Brazil noted that the EC's sugar subsidy had trade-damaging effects on more efficient producers by expanding the EC's share of the world market, as well as preventing access to the EC's home market. Consultations were not successful, so the Council agreed to establish a panel to examine the EC's sugar export practices.

1/ See Operation of the Trade Agreement Program, 28th Report, p. 46.

Japanese restraints on leather imports.--The United States approached the Council, pointing out that the quantitative restrictions on leather imports applied by Japan since the late 1940's, and justified for a time as a balance-of-payments measure, were illegal under GATT. These restrictions, the United States charged, made it virtually impossible to export leather to Japan. Bilateral negotiations had not been successful, so the United States sought a GATT panel. Several other countries supported the U.S. position. Japan, however, argued that the leather restrictions touched on highly sensitive domestic political and social aspects and could be removed only with extreme difficulty. Bilateral negotiations continued unsuccessfully, and early in 1979, a panel to examine Japan's quantitative restrictions on certain leather goods was established.

EC refunds on exports of malted barley.--Chile lodged a complaint that EC restitution payments to its malted barley exporters seriously affected Chile's exports of this product in traditional markets. Bilateral consultations having not resolved the problem, the Chilean delegation asked that the matter be considered under procedures relating to disputes between developing and developed countries. This procedure provides for conciliation under the good offices of the GATT Director-General. The EC agreed to these procedures, and the matter was referred to the Director-General.

Conciliation and dispute settlement; reports of panels

GATT Articles XXII and XXIII establish the basis for dispute settlement. If bilateral consultations fail to resolve a dispute, the matter may be referred to the Contracting Parties to investigate and to make appropriate recommendations or rulings (art. XXIII:2). The Contracting Parties usually rely on specially created panels to assist in examining the questions raised. Panels are usually composed of three (sometimes five) individuals selected from the Geneva diplomatic missions of countries not involved in the dispute, and they are expected to act impartially without instructions from their governments. Panel members meet with the disputants and seek information from any relevant source. Panel reports are drafted in the absence of the parties and in light of information and statements obtained, and usually include findings of fact, applicability of relevant provisions, rationale for any findings, and recommendations. They are normally adopted by the Contracting Parties. This expression of world opinion exerts a strong pressure on the disputants to come to an acceptable settlement.

EC-Canada dispute on lead and zinc duties.--In 1974 the EC announced that it wished to enter into Article XXVIII negotiations regarding conversion of specific duties on unwrought lead and zinc to ad valorem duties. Negotiations with Canada, a principal supplier, were unsuccessful. The EC subsequently established a new rate of 3.5 percent ad valorem on both metals. Canada considered the rate on zinc unsatisfactory and withdrew its tariff rate bindings on certain EC-supplied items, the trade volume of which was equivalent to Canada's zinc exports to the EC. The basic issues before the panel were: (1) The correct and reasonable method for converting specific duties, and (2) the base period to be used in the conversion. These were not only important questions within the frame of reference of the dispute, but

also because in 1978 the United States was contemplating a conversion of several hundred specific and compound rates to ad valorem rates.

In May 1978 the report was adopted. 1/ The panel held that in the absence of an agreement between the parties, the appropriate base conversion period should be the "most recent three-year period for which statistics were available." Since the EC had not intended to increase protection, the ad valorem equivalents of the specific rates should have been based on global trade statistics for the years 1972-74. These data would have resulted in a rate of 2.64 percent for zinc instead of the 3.5 percent ad valorem implemented by the EC.

The panel found, therefore, that the EC's action had impaired Canada's GATT rights, and Canada was entitled to withdraw concessions in return. But, the panel also found that Canada's retaliation was greater than the trade damage actually suffered. The panel concluded that "the previous Canadian tariff bindings should be re-established as soon as the EC proceeds either to decrease their tariff on zinc or to make tariff concessions on other products of export interest to Canada of an equivalent value."

The EC disagreed with portions of the report dealing with the computation of trade damage suffered by Canada. For a time, the EC asked the GATT Council to make an interpretive ruling, but later dropped the request.

The panel report and the EC's disagreement with portions of it heightened international awareness of the problems involved in converting specific rates. Hence, when the United States proposed making its rate conversions as part of the MTN tariff negotiations, U.S. trading partners insisted that the conversions be undertaken as an Article XXVIII negotiation (see p. 62).

EC measures on animal-feed protein.--On March 14, 1978, the Council adopted a panel report initiated by a U.S. complaint that an EC compulsory purchase program established in March 1976 to reduce surpluses of skimmed milk powder, was (1) a mixing regulation prohibited under Article III; (2) constituted an additional charge on imports which violated a tariff binding; (3) violated the MFN principle (art. I:1), and (4) was counter to several other GATT articles. 2/ The panel report supported the EC on a number of U.S. allegations, but it also concluded that the EC's regulations protected skimmed milk powder in a "manner contrary to the principles of Article III:1 and to the provisions of Article III:5." On one product, the measures treated an imported article less favorably than the domestic product in violation of Article III:4.

The EC terminated the offending measures shortly after the Council agreed to the establishment of the panel.

EC minimum import prices for fruits and vegetables.--At its October meeting, the GATT Council adopted a panel report on the EC's minimum import prices (MIP's) with respect to certain fruits and vegetables. 2/ The panel was established in 1976 as a result of U.S. complaints that: (1) the system of

1/ See Contracting Parties to the GATT, Basic Instruments and Selected Documents, 25th Supp. Geneva, p. 42., hereafter referred to as BISD.
2/ See BISD, 25th Supp., p. 49.

minimum import prices for tomato concentrates, and the licensing and surety deposit systems applicable to the importation of certain fruits and vegetables, were inconsistent with the EC's GATT obligations; and, (2) the MIP's, licensing, and surety deposits nullified or impaired benefits accruing to the United States under several GATT articles.

The panel found that, with respect to most allegations, the EC's provisions were not inconsistent with its GATT obligations. However, the panel concluded that the MIP's and an associated additional security system for tomato concentrates were inconsistent with Article XI, which in general, and subject to certain exceptions, forbids prohibitions or restrictions other than duties, taxes, or other charges. Additionally, the interest charges, costs and forfeiture expenses associated with the systems constituted a breach of the EC's concession rate on tomato concentrates. On this basis, a prima facie case of nullification or impairment of U.S. benefits existed.

The EC reported that in those instances where measures were found to be inconsistent with the GATT, the EC had abolished the measure.

Japanese measures on thrown-silk imports.--In 1977, the United States complained that a prior permission system introduced by Japan on imports of silk yarn was inconsistent with the GATT. After bilateral negotiations failed, a GATT panel was established. The panel sought to bring about a compromise, and ultimately the United States and Japan reached an understanding on the implementation of the system which was acceptable to the United States.

Article XIX--Emergency Action on Imports

Article XIX establishes the circumstances and the procedures under which emergency action can be taken to provide relief to domestic industries from injurious import competition. Over the years, the United States and Australia have been the most frequent users of Article XIX, while other countries have often taken import relief action through other, less transparent, means.

During 1978, seven emergency actions were notified under Article XIX as shown in the following tabulation:

Date	Notifying country	Product	Type of measure
Mar. 1, 1978	Australia	Wool worsted yarns	Quantitative restriction.
Mar. 29, 1978	Australia	Round-nut chainsaw files	Do.
Apr. 11, 1978	United States	CB radio receivers	Tariff increase.
Apr. 21, 1978	Australia	Safety razor blades	Quantitative restriction.
May 26, 1978	EC	Preserved cultivated mushrooms.	Suspension of licenses.
Oct. 1, 1978	Australia	Hot- and cold-rolled sheets, plates of iron or steel	Quantitative restriction.
Nov. 17, 1978	United States	High-carbon ferro-chrome	Tariff increase (value bracket).

Article XXVIII--Modification of Schedules

GATT Article XXVIII sets the procedures under which a country's schedule of concessions can be modified. In 1978, the GATT Director-General prepared new draft guidelines for negotiations under Article XXVIII. The draft guidelines require notification of the concession items to be modified or withdrawn, 3-year trade statistics for each item, communication of claims of interest by a principal or substantial supplier, and joint reports at the conclusion of the negotiations. In general, the United States followed these draft procedures in its Article XXVIII negotiations arising from the MTN.

U.S. Article XXVIII actions.--At the end of September, the United States notified the Contracting Parties that it was prepared to enter into Article XXVIII negotiations covering three topics: (1) Possible compensation due CP's as a result of an increase in certain bound rates of duties on wool-blend fabrics required by U.S. legislation enacted in 1968; (2) a revision of rates and a change in nomenclature for the ceramic dinnerware portion of the U.S. GATT schedule; and (3) the conversion of some 600 specific and compound rates of duty into ad valorem rates. Activities in 1978 consisted of exchanging the data on which to base negotiations. These negotiations began in earnest in 1979.

Settlement with Brazil.--Since 1967, the United States has negotiated under Article XXVIII with Brazil over compensation due to the United States as a result of increases in Brazilian bound tariff rates adopted as part of its industrial development plan. These negotiations bore fruit in December when the United States and Brazil reached an agreement that would provide for a lowering of Brazilian duties on some 177 million dollars' worth of U.S. exports of agricultural and industrial products.

Other U.S. negotiations.--During 1978, the United States reached agreement with South Africa on certain withdrawals of bound rates on evaporators and condensers, but continued negotiations under Article XXVIII on other South African withdrawals. The United States also conducted Article XXVIII negotiations with New Zealand and with Austria. In the latter negotiation, the United States accepted a compensatory concession on certain saws and saw blades in exchange for rate increases on canned and frozen corn. The United States was also involved in an extensive Article XXVIII negotiation with Canada over the withdrawal of concessions on certain fruits and vegetables. U.S. trade in the affected items amounted to $124 million. Canada was prepared to offer compensatory duty reductions, but the negotiations could not be concluded before the yearend (see p. 98).

GATT Committees

The GATT maintains a number of standing committees which report through the Council of Representatives. A Committee on Trade and Development, with responsibilities for overseeing Part IV of the General Agreement, reports directly to the Contracting Parties. The United States is represented on each committee. Activities in these bodies are discussed below.

Consultative Group of Eighteen.--In 1978, the Consultative Group of Eighteen (CG-18) was in its third year of existence. Established to increase commercial policy coordination, this body provides a forum where senior trade policy-making individuals from key countries can meet informally. In 1978, the CG-18 was also functioning as a steering committee for GATT activities. In the post-MTN period, this role is expected to expand.

The CG-18 met three times during 1978--in February, June and October. 1/ Each time, the CG-18 reviewed commercial policy developments, watching particularly for signs of increasing protectionism. At its October meeting, the CG-18 focused on trade issues for the 1980's. It concluded that priority action would have to be focused on MTN implementation, antitrust policy in international trade, adjustments to international competition, trade relations between developed and developing countries, government intervention in production and trade, East-West trade, the continuing problems in agricultural trade, and the growth of regional markets.

Committee on Antidumping Practices.--This Committee is the consultative medium in which the antidumping practices of countries participating in the International Antidumping Code can be discussed. 2/ It met in a special session in April 1978, and held its 10th annual meeting in October. As of the October meeting, 26 countries, including the European Community and several Member States individually, were parties to the code. 3/

Much of the discussions in April centered on the U.S. trigger-price mechanism and the EC's base price system for steel. Some countries were concerned that these systems, while perhaps technically in accordance with the code, could lead to a proliferation of such price schemes. One country suggested that the normal trade in iron and steel products might be disrupted. In response, the EC noted that the extensive dumping of steel products necessitated special countermeasures. The U.S. representative stressed that the temporary trigger-price mechanism was the least disruptive, least inflationary, and most lenient measure considered.

The October meeting concentrated on a traditional review of antidumping activities. The committee's report (see following table) showed that the United States and Canada continued to impose antidumping duties more frequently than other code adherents. The EC greatly increased its antidumping activities, opening 23 cases, between July 1977 and June 1978 as opposed to 5 to 10 cases in previous 12-month periods.

1/ The committee's report is reproduced in BISD, 25th Supp., p. 37.
2/ See BISD, 25th Supp., p. 17.
3/ The International Antidumping Code is more formally titled "The Agreement on the Implementation of Article VI of the General Agreement."

Table 13.--Summary of antidumping activities in code signatory countries July 1, 1977-June 30, 1978

Description	Australia	Canada	EC	Norway	United Kingdom	United States
Cases pending as of July 1, 1977	17	14	2	1	3	16
Investigation opened	26	19	23	0	0	44
Cases on which provisional action taken	7	18	9	0	2	17
Cases on which final decision reached:						
Antidumping duties imposed	1	13	3	0	0	10
Cases settled through arrangements	5	0	16	0	1	1
Cases terminated	16	4	0	1	2	14
Revocation of antidumping duties	4	2	0	0	0	2
Cases pending as of July 1, 1978	23	10	15	0	0	35

Note.--Austria, Czechoslovakia, Finland, Hungary, Japan, Poland, Portugal, Spain, Sweden, and Switzerland reported no cases pending or initiated. Greece, Malta, and Yugoslavia filed no report.

Committee on Trade and Development.--This committee met twice, in June and November 1978. It reviewed developments having a bearing on the trade and balance-of-payments positions of developing countries, developments in the MTN, technical assistance to developing countries, and trade expansion among developing countries.

Several countries registered complaints that the MTN was being conducted without all participants being involved and called for more frequent group and subgroup meetings. Developing countries, they argued, were brought into discussions only after key decisions had been made. Other spokesmen, however, replied that the procedures being followed in the MTN, including the large number of bilateral and plurilateral discussions in which developing countries were taking part, were sufficient to keep all delegations informed.

The committee also turned its attention to its role after the MTN. There was broad support for a GATT-Secretariat-prepared analysis of the results of the MTN, particularly with regard to special and differential treatment in favor of developing countries. Some delegations also favored reactivating committee subbodies such as the Group of Three. 1/ Another delegation thought

1/ The Group of Three, as established in 1971, was composed of the Chairman of the Contracting Parties, the Chairman of the GATT Council, and the Chairman of the Committee on Trade and Development. It was to study trade problems of developing countries, make recommendations, and follow up on implementation of its suggestions (see Operation of the Trade Agreement Program, 25th report, p. 67.).

substantive comments on the committee's future work ought to await the conclusion of the MTN itself.

The Committee of Participating Countries, which reports through the Committee on Trade and Development, oversees the implementation of the Protocol Relating to Trade Negotiations Among Developing Countries.

In 1978, the Committee of Participating Countries conducted a 5-year review of arrangements under the protocol, which provides for the mutual exchange of trade and tariff concessions between developing countries. By the end of 1978, 17 developing countries had ratified the protocol (Romania acceded in March 1978), while two additional signatories had not yet completed their domestic procedures. At the time of the committee's review, participating countries had exchanged concessions on some 740 tariff items, with a trade volume of $102 million (1977 data). The committee is considering a new round of trade negotiations among developing countries after the Tokyo Round is finished.

Textiles Committee and Textiles Surveillance Body.--Nineteen seventy-eight marked the first year of operation of the Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement, or simply MFA) under its protocol of extension. While the MFA itself was extended four years from January 1, 1978, without textual changes, the Textiles Committee (the governing body of the MFA on which all signatories are represented) adopted certain conclusions or understandings which provided increased flexibility in stablizing growth rates of import-sensitive products. The most important of these understandings was a statement that the MFA included "the possibility of jointly agreed reasonable departures from particular elements /of the MFA/ in particular cases."

The MFA provides for a Textiles Surveillance Body (TSB) charged with supervising the implementation of the MFA. A major part of its work consists of reviewing restrictions introduced, or bilateral agreements entered into, on MFA-covered textiles. It must also issue an annual report on its findings to the Textiles Committee, which, in turn, is to report on the operation of the MFA to the GATT Council. Preoccupied with the MFA's extension, however, the TSB did not make a 1977 report, issuing a 2-year report in 1978 instead. By and large, the TSB found the expanding web of textile restraint agreements in conformity with the MFA; nevertheless, the TSB's report triggered much discussion in the Textiles Committee. Developing countries charged that the report showed the MFA was being eroded particularly with respect to aspects of growth and flexibility in bilateral agreements. Several developing countries noted that the scope and extent of "departures" ought to be stated in notifying agreements to the TSB. Others complained about inadequate or delayed notifications to the TSB, and, in general, expressed alarm over what they saw as increasing protectionism in textiles trade.

Developed country response was basically limited to the EC, which admitted to certain delays in notifying agreements to the TSB, defended charges of increased protectionism on the grounds that many countries maintain restrictions, and reported that it used departures only in a minimum number of cases.

Committee on Balance of Payments Restrictions.--GATT Article XII permits the imposition of quantitative restrictions to protect balance-of-payments (BOP). Article XVIII provides the same right to developing countries under less stringent consultation requirements. A GATT standing committee exists to carry out the consultations with countries invoking Article XII or XVIII, to keep BOP measures under review, and to determine if the measures are consistent with the General Agreement.

Consultations may be either "full consultations" or conducted under "simplified procedures." Under the latter, the committee, on the basis of written statements, determines whether a full consultation is desirable, or whether the statements alone are sufficient to meet GATT requirements.

During 1978, the committee carried out full consultations with Finland, Israel, Pakistan, Turkey, Brazil, and India. The committee recommended that Finland phase down its restrictions consistent with its improved balance-of-payments position. It noted that Israel was taking unprecedented liberalization measures, even though it ran large deficits and foreign debts. Consultations with Pakistan led to a better understanding of that country's financial problems. The committee suggested that Portugal phase out its import surcharges as its BOP position improved. With respect to Turkey, the committee recognized that further trade liberalization could be taken only after the current payments imbalance had been reduced. The committee concluded that the Indian economy showed positive developments and that liberalization of the import regime had taken place. The committee noted that Brazilian import restrictions could not be fully justified under Article XVIII:B.

Examination under simplified procedures was deemed sufficient in the case of Bangladesh, Ghana, Yugoslavia, and Greece. With respect to Korea and Tunisia, full consultations were scheduled for 1979.

Other GATT activities

During the year, GATT working parties examined a number of regional agreements. Following a working party on the Bangkok agreement, 1/ the Contracting Parties decided, notwithstanding the provisions of Article I, that this preferential agreement could be implemented subject to certain provisions, the most important being that the agreement not raise barriers to the trade of other GATT members. Similarly, the Contracting Parties agreed that India, Egypt, and Yugoslavia could continue to implement a preferential agreement between themselves. A working party also studied agreements between the EC and Egypt, Syria, Jordan, and Lebanon. These agreements, of indeterminate duration, permit a preferential access to the EC market. In general, the parties to the agreements considered them consistent with the objectives and provisions of the GATT, while other working party members

1/ Officially titled "First Agreement on Trade Negotiations Among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific."

doubted that the agreements were entirely compatible with the GATT. The working party noted that these agreements between the EC and these four countries should be kept under careful review. The Council agreed to refer a Finnish-Polish agreement providing for reciprocal removal of obstacles to trade between them to a working party. Under the terms of Hungary's accession to the GATT, a working party also reviewed trade with Hungary.

The GATT maintains an International Meat Consultative Group, which provides a forum for consultations on meat policy developments and information exchange on the world market for meat and cattle. About 30 countries, including the United States, participate.

Other GATT activities included the granting of time limit extensions to conclude negotiations in the case of Brazil's and Indonesia's Article XXVIII negotiations, granting a waiver to India to continue an auxiliary customs duty for financial reasons, the granting of a waiver to Turkey to continue a stamp duty enacted for revenue purposes, and the continuation of a waiver allowing Uruguay to impose import surcharges. When it became clear that U.S. Article XXVIII negotiations on rate conversions, ceramic dinnerware, and wool-blend fabrics would not be concluded by yearend, the United States also asked for, and received, an extension.

Bilateral Agreements

While the MTN and the GATT constitute the major focus for U.S. trade agreement activities, the United States joined in bilateral trade agreements during the year. In the case of the agreement on trade relations with Hungary, Title IV of the Trade Act of 1974 sets certain conditions on trade relations with Communist countries, one of which requires the extension of MFN treatment (to countries not receiving it on January 3, 1975), only in the context of bilateral commercial agreements. In the case of the trade agreement with Taiwan, that country's lack of GATT membership dictated a bilateral agreement.

Trade relations with Hungary

On July 7, 1978, after approval by the Congress, the trade agreement between United States and the Hungarian People's Republic, signed March 17, 1978, entered into force. This agreement provided for an exchange of most-favored-nation treatment based upon the provisions of the GATT and Hungary's Protocol of Accession, to the extent that the General Agreement and its protocols are not inconsistent with the terms of the bilateral agreement. The agreement committed the United States and Hungary to take measures facilitating the exchange of goods and services, and to facilitate business operations, by, for example, the issuance of multiple-entry and exit visas to employees of commercial firms. The agreement also included financial provisions relating to trade, provisions protecting industrial property, copyrights and industrial rights and processes, and provided for government commercial offices in each other's territory. Other provisions provided safeguards against market disruption in language like that in Title IV of the Trade Act of 1974. Articles dealing with settlement of commercial disputes and national security were also provided.

The agreement is effective for three years and provides for successive three year extensions unless terminated upon written notice.

Although both the United States and Hungary participated in the MTN, the lack of full GATT relations between the two countries, and the fact that U.S. MFN treatment to Hungary is subject to periodic Congressional consideration, required that tariff negotiations between the two countries be conducted bilaterally. On November 18, 1978, the United States and Hungary agreed to an exchange of tariff concessions, to be implemented with other MTN concessions, covering some 33 million dollars' worth of U.S. exports to Hungary and about 13 million dollars' worth of Hungarian exports to the United States (1976 trade).

Trade agreement with Taiwan

On December 29, letters confirming the completion of a bilateral agreement between the United States and Taiwan were exchanged. This agreement

adopted GATT-like concepts and referenced MTN codes of conduct, although Taiwan was neither a GATT member nor an MTN participant.

The agreement provided for the exchange of most-favored-nation treatment and for the exchange of tariff concessions on products of particular trade interest to the two countries. U.S. concessions consisted of tariff reductions on products of interest to Taiwan, most of which the United States also expected to grant as part of its global concessions in the MTN. The United States also expected to extend benefits of Tokyo Round agreements on NTM's to Taiwan.

The agreement committed Taiwan to reduce tariffs on industrial and agricultural products of interest to the United States, to liberalize several NTM's and to assume the obligations arising from the Tokyo Round agreements on subsidies and countervailing duties, customs valuation, licensing, government procurement, commercial counterfeiting, and technical barriers to trade.

The letters confirming the agreement noted that future consultations on trade matters would be conducted through "appropriate channels." This agreement marked one of the last direct Government exchanges between the United States and Taiwan. On January 1, 1979, the United States granted diplomatic recognition to the People's Republic of China.

Trade agreement with India

As part of the Tropical Products negotiations, the United States and India exchanged letters confirming concessions each made. India liberalized certain restrictive licensing practices, agreed to eliminate British Commonwealth preferences, and undertook to facilitate mica exports. The United States made tariff concessions on 15 products of interest to India.

Although this agreement could have been handled under normal multilateral procedures (India is both a GATT member and an active MTN participant), the bilateral arrangement was chosen so that the concessions could be implemented in advance of the conclusion of the MTN. The first stage of the U.S. concessions became effective October 1, 1978. Total two-way trade covered by the United States and Indian concessions was about 75 million dollars.

Other bilateral agreements

As part of the Kennedy Round negotiations, the United States made tariff concessions of 3.5 percent ad valorem on papermaking machinery and parts. Finland was principally interested in these concessions. However, in 1977, as a result of a court decision, the U.S. Customs Service found it was required to reclassify papermaking machinery components under certain other more specific tariff headings which resulted in the application of rates higher than 3.5 percent ad valorem. To solve this problem and the impairment of concessions that resulted, the United States and Finland signed an agreement in July which would restore the substance of the Kennedy Round concessions by

creating new tariff lines specifically identifying certain parts for papermaking machines at a rate of duty of 3.5 percent ad valorem.

In 1978 the United States still adhered to the remnants of five bilateral trade agreements negotiated prior to the General Agreement. With El Salvador, Honduras, and Paraguay, only the general provisions, such as MFN treatment remain. The very limited agreement with Argentina was largely superseded by virtue of that country's accession to the GATT in 1976. The agreement with Venezuela was terminated in 1972, except for the continuation of U.S. concessions on crude petroleum and shale oil.

CHAPTER III

DEVELOPMENTS IN MAJOR TRADING PARTNERS

The European Community

Economic conditions improved in the European Community (EC) during 1978. Gross domestic product in real terms grew at 2.8 percent, compared with a 2.4-percent growth rate in the previous year. Industrial production also increased at a slow rate (2.3 percent versus 2.2 percent in 1977), and unemployment stabilized at 5.6 percent of the labor force. These figures reflected modest gains, but, of course, Community averages masked trends in each Member State. Unemployment continued to increase in France, for example, through the end of the year. The main political focus during the year, therefore, continued to be on the problems associated with prolonged economic crisis. Thus, the new European Monetary System (EMS) was seen in terms of its expected effects in regaining stability, growth and full employment. The Community pursued a cautious policy in agriculture, and faced another year of indecision on a fisheries policy designed to take into account the new 200-mile fishing zones.

Externally, the European Communities' Commission 1/ concluded negotiations with Greece on the terms of its entry into the EC and prepared for similar negotiations with Spain and Portugal. It signed a trade agreement with China, and began negotiations to renew the Lome Convention. With Japan, the EC continued its drive for better access to the Japanese market.

European Monetary System

During 1978 the European Community made significant progress in formulating a plan for a zone of monetary stability within Europe. At the European Summit meeting held in Bremen, in July 1978, a new plan designed to establish closer monetary cooperation among EC members was adopted. By December, all EC members except France and the United Kingdom 2/ had agreed to join. In early March 1979, France agreed to participate, and the EMS entered into force on March 12, 1979. The EMS replaced the "snake," 3/ the former EC monetary cooperation scheme.

The EMS has four main aspects: a new European monetary unit, an exchange rate and intervention mechanism, credit mechanisms, and transfer mechanisms.

European monetary unit.--The European monetary unit, called the European Currency Unit (ECU), is to be a weighted "basket" combination of all the EC currencies. At the outset, the value of the ECU was set equivalent to that of

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1/ The EC Commission is the EC's executive organ. Headed by 13 Commissioners, it administers the EC's operations. The Council of Ministers, whose members represent the Member States, is the EC's main decision-making body.

2/ The United Kingdom stated that it would participate in most institutions of the new system and might consider joining formally later.

3/ See Operation of the Trade Agreement Program, 24th report, p. 113.

the EUA, the European Unit of Account. 1/ The ECU will be used in operations of EMS exchange and intervention, and credit and transfer mechanisms. An initial supply of ECU will be provided by the European Monetary Cooperation Fund (EMCF) against deposits of 20 percent of the gold and dollar reserves currently held by participants' central banks.

Exchange rate and intervention mechanism.--Member State central bank rates expressed in the ECU will be used to establish a grid of bilateral exchange rates. Margins of permissible fluctuation will be set at 6 percent for Italy and 2.25 percent for other participants. Interventions will be made in participating currencies. Formerly, interventions were made in U.S. dollars. Interventions will be compulsory and automatic when exchange rates reach the points defined by the fluctuation margins.

The EMS also includes provision for preventive action before compulsory intervention points are reached. If a currency reaches a "threshold of divergence" fixed at 75 percent of its maximum spread, the authorities concerned will be expected to take appropriate corrective measures.

Credit mechanisms.--The intervention mechanism is to be supported by unlimited short-term credit facilities, with settlement to be made through the EMCF. In addition, existing credits for short-term monetary support and medium-term financial assistance have been increased. A European Monetary Fund designed to administer the EMS is scheduled to be set up no later then January 1, 1981.

Transfer mechanisms.--The EMS includes measures to help poorer Member States develop priority EC projects dealing with energy, industry, or infrastructure. For this purpose, a new EC borrowing and lending instrument was established in October. The Commission was empowered to contract loans up to 1 billion EUA's and to disperse the funds to eligible projects. The new European Investment Bank will administer loan applications and grants.

The ECU is not designed to replace the national currencies of the Member States. In time, however, it could become another reserve currency along with the U.S. dollar.

Industrial policy

Not all aspects of the Community's policy with respect to its internal market and industrial development can be covered here. Set out below is a summary of the EC's anticrisis plans for three industries--steel, shipbuilding and synthetic fibers--with special emphasis on the external operation of the steel plan.

Steel.--Depressed conditions in the EC steel industry in 1976-77 and accompanying serious declines in the size of the workforce led the Commission to implement a series of actions to revive that industry. Beginning with voluntary undertakings by steel firms to comply with supply targets, moving

1/ The EUA is an accounting unit used in EC financial operations. At year-end 1978, one EUA equalled 1.38 U.S. dollars.

gradually into guidance prices, and ultimately into mandatory minimum prices for a number of steel products, these anticrisis measures began to make their effects felt on the internal market. While 1977 steel production was 126 million tons--barely more than in 1975--market prices began to improve. To prevent these price increases on the internal market from attracting new imports, the Commission adopted a series of measures in December 1977 to restrain steel imports and bring them under Community price constraints.

The EC Commission established floor (or base) prices for the majority of iron and steel products, and, while attempting to negotiate bilateral agreements between the EC and major steel-exporting countries, instituted antidumping inquiries as a means of protecting its base price program. This program provided for rapid imposition of compensatory duties when monitoring of approximately 140 steel products uncovered sales below EC's calculated base price. In theory, these prices were based on the most efficient foreign producer. Ultimately, bilateral agreements were concluded with 15 major steel supplying countries covering approximately 80 percent of the Community's iron and steel imports. 1/ For countries with which bilateral agreements were concluded, antidumping investigations or the assessment of provisional antidumping duties was suspended. Definitive antidumping duties on certain products went into effect with respect to two Eastern European countries which did not join in the arrangements.

The United States had numerous consultations with the Commission on steel issues in 1978. Basically, the United States was concerned that the EC plan would lead to a proliferation of market-sharing arrangements and cartelization of the steel industry, and could lead to further such agreements in other sectors.

Although steel production in the EC increased to 132 million tons in 1978, employment in the industry continued to decline. EC Commission studies projected that for most steel products, the Community would continue to have excess capacity until about 1985, even with favorable growth levels. Faced with a need for long-range restructuring of the steel industry, the anticrisis plan was extended into 1979. Once again the EC Commission was prepared to use antidumping inquiries to increase its negotiating leverage in concluding new bilateral agreements.

Shipbuilding and synthetic fibers.--The depressed conditions in the Community's shipbuilding sector also attracted attention. Here the EC was concerned that the numerous national aid schemes of the Member States would do little to solve the long run competitive problems of the industry. The EC Commission sought to keep these aid schemes at a reasonable level and to make sure they would contribute to a restructuring. The EC Commission also examined bids when Community shipyards were competing with one another, to guard against any distortion of competition.

The EC considered anticrisis plans and restructuring proposals for a number of other industries. A cartel-like arrangement was created for the

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1/ The United States is not a major steel supplier to the EC and did not join in these negotiations.

synthetic fiber industry, in which firms agreed to reduce surplus capacity and to respond more efficiently to market demand. This arrangement, however, was found to be inconsistent with the antitrust provisions of the Treaty of Rome, and as a result, plans for the synthetic fiber cartel and other anticrisis cartels were shelved, at least temporarily.

Common agricultural policy

The European Community's common agricultural policy (CAP) was designed to support farm incomes while creating a unified market for agricultural products within EC countries. The CAP uses price supports, variable levies on imports, and export subsidies to isolate European agricultural markets from world competition. These programs are expensive; in 1978, EC agricultural programs accounted for nearly three-quarters of the Community budget.

During 1978, the CAP continued to cope with problems associated with growing imbalances, diverging currency movements, and persistent regional income disparities. To counteract growing surpluses, the 1978-1979 agricultural program limited growth in target prices for agricultural products to an average of 2.25 percent, the smallest increase since price freezes of the late 1960's. The measure was controversial because it meant lower incomes in terms of purchasing power for many farmers in northern Member States. To stimulate agricultural development in the poorer areas of the Community, the program provided for increased subsidies for production of typical Mediterranean products, such as olive oil, fresh and processed fruit and vegetables, wine, peas, and beans. The subsidies to EC processors of tomato concentrates, peeled tomatoes, tomato juice, canned peaches, and dried prunes were set at particularly high levels--so high, in fact, that the United States expressed concern that these processing subsidies would result in EC domestic production taking the place of U.S. exports of these products to the Community.

As in the past, monetary divergence continued to cause problems in 1978. As far back as 1971, the Community set up a system of compensatory charges on farm imports and rebates on exports within the Community at national borders to protect CAP programs from exchange-rate fluctuations. The system was intended to be a temporary adjustment mechanism, but, by 1978, it had grown into a complex, cumbersome, and expensive network of "monetary compensatory amounts" (MCA's).

The Council, in May 1978, attempted gradual alleviation of monetary compensatory amounts, but MCA's were again increased when revaluation of the German mark and the Benelux currencies resulted in increased divergence among EC currencies. At the end of 1978, as at the end of 1977, there was still a divergence of some 40 percent between United Kingdom market prices and the higher German market prices for agricultural products.

Structural surpluses in milk and milk products persisted in 1978. Milk production is the largest single sector in Community agriculture, involving about one-third of Community farmers. High price support levels and guaranteed sales have caused surplus milk production to be a problem ever since the common organization of the market in 1968.

In 1978, the Commission developed measures to combat the surplus. The 1978-1979 target price for milk was set only 2 percent higher than that in the previous year. The Commission proposed to suspend investment aids for milk production and continued special disposal schemes for liquid skimmed milk and skimmed milk powder.

The EC surplus in sugar production continued to grow during 1978, reaching more than 2.5 million tons in 1978-1979. During the year, CAP price supports maintained EC sugar prices at over 100 percent above world market prices. These measures resulted in U.S. antidumping investigations on sugar from Belgium, France, and West Germany in 1979.

Common fisheries policy

Since the Council of Ministers extended fishing zones to 200 miles off the North Sea and North Atlantic coasts of Member States in 1977, the Community has made little progress in establishing a joint EC fisheries policy. This remained the case in 1978.

The United Kingdom and Ireland, countries with strong regional dependence on the fishing industry, disagreed with other members on a number of issues. British demands included exclusive fishing rights for seaboard states within a 12-mile limit, a preferential position for British fishing boats within a 50-mile limit, and catches based on traditional volume beyond 50 miles. Ireland made similar demands. In July 1978, both the United Kingdom and Ireland took unilateral action, banning fishing of some species and restricting fishing net size for others.

With the introduction of 200-mile fishing zones into international law, it became necessary for the Community to negotiate bilateral agreements with nonmember countries to define conditions for mutual fishing rights. During 1978, negotiations were completed with Norway, Canada, Spain, and Finland, but the United Kingdom blocked EC signature of these agreements pending completion of a satisfactory common fishing policy. The EC maintained access to nonmembers' waters through short-term reciprocal fishing agreements.

On October 24, 1978, the Community signed the Convention on Future Multilateral Cooperation in North-West Atlantic Fisheries which deals with the conservation of fishing resources. The U.S.S.R., East Germany, and other Eastern European countries were also contracting parties. The agreement formally entered into force on January 1, 1979. A similar agreement for the Northeast Atlantic was not concluded.

Enlargement

Negotiations for Greece's entry into the Community entered a substantive phase in February 1978. At the last 1978 session, a package covering the transitional period, agriculture, social affairs and a safeguard clause was concluded. The treaty of accession was expected to be signed in 1979, after which it must be ratified by Parliaments of Greece and the nine present Member States.

The treaty calls for lengthy transition periods before full access to Community markets will be achieved. A 5-year transition period applies to most Greek agricultural products, and a 7-year period for fresh and processed tomatoes and fresh and canned peaches (all considered sensitive agricultural products in the EC). A 7-year period also applies to the free movement of Greek workers into Community States. Concessions offered by the Community included aids to certain Greek agricultural sectors, inclusion of cotton under the CAP, and concessions on wine, citrus fruits, and olive oil. Greece agreed to follow current EC rules on sugar.

Spain applied for admission to the Community in 1977. Meetings were held between the EC Commission and Spanish officials throughout 1978. The Commission adopted a favorable opinion on Spanish accession on November 29, 1978. Substantive negotiations began in February 1979. The Commission recommended a long transition period of up to 10 years, during which the movement of persons, goods, and services between the Community and Spain would be progressively liberalized. It was noted that successful integration of Spain into the Community would require extensive gradual restructuring of many areas of the Spanish economy.

On May 19, 1978, the EC Commission adopted a positive opinion on Portugal's request for EC membership and suggested that accession negotiations open quickly and unconditionally. Negotiations opened in October 1978.

The EC Commission's opinion noted that Portugal's traditional ties with Latin America, Africa, and the Far East would be beneficial, and that possible negative economic impact on existing Member States would be very limited in view of the small relative weight of the Portuguese economy.

The enlargement of the EC generated a special concern among certain segments of U.S. agriculture. They feared that bringing Greek, Spanish, and Portuguese agriculture under the CAP, with its various producer and processor subsidies, could trigger a strong production response, particularly for fruits and vegetables. U.S. farming interests are concerned that the EC would be unwilling or unable to take actions curbing the increased production, which might displace U.S. exports to the Community. In addition, the EC might make greater use of export subsidies to clear the internal market of Mediterranean fruits and vegetables.

Major U.S.-EC bilateral issues

U.S.-EC differences in the MTN, or those which moved into the GATT dispute settlement mechanism, are discussed in the appropriate sections of this report. The following issues, however, were primarily pursued on a bilateral basis during the year.

Rules of origin.--When the EC/EFTA free-trade area agreements were examined in GATT in 1972-73, the United States argued that the rules of

origin 1/ were stricter than necessary to prevent trade deflection, were inconsistent with GATT obligations, and would have a serious adverse effect on U.S. trade. Formal consultations began under Article XXII:2, between the United States, the EC, and EFTA representatives, but no solutions were reached.

The effects of the overly strict rules of origin became more onerous in mid-1977, when most industrial products became duty-free in EC/EFTA trade. These adverse effects were felt most strongly on U.S. exports of textile products, machinery and equipment, and chemicals.

In the MTN, the United States formally requested the EC to adopt an alternative 50-percent rule, i.e., a manufacturer in the EC or in EFTA states could comply with existing rules, or use imported materials and components up to 50 percent of the value of the finished product in order to qualify for duty-free treatment in the area. In textiles, the United States considered that a change to a single transaction criterion would help restore lost U.S. exports.

Numerous consultations were held, and a joint U.S./EC study group was established. The United States and the EC continued to differ on the effects on U.S. exports of the EC/EFTA rules, but it was clear that the EC did not intend to make revolutionary changes in the system. The EC did propose an alternative rule of 30 to 40 percent, but this was considerably less than U.S. proposals.

Reclassification of poultry meat.--During 1978, the EC proposed a tariff reclassification of poultry meat entering under the EC's tariff heading 16.02 that would exclude uncooked prepared poultry products from the 17 percent ad valorem duties and bring them under variable levies, sluice-gate prices, and other CAP mechanisms.

The United States was seriously concerned since the reclassification would bring an important U.S. export under effective rates potentially much higher than 17 percent ad valorem. Since no classification problems were known to exist before, the reclassification appeared to be part of a long-time EC pattern of reducing the relative level of U.S. poultry sales.

The issue was debated both bilaterally and in MTN discussions. By yearend it appeared that the reclassification issue would become part of an overall U.S./EC agriculture MTN settlement.

Standards of fill for beer containers.--EC directives issued in 1978 established container sizes to be permitted in free circulation in intra-EC trade. These directives, however, did not include the metric equivalent of 10-ounce and 12-ounce beer containers as standards to be permanently accepted in the Community. Indeed, these sizes, which constitute the bulk of U.S. beer

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1/ When free-trade areas are established, countries involved normally specify the proportion of imported materials, by value, from third countries which may be present in order to qualify for preferential entry. Without such rules, a strong temptation would exist to transship goods, with little or no additional processing, in order to take advantage of the preferential entry rights.

containers (and much of worldwide commerce), would only be permitted provisionally until the end of 1980.

Although U.S. beer exports to the Community are small, the EC directive was viewed as a potential nontariff barrier. U.S./EC consultations were unsuccessful and it appeared that the matter would have to await settlement in 1979.

Italian valuation practices.--U.S. textile and apparel exports to Italy were adversely affected during 1978 by a number of measures, which the United States sought to correct through bilateral consultations (and eventually the GATT dispute settlement mechanism). One particular problem was the restricted number of ports (6) into which textile imports could enter. These were increased during the year to 12, and eventually the number was increased to 18 in October 1978. The 18 ports provided access to Italian textile centers without undue transportation charges.

Issues less easily resolved included uplifts in customs valuation, delays in customs clearance, and administrative requirements which acted like non-tariff barriers. Consultations revealed that uplifts were applied predominately to textile and apparel seconds, or remnants, but the United States remained unsatisfied with a number of valuation practices on Italian textile imports. More than minor irritants, the United States considered that these practices compromised U.S. GATT rights and benefits, and accordingly, brought its complaints into the GATT dispute settlement mechanism. Bilateral consultations under Article XXIII began in the spring of 1979.

United Kingdom screen-time quotas.--The United States complained that Britain's Independent Broadcasting Authority (IBA) limited screen time for foreign programs on nongovernmental television. The United States made liberalization of such screen-time quotas a formal MTN request, and pursued the matter bilaterally with the United Kingdom. The United States argued that these screen-time quotas violated obligations undertaken by the United Kingdom, particularly in the OECD Invisibles Code, and possibly violated GATT obligations as well. The United Kingdom argued that the IBA was free to select material for television broadcasting, and could include a greater or lesser amount of British-made materials. Since the British Government required no authorization for the distribution and use of printed films for television broadcasts, it considered its obligations under the OECD Invisibles Code fulfilled. Although the United States pursued the matter bilaterally, in the MTN, and in the OECD, no solution was found.

Antidumping actions against U.S. exports.--During 1978, the EC initiated antidumping investigations against kraft liner paper and board and bleached pulp entered from the United States, Canada, and a number of other countries. In the bleached pulp case, price increases of about 30 percent prompted the EC Commission to terminate the case on the grounds that, at the new price levels, no danger of injury to Community producers existed. In the kraft liner case, the U.S. firms involved generally argued that their price actions were a defense against the more aggressive price strategies of Scandinavian firms. The EC applied provisional antidumping duties designed to bring prices of kraft liners to about $225 per metric ton. Ultimately, the cases against

Canadian and other country firms were settled on the basis of price assurances by exporters. In the case of the United States, definitive antidumping duties went into effect on September 9, 1978.

During 1978 the EC opened antidumping inquiries into polyamide and polyester yarns and vinyl acetate from the United States. These cases were pending at yearend.

Other external relations

In their yearend report to the European Council, the Member State foreign ministers considered that two of their most important topics for 1978 were the negotiation of a trade agreement with the People's Republic of China, and the negotiations to renew the Lomé Convention. These topics along with the Community's relations with Japan and Eastern Europe are discussed below.

A third topic, important because it may signal a new area for inter-regional cooperation, was the first ministerial level meeting between the EC and Member States, and the Association of South-East Asian Nations (ASEAN).

Trade agreement with China.--On April 3, 1978, the EC and the People's Republic of China (China) signed a nonpreferential trade agreement granting one another most-favored-nation treatment and putting China on the same footing as Western nations that have no special association with the Community. The 5-year agreement entered into force on June 1, 1978. The pact is the first bilateral trade agreement between the Community and a country with both a planned economy and a foreign trade monopoly; it is the Community's second bilateral trade agreement with a Communist country. 1/

At EC insistence, the agreement included an escape clause permitting emergency action against imports. China requested that "friendly consultations" be held prior to taking action in all but urgent situations. Additionally, a joint committee will meet at least once a year to examine operation of the agreement and discuss problems. A clause was included requiring China to take account of market prices when exporting goods to the Community.

Relations with Japan.--In March 1978, the EC and Japan signed a joint statement outlining measures both agreed should be taken to reduce the Community's large trade deficit with Japan. Japan agreed generally to improve access for EC-manufactured goods to Japanese markets by reducing technical barriers to trade and simplifying foreign exchange controls. Japan also stated it would aim for a 1978 domestic growth rate of 7 percent, which was considered large enough to stimulate Japanese demand for imports. Regular meetings to monitor progress were scheduled.

Specific measures taken by Japan in 1978 included unilateral tariff cuts, simplification of type approval systems for imported automobiles, acceptance of some EC preclinical test data on pharmaceuticals, and simplifying import testing procedures on diesel engines and marine equipment. Additionally,

1/ The Community has had a trade agreement with Yugoslavia since 1970.

during the year, the EC sought improved entry into Japanese markets for chemicals, pharmaceuticals and cosmetics, footwear, agricultural products, electrical and gas appliances, sanitary equipment, and automobiles. Other measures requested by the EC included easing restrictions on operations of foreign banks in Japan, closer EC-Japanese monetary cooperation and consultation, and the resolving of problems concerning trademarks, financial services, and exchange controls.

At yearend the Community considered that little progress had been made. The EC Council requested that Japan take significant measures to stimulate Japanese domestic demand and open Japanese markets to EC manufactured goods. EC statistics revealed that by yearend 1978 a substantial and growing deficit still existed. The EC trade deficit with Japan, which was $5.1 billion in 1977, had risen to approximately $6.4 billion in 1978.

Relations with developing countries.--In 1975, the Community signed the Lomé Convention, a 5-year preferential trade agreement with 46 African, Caribbean, and Pacific (ACP) States; by yearend 1978, 8 more ACP nations had acceded to the agreement, bringing total membership to 54. The agreement provided free access to the Community market for most ACP manufactured goods and some ACP agricultural products, financial and technical development aid, and a system of loans for stabilizing ACP export earnings for specified products. 1/

The current Lomé Convention, which went into force in April 1976, is due to expire on March 1, 1980. Negotiations for the continuation of the pact, Lomé II, were begun in 1978. Initial topics covered a wide range of EC-developing country concerns, including commercial cooperation, stabilization of export earnings, industrial cooperation, rules of origin, fishing rights, financial and technical cooperation, and regional cooperation, problems of least developed, landlocked, and island ACP States and agricultural cooperation. Controversy prevailed in most areas. ACP Lomé members claimed that their preferential status was being undermined by EC concessions to other countries, particularly the EC generalized system of preferences, trade accords with Maghreb (Algeria, Morocco, Tunisia) and Mashreq (Egypt, Jordan, Lebanon, and Syria) countries and the Community's Tropical Products concessions in the MTN. A human rights sanction proposed by the Community was viewed as interference in internal affairs by ACP members. Talks closed in December 1978 to be reopened in late spring 1979.

In December 1978, the EC Council adopted the Community's generalized system of preferences (GSP) for 1979. Improvement in access to EC agricultural markets and sensitive manufacturing sectors (especially textiles) was very limited. However, preferential access for nonsensitive manufactures and semimanufactures was increased 12.6 percent over 1978 levels. The real economic benefit to developing countries is hard to quantify. Since the inception in 1974 of the EC's GSP, no more than two-thirds of annual trade opportunities estimated by the EC to have been created by their GSP system have been used by developing countries. Developing countries complain that

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1/ For a description of Lomé Convention, see Operation of the Trade Agreement Program, 27th Report, p. 80. For an account of historical EC-ACP relations, see Operation of the Trade Agreement Program, 26th Report, p. 91.

the EC's GSP is of little help in areas where they have the potential for increasing exports, while it provides freer access in sectors where, because of their domestic structure, they cannot take advantage of it.

The Community also participated in cooperation agreements with the Maghreb and Mashreq countries and Israel during 1978. Agreements with Israel, the Maghreb countries, and the Mashreq countries were signed in 1975, 1976, and 1977, respectively. The agreements provide free access to EC markets for most industrial exports, concessional access for agricultural exports, and development aid and technical assistance. The United States has watched these agreements carefully because they provide preferential access on certain competing products which otherwise might be supplied by the United States. The United States is particularly concerned that increased EC preferences for citrus products would put U.S. exporters at a further disadvantage in the EC market.

Formulation of several development aid projects in these countries was completed during 1978, but financing was delayed because the Community had not yet adopted regulations concerning financial and technical aid to non-associated developing countries. Voluntary arrangements limiting textile exports to the EC from Morocco and Tunisia were extended through the end of 1981.

The effects of EC enlargement on the preferential treatment of Mediterranean farm produce from the countries noted above were discussed during 1978. Negotiations to adapt the cooperation agreements to new conditions after Greek entry into the Community are scheduled through January 1, 1981. The results of these negotiations could set a precedent for dealing with the more serious consequences of Spanish membership, whose economy is relatively larger, and whose exports to the EC are more directly competitive.

Japan

In 1978 the Japanese economy grew only slightly faster than it had in the previous year, the gross national product (GNP) reaching 211 trillion yen (approximately 1 trillion dollars at the average 1978 exchange rate). Real growth was 5.6 percent compared with 5.1 percent in 1977 and the 10.5 percent average annual growth prevailing before the petroleum crisis of 1973-1974. The export sector, traditionally the growth leader in the economy, faltered during the year primarily because of the impact of the appreciation of the yen relative to currencies of Japan's major trading partners. The yen value of exports dropped by about 5 percent, showing particular weakness in the second half of the year. It is estimated that this decline in exports reduced real growth in GNP by about 0.8 percent. Despite only slow expansion in the volume of exports, the value of exports in terms of the devalued dollar grew 21 percent and the merchandise trade surplus reached the unprecedented level of $18.3 billion, leading to continued international concern.

Japanese industrial production increased by 6.1 percent during 1978. Iron and steel production grew at a rate of only 1.9 percent, and capacity utilization remained particularly low in spite of Government-encouraged phase-out of excess and less efficient production facilities. As about 30 percent of Japanese iron and steel production is exported, the U.S. trigger-price mechanism and similar European and Canadian measures may have contributed to the poor showing of this sector. Employment of regular workers dropped in nearly all industries as the rate of unemployment climbed to a record 2.3 percent. In response to the weakened level of economic activity, the Diet passed legislation allowing the establishment of cartels under Government guidance in those industries--steel, aluminum, shipbuilding, and synthetic textiles--suffering most from the structural recession. These cartels, with official direction, would attempt to rationalize the industries involved through controlled reduction in excess capacity, limitation on new investment, and the introduction of new product lines.

Reacting to yen appreciation

The Japanese yen was valued at 242 per U.S. dollar in January 1978 after having appreciated in world markets at an accelerating pace from 300 yen per dollar in early 1976. The yen continued to climb vis-a-vis most currencies until after late October 1978 when its spot market value reached 176 per dollar. The dollar received support from the Bank of Japan during this period in an effort to maintain stability and order in the exchange markets. The dollar equivalent of all foreign exchange holdings by the Bank of Japan increased from $23.4 billion in January to $33.0 billion in December reflecting extensive intervention through the buying of dollars, most notably in March and November of 1978. In the latter month, when the United States announced its intention to defend the dollar against further depreciation, the yen rate began to retreat from its record levels and ended the year at 195 yen per dollar.

The 23-percent appreciation during 1978--55 percent since January 1976--was expected to ultimately lead to restoration of balance in Japan's current account. This improvement would result from the stimulation of Japanese

domestic demand for imported goods, which had become less expensive to the Japanese buyer, and the simultaneous suppression of foreign demand for Japanese goods, which had become more expensive outside of Japan. Only the length of time required to achieve this result was in question.

Upon closer examination, it appears that the Japanese trade imbalance proved less susceptible to correction through exchange rate changes than was first believed. Approximately 70 percent of Japanese imports have been primary commodities, raw materials, and food, most of which traditionally have been purchased under long-term, dollar denominated contracts and have a low shortrun price elasticity of demand. The immediate effect of the yen appreciation appears to have been reduction in the yen price of these goods but not a substantial increase in the quantities purchased. Secondly, the high level of raw material inventories and the slow growth in industrial activity through 1978 held down growth in the dollar value of imports of primary commodities to about 3 percent. Finally, the lower cost of imports of both raw materials and consumer goods increased the profits of manufacturers and the middlemen in the complicated Japanese distribution system, but were not passed through, to a significant extent, to the consumer level. Imports of manufactured goods did increase by nearly 40 percent, but, because of their small share in the total and the offsetting effects noted above, the dollar value of all imports increased by only 12 percent.

On the export side, the demand for Japan's goods remained high in spite of the exchange rate adjustments. Higher rates of inflation in the United States allowed Japanese products to remain competitive at elevated prices while increased U.S. consumption boosted demand for many products to record levels. Valued in yen, the level of total Japanese exports showed a 5-percent decline compared with 1977 levels, as noted earlier, but valued in dollars, Japan's exports recorded a 21-percent increase compared with 1977 exports.

The Strauss-Ushiba Agreement

The large increases in Japan's trade surplus through 1977 led to highly publicized negotiations between the United States and Japan culminating in an agreement signed in January 1978 by the Special Representative for Trade Negotiations, Ambassador Robert Strauss, and Japan's Minister for External Economic Relations, Nobuhiko Ushiba. In this agreement, each nation pledged itself to undertake certain general and specific measures to smooth trade difficulties without resorting to protectionism. The United States stated its intention to pursue noninflationary growth policies and to improve its balance-of-payments position chiefly through petroleum conservation measures. Japan promised to take "all reasonable and appropriate measures" to achieve a 7-percent real growth rate for fiscal year 1978 (beginning Apr. 1, 1978) and to ease its barriers to trade. The latter promise included unilateral tariff cuts in advance of those which might be agreed to at the MTN negotiations, the favorable consideration of deeper-than-formula tariff cuts on products of U.S. export interest, removal or relaxation of quota controls on a number of products, more open Government procurement policies, expanded official import credits, and a review and reform of its foreign exchange control system.

Japanese officials predicted in early 1978 that these measures would reduce Japan's current account surplus in FY 1978 to $6 billion from the $14 billion of FY 1977.

The growth rate target.--The Japanese Government opted to stimulate domestic growth primarily through the acceleration and expansion of its public works program funded by large-scale deficit spending. Seventy percent of contracts for planned projects were placed in the first half of the fiscal year. Bond issues by the Government increased to a record 11 trillion yen, (37 percent of the budget) to finance the projects. The money supply was allowed to increase by a nominal 13 percent over 1977 while, in March 1978, the Bank of Japan dropped its discount rate from 4.25 percent to 3.5 percent. Other interest rates also declined significantly owing to the promotion of low rates by the central bank. The Government directed utility companies, which had profited from appreciation of the yen, to pass through some of the windfall gains to consumers in the form of price adjustments.

By the third quarter of 1978, the fiscal stimulus proved clearly insufficient to produce a 7-percent growth. In September, the Diet approved a supplementary budget. This package of 2.5 trillion yen, comprising the same elements as the earlier stimulus, took effect too late in the year to produce significant results by yearend. Real growth in GNP reached 5.6 percent in calendar 1978.

Tariff reductions and quota liberalization.--As a result of the joint agreement with the United States, tariff cuts averaging about 23 percent on over 300 tariff items were placed in effect on April 1, 1978, well in advance of Japan's expected MTN concessions. These items included several of particular interest to the United States: The Japanese duty of 6.4 percent ad valorem on automobiles was eliminated (without Japan being willing to bind its tariff at that level), the duty on main-frame computers was reduced from 13.5 percent ad valorem to 10.5 percent, and the duty on color film was reduced from 16 to 11 percent. The Government also removed quota controls on 12 products and enlarged the import quotas on beef, citrus fruits, and citrus juices.

The Japanese Government agreed to expand the quantities of beef allowed entry into Japan under the beef quotas. The smallest category, hotel beef, was raised from 1,000 to 3,000 metric tons for 1978. The high-quality beef quota, of which the hotel category is a part, was raised by 10,000 metric tons on a global basis. Japan stressed that this level was not a firm commitment but only a target level dependent upon domestic market conditions. The United States traditionally supplied about 80 percent of the quota of high-quality beef, whereas the U.S. share of the general beef category was estimated at only 8.5 percent of the 85,000 metric tons allowed to enter Japan in 1977. Australia and New Zealand are the other principal suppliers of beef to Japan. Through the first 9 months of the quota year virtually the entire increase of 6,200 metric tons in high quality beef imports was accounted for by beef from the United States. It is expected that the same will hold true for the remainder of the quota year.

Japan increased its quota on oranges from 15,000 to 45,000 metric tons in accordance with its commitment to the United States. U.S. exports, valued

at $21 million (f.a.s.), in 1978 accounted for most Japanese imports of this product. The quota for concentrated orange juice was increased from 1,000 to 3,000 metric tons and for grapefruit juice from zero to 1,000 metric tons.

Import expansion.--The Government of Japan also proposed a program of emergency importation, which was expected to produce an immediate improvement in the trade balance. This program included:

1. The purchase of crude oil to be stockpiled on unused tankers;

2. The repurchase of Japanese-owned ships under foreign registration;

3. Large purchases of iron ore pellets for stockpiling;

4. Purchases of commercial aircraft for subsequent lease to foreign airlines; and,

5. Advanced payments to the United States for future deliveries of enriched uranium and uranium ore. 1/

The program would largely affect the current account in 1978 and 1979 at the expense of future imports. The budget for such emergency imports was $4 billion for 1978, but by yearend, actual expenditures were estimated at $2.2 billion.

Export restraints.--The Japanese Government announced in April 1978 voluntary guidelines which would restrain exports of steel, automobiles, television receivers, and ships to the quantities of the previous year. In addition, the Ministry of International Trade and Industry (MITI) would monitor exports of watches, cameras, motorcycles, and copiers. Some manufacturers, notably, several smaller automobile producers, announced that they would not observe the voluntary restraints. At yearend, Japanese exports of motor vehicles had exceeded the 1977 level; such exports had increased 5.9 percent to 4.5 million vehicles and were up 34.4 percent in value to $15.5 billion. Voluntary guidelines, perhaps coupled with import restraint measures in other countries, were more effective with regard to other products. Exports of iron and steel products, at 31.1 million metric tons, were 9.2 percent below the 1977 level; exports of television receivers were down 11 percent to 8.3 million units, and exports of vessels were down 29 percent to 9.3 million gross tons.

Long run measures to affect the current account surplus.--A series of trade promotion efforts were initiated to bring about increased imports from Japan's trading partners. These efforts were expected to remain effective over the mid- to long-term. Early in 1978, a highly publicized Japanese buying mission visited the United States and reportedly generated nearly

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1/ Such payments would enter United States statistics as a current account item, but would not be reflected in U.S. merchandise trade statistics until the delivery of the uranium was complete.

$2 billion in purchases. Significantly, the proportion of manufactured products included in these purchases was about double the proportion of such products in Japan's total imports for 1977.

A Japanese forest products group visited the United States for discussions with U.S. Government and industry representatives. The purpose of this mission was to lead to increased U.S. exports and to the harmonization of U.S. and Japanese quality standards on forest products. Subsequently, the Japanese forestry agency revised certain standards to essentially U.S. equivalents.

Measures of less direct impact on the trade surplus included the establishment in Tokyo of a permanent exhibition of U.S. products (to be opened in 1979), a visit to Japan by an export development mission led by the U.S. Secretary of Commerce, and over 200 seminars jointly sponsored by the Department of Commerce and the Japanese External Trade Organization (JETRO) to aid U.S. businessmen in their trade with Japan.

During 1978, the Japanese Government began to examine possible disincentives to trade imbedded in its financial regulations and policies. A thorough review of foreign exchange restrictions was initiated with the intention of proposing a restyled control system to the Diet in early 1979. Reflecting the severe balance-of-payments difficulties faced by Japan in the early postwar period, existing Japanese laws prohibit international transactions in principle--that is, payments for imports are prohibited without specific approval of the Government. New proposals would reverse this approach and establish a system which would permit such transactions unless specifically prohibited.

The Bank of Japan relaxed quantitative restrictions on the volume of qualified yen import settlement bills it would accept as collateral for loans at the official discount rate of 3.5 percent. Import financing was made easier through longer term, lower interest loans from Japan's Export-Import Bank and through an increase in funds available to the Bank. Imports of special interest to the United States which are eligible for this financing include aircraft, medical equipment, and helicopters. In March 1978, restraints were placed upon foreign purchase of Japanese bonds, and the reserve requirements for nonresident free yen accounts were increased in moves which were designed to further inhibit the inflow of short-term capital.

Adjusting to new economic conditions

In response to the changing competitive position of Japan's export sector and the slow growth in domestic demand, the Japanese Diet passed legislation in May 1978 designed to ease the transition of industry to new economic conditions. This legislation addressed three issues: structurally depressed industries, unemployment in those industries, and medium- and small-firm problems in depressed geographical regions.

By yearend 1978 only the "Structurally Depressed Industries Law" had been put into effect. This law enables an industry meeting specific requirements relating to substantial capacity underutilization, high unemployment, and low profitability, to be designated as "structurally depressed" upon application of at least two-thirds of its firms. The particular Government ministry with responsibility for that sector then determines reductions in capacity for each firm, establishes restrictions on new investments, and is empowered to guide firms into new product lines. A fund initially capitalized at about 10 billion yen was expected to provide loan guarantees to aid in this adjustment process. The Japanese Fair Trade Commission has authority to limit these cartel-like arrangements if it judges them to be excessively anticompetitive.

During July and August 1978, four industry groups--small-scale steel-making, aluminum smelting, shipbuilding, and certain synthetic fiber manufacture--were designated as structurally depressed and therefore eligible to receive Government guidance in rationalization. Other industries which had petitioned under the law by yearend included cotton spinners, ferroalloy producers, and the manufacturers of several types of chemical fertilizers.

Under a "Basic Stabilization Plan" for the small-scale steel industry published by MITI in August 1978, facilities with a total annual productive capacity of 2.85 million metric tons were to be scrapped or idled by the end of March 1979, and no new facilities or remodeled old facilities were to be added until April 1981. Similar plans were announced for synthetic fibers and shipbuilding, cutting capacity of the former by 10.5 percent to 17 percent and the latter by 35 percent.

These programs appear intended to lengthen the adjustment process and thereby to spread the burden throughout the industry rather than leaving it centered entirely upon the weakest firms. Reportedly, the measures would not preserve weak industries indefinitely nor would they stimulate new investment in export-oriented production. Rather, they would contribute to balancing the trade account by encouraging the contraction of less competitive industries, which presumably would lead to increased imports of competing goods. The measures have also served to blunt protectionist pressures, notably from the synthetic fiber and aluminum industries.

The Joint Trade Facilitation Committee

The Joint Trade Facilitation Committee (TFC) was established in late 1977 following discussions between the U.S. Secretary of Commerce and Japanese Government officials. The Committee is intended to serve in two general areas:

1. To identify and resolve actual or anticipated problems encountered by U.S. exporters to Japan arising from official Japanese practices, regulations, or procedures and to study or review other issues related to market access in Japan with the intention of recommending changes;

2. To promote and encourage the expansion of U.S participation in the Japanese market through trade promotion activities in both the United States and Japan.

The TFC comprises three groups located in Washington and Tokyo. The Senior Review Committee, co-chaired by the Assistant Secretary of Commerce for Industry and Trade and the Director General of the International Trade Administration Bureau of MITI, is the oversight body. The Tokyo Group, through direct access to Japanese Government officials, attempts to develop practical solutions to the problems presented to the TFC. The Washington Support Group channels case problems and necessary information to the Tokyo Group.

Specific problems can be raised by any of the TFC groups, by business firms or trade associations, or by the U.S. Embassy in Tokyo. The TFC format provides for resolution of problems which are a direct result of Government actions such as those arising from Japanese Government procurement procedures and practices, arbitrary administration of health safety standards, administrative guidance by Government agencies, or restrictive customs procedures. Following the acceptance of a case as appropriate for this format, and the completion of all necessary background and supporting information, the case is communicated to the Tokyo Group for disposition. Action there generally takes the form of consultations with representatives of the Japanese Government agency having authority over the problem area with the goal of eliminating the identified barrier. Each solution is, therefore, specific to the case under study and is not considered applicable to other cases which may be similar. It is expected, however, that recommendations will emerge with respect to broad Japanese practices, procedures, and regulations which have a trade restrictive component. These recommendations are to be presented to the Government of Japan for further consideration.

At yearend 1978, the TFC had received 52 complaints judged appropriate for resolution through the committee. Most of these cases had not yet been officially referred to the Tokyo Group for resolution because of incomplete preliminary information. Nine cases were considered by the committee to have been resolved favorably while six were the subject of discussions between the TFC and the representatives of the various Japanese agencies having authority over the issue at hand. The cases which had been resolved by yearend involved complaints concerning administrative guidance intended to discourage imports, customs classification, product approval procedures, restrictive procurement by Government agencies, and commodity taxes. Cases outstanding at yearend involved:

1. Increases in the rates for leased telephone lines charged by the Nippon Telephone and Telegraph Corporation (NTT) which were felt to adversely affect the sales potential of certain U.S produced low-speed telecommunications equipment while making more attractive the high-speed Japanese equipment purchased through NTT;

2. Administrative guidance believed intended to discourage imports of diammonium phosphates (fertilizer) thereby providing a protected market for domestic producers;

3. Changes by the National Health Insurance System in reimbursement for kidney dialysis which discriminate against the use of the type of dialyzer supplied primarily from the United States in favor of the type supplied primarily from Japanese producers;

4. Delays of several years in obtaining approval for a new test to detect hepatitis from the Ministry of Health and Welfare felt intended to allow Japanese laboratories sufficient time to develop a competing test; and,

5. Import restrictions and discriminatory pricing policies of the Japan Tobacco and Salt Monopoly which prevent adequate access to the large Japanese market by U.S. cigar and cigarette manufacturers while protecting a high-cost, inefficient domestic industry.

One major difficulty facing the TFC is that not all Japanese agencies are fully cooperative with the committee. Some agencies see their primary responsibilies directed to the internal economy and hold a detached view toward foreign trade considerations. Trade barriers involving agencies with this orientation have proven to be significantly more difficult to eliminate than those which are the sole responsibility of MITI.

Trade Study Group

The Trade Study Group (TSG) is a joint committee of representatives of the Japanese and United States Governments and of nongovernmental organizations such as the American Chamber of Commerce, Japan, and the Japanese Federation of Economic Organizations (Keidanren). The mission of the group, which reports through the Trade Facilitation Committee, is to identify and analyze barriers to trade with Japan and to recommend methods to remove them. The TSG is not intended to directly participate in the resolution of specific problems before the TFC, but to work toward the consensus solution of broader issues.

The TSG has concentrated its efforts on analysis of five major types of manufactured products: automobiles, chemicals, electrical appliances, heavy electrical equipment, and tractors. The report on electrical appliances identified several areas in which Government policy acts as a deterrent to trade or in which the Japanese system of distribution and retailing hinders free access to the market. Governmental deterrents include difficulty in determining changes in safety specifications, lack of official English language translation of these requirements, and the requirement that only the importer can obtain approval of a particular design. The report also noted that the Japanese system of high-margin franchised dealer networks effectively prevents new firms from entering the market without a high-cost long-term investment. Following the TSG report, MITI announced plans to alleviate many of the deterrents identified by the report. These plans include measures which would allow U.S. manufacturers to arrange testing and certification of a product by an approved Japanese laboratory in advance of importation. In order to comply with existing legislation, final approval will continue to be

obtained only after application by the importer. Existing legislation is intended to insure that an agent under Japanese jurisdiction is available to bear responsibility in the event of a harmful safety defect. MITI also has arranged for admission of a representative of U.S. appliance exporters to the electrical standards advisory board and for the publication of an official translation of specifications.

The TSG report on automobiles identified several areas which tended to deter the importation of U.S.-produced vehicles into Japan. The report noted that: (1) standards and regulations were often subjectively applied with few gains to either performance or safety; (2) taxes and licensing fees based on engine and vehicle size resulted in de facto discrimination against larger (generally U.S.) automobiles; (3) regulations required each vehicle to be individually approved before obtaining Japanese certification rather than permitting type approval on the basis of model specifications and the testing of sample vehicles. Following the TSG report, an ongoing series of meetings of interested parties was initiated under the auspices of the Trade Study Group with the goal of reaching broad solutions to the automobile issue.

Measuring the results

Despite the cooperative efforts of Japan and the United States, by yearend 1978 Japan's merchandise trade account, according to the Ministry of Finance, showed a global surplus of $18.2 billion. The imbalance with the United States was $10.1 billion and that with the European Community was also unacceptably high. One favorable trend, however, was the increase in manufactured goods as a share of total imports from about 21 percent in preceding years to about 28 percent in 1978. The current account showed a surplus of $16.5 billion in 1978 as Japan's traditional deficit in services and transfers was insufficient to counteract the extraordinary growth in the trade surplus. This 50-percent increase in the current surplus over 1977 stood in stark contrast to the 30-percent decrease foreseen at the time of the Strauss-Ushiba Agreement in January 1978. Indications at yearend, however, were that this imbalance would diminish during 1979, as the monthly surpluses in the final quarter of 1978 were considerably smaller than they were a year before.

Other trade developments

In February 1978, after year-long negotiations, an agreement was reached between Japan and the People's Republic of China concerning long-term trade agreements. The 8-year pact calls for two-way trade valued at $20 billion evenly divided between the two countries. During the first 5 years, Japan agreed to purchase from China about 47 million metric tons of crude oil and about 8.5 million metric tons of coal for steelmaking and power generation. The prices of these commodities are to be negotiated yearly and based on international prices. The Chinese agreed to purchase plant and technology valued at $7 to $8 billion and construction material and equipment valued at $2 to $3 billion. The agreement thereby secures for Japan a long-term source of supply of necessary raw materials and, for China, certain modern industrial production facilities and technology.

The Sino-Japanese agreement is expected to benefit Japan's steel industry, currently suffering from over-capacity, although the benefits to the refining industry are less certain. Japanese steelmakers were already participating in the construction of a Chinese steel plant having a capacity of at least 6 million tons annually, and were expected to gain by substantial sales of construction supplies called for in the agreement. However, Japan's refineries will be required to accept crude oil high in paraffin content, which will require significant Government participation in the development of appropriate refining facilities.

The time lag between immediate Chinese purchases and future Japanese purchases required official Governmental financing of the Japanese sales. The terms of such financing were uncertain through the year because of Chinese reluctance to accept conventional long-term credits from Japan. Japan refused to grant loans at the concessionary rates requested by China on the grounds that such action would be a violation of the agreement on import-export credits reached with other OECD countries, placing a floor of 7.25 percent on such loans. By yearend 1978 China had relaxed its objections to conventional terms, and the issue became less significant.

Two-way trade between Japan and China totaled $5.1 billion in 1978 with a $1 billion surplus in Japan's favor. Exports to China increased by 57 percent to over $3 billion while imports from China increased 31 percent to $2 billion.

Two-way trade between Japan and the EC totaled $17.2 billion. During early 1978, Japan and the EC reached an agreement similar to the Strauss-Ushiba Agreement, in which Japan reiterated its commitments to reducing the current account imbalance (see p. 79).

Canada

In 1978, low rates of economic growth continued in many industrialized countries, including Canada. After declining from 5.8 percent in 1976 to 2.7 percent in 1977, Canada's annual growth rate in real GNP advanced in 1978 to about 3.4 percent, a rate somewhat below that of the United States, better than that of the EC, but well below that of Japan.

Canada's economy continued to be strained by political uncertainties. The movements for an independent Quebec had not abated, and general elections were in prospect. Against major currencies, the value of the Canadian dollar was declining faster than that of the U.S. dollar, and at yearend 1978, the ratio of the Canadian dollar to the U.S. dollar stood at 1.17, compared with 1.09 at yearend 1977.

Increases in wages and prices were constrained within the sluggish domestic economy, and although the ratio of employment to population reached a record high, an unemployment rate of over 8 percent persisted.

The Canadian Customs Tariff

The Canadian customs tariff has been the target of numerous trade complaints. Except for the chemical and plastic products sections, which were revised January 1, 1969, along the lines of the Customs Cooperation Council Nomenclature (CCCN), the Canadian tariff follows a unique national nomenclature. Various trading nations have complained that many of the Canadian tariff product descriptions are inadequate and not systematically grouped. An absence of general interpretive rules and legal notes is a further complicating matter.

In addition, numerous intended-use classifications, references to classes or kinds of products "made in Canada," seasonal rates, and temporary classifications allowing low-duty or duty-free treatment on certain imported parts or components, make it difficult for traders to know in advance where their merchandise will be classified.

Structure.--Since 1974, the Canadian tariff has provided four rate columns. British preferential rates are applied to imported merchandise from British Commonwealth countries (with the exception of Hong Kong). 1/ Some Commonwealth countries have negotiated trade agreements with Canada that provide rates of duty on certain specified articles at rates lower than the British preferential rates. A second column provides most-favored-nation rates of duty applicable to countries with which Canada has trade agreements. A third set of rates, the "general tariff," is applicable to imports from a few countries with which Canada has no trade agreements. Finally, a general preferential tariff, reflecting Canada's participation in the Generalized System of Preferences, provides lower rates (one-third less than the MFN or British preferential rate, whichever is less) on eligible products entered from developing countries. Rates of duty are most frequently expressed in ad valorem terms, although some specific and compound rates are provided.

1/ With the United Kingdom's entry into the EC, preferential rates on British goods are being phased-out.

The disparity problem.--Although a large portion of total imports enter duty-free, Canada has been regarded as a high-duty country. In part because it did not participate as a formula country in the Kennedy Round, Canada's trade weighted average tariff on industrial products was the highest (15.5 percent ad valorem equivalent) of the major MTN participants. While most U.S. dutiable imports from Canada were assessed rates less than 10 percent AVE, most U.S. exports to Canada were assessed duties above 10 percent AVE. This situation has given rise to frequent complaints by U.S. manufacturers concerning disparities between U.S. and Canadian rates of duty on comparable products. Disparity complaints have been particularly numerous in the machinery and metal products sector, although the problem is pervasive. Thus, the reduction of tariff disparities became an important U.S. objective in the MTN.

Tariff actions.--Much more than in the United States, Canada uses its customs tariff as an active element of commercial policy. Canadian tariff provisions are frequently changed by Orders in Council, with proposals for change coming from the Department of Industry, Trade and Commerce, the Canadian Tariff Board, the Antidumping Tribunal (whose authority covers more than antidumping activities), and other agencies as well. Among tariff actions taken by Canada in 1978 were:

British preferential rates were withdrawn on imports from the United Kingdom and Ireland on confectionery, certain cranes, certain diesel engines, certain apparatus for television transmission, and knitted garments and fabrics.

Temporary tariff cuts first introduced in 1973 were again extended, with some exceptions, on a wide range of consumer goods including prepared food items, pharmaceuticals, typewriters, vacuum cleaners, power lawn mowers, and cameras and projectors, among many others.

Duty-free treatment on aircraft and aircraft engines of types and sizes not made in Canada were extended.

Certain gasoline engines for use in the manufacture of wood-splitting machines were allowed duty-free entry until June 30, 1979.

Petrolatum for use in the manufacture of microcrystalline laminating wax was allowed duty-free entry until June 30, 1979.

Valuation.--In general, the Canadian Customs Act provides that the value for assessment of duties shall be the fair-market value of like goods established in the home market of the exporter, with provisions to cover variations in time, quantity, and quality between domestic and export sales. Such a valuation system is considered to have a protective effect apart from the rates charged, because it can include costs in the valuation base that might not be applicable to products produced for export. As negotiations on a valuation code moved forward in the MTN, Canada sought derogations from the

code to cover job-lot or end-of-season sales, used or obsolete goods, and parts and packing materials to be used in the importing country. As negotiations progressed, the protective effect of Canadian valuation practices became more obvious, and the United States became particularly interested that Canada adhere to the valuation code.

Made in Canada/Machinery Program

A major irritant to United States-Canadian trade relations has been the Canadian Machinery Program and Canadian tariff provisions that provide different rates if a particular product is made in Canada. Under the Machinery Program, a 15 percent ad valorem duty applicable to a broad grouping of machines and parts may be remitted if a like article is not available from production in Canada. Under numerous tariff headings, more favorable tariff treatment is applied to products of "a class or kind not made in Canada." The tariff manipulation made possible by these provisions is intended to stimulate domestic Canadian production while allowing access for needed imports. Trade complaints are generated, however, when dutiable status changes as a result of a determination that a comparable product is available in Canada. The uncertainty of the system, of itself, has hindered trade.

Eliminating, or at least greatly reducing, the scope of these provisions (particularly those related to the Machinery Program) was a key point for the United States in both bilateral negotiations and in the MTN. Canadian negotiators, however, defended the program as a rational attempt to encourage specialization and provide for a substantial flow of duty-free imports. When it became evident that Canada was not prepared to abandon the measures, the United States sought to: (1) increase the number of tariff items where duty-free treatment would be provided by asking Canada to establish separate GATT-bound rate lines for such items; (2) reduce the rate applicable to machinery articles that would remain in the program; (3) negotiate an acceptable trade-weighted average between duty-free and dutiable machinery articles that would remain within the program, and (4) obtain administrative improvements in the operation of the program so as to lessen its uncertainty. At yearend, it appeared that a satisfactory solution, short of complete elimination, was a likely outcome.

Automotive Program

The basic objectives of Canada's Automotive Program were incorporated in the complex provisions of the bilateral U.S.-Canada agreement on trade in motor vehicles and original-equipment parts (except tires and tubes mounted on completed vehicles) negotiated in 1964. That agreement recognized that the production of, and markets for, these products could be expanded through reciprocal removal of tariffs and other impediments to trade. Unlike the United States, however, Canada extended its duty-free treatment of products covered by the agreement to other trade partners on a most-favored-nation basis. In recent years, its imports from third countries have increased.

Since the conclusion of the agreement, Canada's small industry and small domestic market have grown, as have its exports. Canada and the United States

became each other's main foreign market in these products. Depending on the data used, the United States in 1978 was in deficit in this trade with Canada by about $2 billion, which was attributable mostly to trade in assembled vehicles. On the other hand, Canadian interests point to a trade deficit in motor vehicle parts (by U.S. statistics about $1.0 billion) which was blamed by Canadian parts manufacturers and labor unions for increased unemployment of unskilled workers.

The economic impact of this important cross-border trade has been the subject of frequent discussion, inquiry, and controversy. In 1978, officials of the U.S. Government and their Canadian counterparts consulted on the auto pact. Canadian perceptions were largely that Canada was not receiving its "fair share" of economic benefits under the agreement, and that, to counter inducements by U.S. states, joint federal and provincial cash incentives were required to secure auto industry investment in Canada. The United States was particularly concerned since a pattern of accelerating investment incentives to attract production into Canada was developing, which could possibly threaten the auto agreement itself. In addition, a new Canadian duty remission scheme for Volkswagen parts could lead to countervailing duty petitions being filed, which could seriously disrupt United States-Canadian trade relations. In meetings held in August 1978, both sides agreed that competitive investment incentives were undesirable, that the North American auto industry and existing investment incentive programs by various levels of Government should be reviewed, and that each side should inform the other of major incentive investment decisions. A joint working group on incentives met again in September, and negotiations to resolve a potentially explosive trade issue continued into 1979.

Antidumping activities

Canada's antidumping legislation provides for an Antidumping Tribunal, charged with broad responsibilities to inquire into, and to report on, any matters that may cause or threaten injury to Canadian producers. It has the specific mandate to make determinations with respect to material injury in case of imports of dumped goods. In 1977, countervailing duty regulations were issued that specifically provided for Tribunal procedures for investigating injury from imports benefiting from foreign subsidies.

During 1978, according to the annual report of the Tribunal, the Tribunal made no inquiries into injury caused by subsidized imports or any other inquiries under its general authority, but under its antidumping mandate it completed five cases, initiated 11 inquiries, and issued orders rescinding four earlier findings of material injury. At yearend, four antidumping inquiries were in progress. Tribunal actions in 1978 that concerned products of or exported from the United States are listed in the following tabulations:

Product	Date	Finding
Maleic anhydride from the United States, West Germany, France, Italy, Belgium, and Japan.	Jan. 2, 1978	Likelihood of material injury from the United States, West Germany, and Italy.
Slate-bed billiards, pool and snooker tables from the United States.	Feb. 10, 1978	Material injury
Vinyl-coated fiber glass insect screening.	June 30, 1978	Material injury rescinded.
Disposable glass culture tubes.	Aug. 4, 1978	Do.
Refined glycerine produced by Ashland Chemical Co., United States.	Dec. 12, 1978	No material injury
Integral horsepower induction mortors originating in or exported from the United States.	--	Pending
Asbestos cement pressure pipe exported by or on behalf of Cement Asbestos Products Co., Birmingham, Ala.	--	Pending

Energy policy

Canada has been both an importer and an exporter of oil and electric power, an exporter of natural gas and coal, and a major world supplier of uranium. The country's per capita rate of energy consumption is relatively high, and it has been directing efforts toward eventually achieving self-sufficiency in energy.

Canada's national energy policy has centered on promoting conservation through limiting growth of domestic consumption and increasing reliance on domestic resources. Measures have been taken to phase out exports of crude oil, to reduce dependence on oil from the Middle East by negotiating increased importation from Mexico and Venezuela, to increase home consumption of domestic coal, to permit domestic oil and gas prices to move toward international levels, to maintain self-sufficiency in natural gas, and to step up investment in exploration and technological development.

Canada's National Energy Board, assisted by Petro-Canada, has controlled the exportation and importation of oil, gas, and electric power and has set export prices of natural gas and export taxes on crude oil. Exports of oil and natural gas have been permitted only when exportable surpluses have been

perceived to exist. All of Canada's exports of crude petroleum and natural gas have gone to the United States but have accounted for a very small share of U.S supplies.

Canada exports crude oil to the United States principally the upper Midwest, while at the same time importing crude oil into its Eastern Provinces. In 1978, Canadian crude oil exports to the Northern Tier States averaged 150,000 barrels per day, down 100,000 barrels per day from 1977. In the same year, 250,000 barrels per day of Western Canadian crude oil moved to refiners in Montreal. Imports of crude oil into Canada still averaged 630,000 barrels per day in 1978, up about 20,000 barrels per day from the previous year.

In 1978, the National Energy Board did not raise the price of natural gas but continued to restrain the volume exported. Oversupplies developed as a result of new output in Alberta and insufficient pipeline capacity to Eastern Canada. Western producers pressed the Canadian Government to permit an increase in exports to the United States. In 1978, natural gas from Canada accounted for only about 5 percent of U.S. consumption.

The surplus (to local demand) crude oil and natural gas in the Western Provinces has prompted some Provincial and industry leaders to advocate an extensive petrochemical industry. A principal market for the industry's output would be the United States. Western Canadian natural gas reserves have grown especially since Federal-Provincial arrangements for higher prices.

The construction of a pipeline to carry natural gas to the United States from Alaska's North Slope and from Western Canada--a joint U.S.-Canadian venture agreed to in 1977--was still in the planning stage in 1978. The United States continued to negotiate with Canada to assure that U.S. firms would be able to participate in the construction of the project.

In 1978, Canada again reduced its exports of crude pretroleum and raised the applicable export taxes. Both the volume and the value of these exports have declined since 1975. However, some observers believe that a good case can be made on economic grounds alone, to export crude oil from the Western Provinces to the United States rather than transport the excess regional production to the consumption centers in Eastern Canada. In 1978, Canada was the source of about 6 percent of U.S. imports of petroleum and petroleum products.

Canadian special measures on steel

U.S. and EC measures regarding steel imports prompted the Canadian Government to act so that foreign steel would not be diverted to the Canadian market at dumped prices. In February 1978, the Minister of National Revenue announced that Canada would: (1) monitor all imports of steel mill products; (2) establish a task force to analyze import data and to collect information on the state of various Canadian steel sectors; (3) use existing authority to initiate dumping investigations without a formal complaint; and (4) institute an accelerated antidumping investigation procedure. No antidumping measures were initiated under these special measures in 1978.

Tariff Board report on fruits and vegetables

In July 1973, the Canadian Tariff Board began an examination of Canada's import system for fresh and processed fruits and vegetables. The Board's reports were tabled in 1977, with some materials not becoming available until 1978. Recommended changes included increased tariff and nontariff protection for some items, reductions on others, and the elimination of the Commonwealth tariff preference for certain processed fruits and vegetable items. The Board's proposals were adopted by the Canadian Cabinet with few modifications.

The Board recommended increased protection for the sector in one or more of the following forms: (1) increases in specific duties; (2) extension of the time period covered by certain seasonal duties; (3) an automatic surcharge, similar in effect to minimum import prices; (4) a minimum ad valorem rate to accompany all specific duties; and (5) additional duties of 5 percent on consumer packs.

The Canadian Tariff Board's proposal was of great concern to the United States. If fully implemented, the recommendations would have affected a large proportion of the value of U.S. agricultural exports to Canada. Particularly sensitive U.S. products were involved, including potatoes, canned peaches, fruit cocktail, canned tomatoes and tomato paste, fresh asparagus, and fresh onions, among other products.

Negotiations with Canada revealed that Canada felt compelled to update its tariff protection in this sector; however, Canada was prepared to accept its obligations under GATT Article XXVIII, and was prepared to offer compensatory tariff reductions within the agricultural sector. The stage, therefore, was set to move the issue into the GATT framework, where the United States hoped to exclude some of the more sensitive U.S. products from the measures, and to negotiate a satisfactory compensation package.

Canadian tariff on pipeline pipe

During 1978, the United States, both bilaterally and in the MTN, sought to harmonize U.S. and Canadian tariffs on steel pipe. The issue was especially important in the fall of 1978, as bids on the Alaska gas pipeline were about to be tendered, and the 15 percent ad valorem Canadian tariff sharply reduced the ability of U.S. pipe producers to compete. Thus, the United States was interested in immediate reduction of this particular rate of duty. The Canadians were willing to negotiate the rate of duty on pipeline pipe; however, they insisted that it be done in the context of the MTN. Without immediate implementation, a possible Canadian concession on pipeline pipe was significantly reduced in its value to the United States.

Canadian footwear restrictions

During the year, the United States undertook bilateral consultations with Canada as to possible compensation due the United States stemming from a Canadian Article XIX action on footwear. Effective December 12, 1977, Canada

instituted a global quota on footwear on the basis of a threat of serious injury to domestic producers. Canada argued that GATT Article XIX carried with it neither an automatic requirement for compensation nor recognition of the affected party's right to take retaliatory action. Negotiations continued periodically, but the U.S. claim for compensation was undercut in November when Canadian statistics showed that the absolute level of footwear imports from the United States had actually increased in volume during the first 9 months of the quota's operations and that the U.S. share of the Canadian market increased. This better export performance in the face of an import relief action was apparently the result of the quota's nonapplication to small shipments, and their encouragement by the close geographic and business relationships between U.S. exporters and Canadian importers. Nevertheless, the United States continued to maintain its retaliatory rights under Article XIX.

Other issues

In late December, Canada decided to establish a national marketing agency for broiler chickens. Although the only decisions taken by yearend involved the establishment of a domestic supply management program, the possibility existed that imports of broiler chickens would be controlled through quotas and licenses. This possibility prompted the United States to examine its position and to prepare a response should quotas eventually be announced.

During the year, the United States continued to urge Canada to adhere to the Florence Agreement. This agreement, which provides duty-free treatment for books, publications, documents, and specified educational, scientific and cultural materials, was implemented by the United States in November 1966. While books enter the United States free of duty most books entering Canada from the United States have been charged 10 percent ad valorem. Canada's adherence would require that its duty on books be eliminated. In early 1979, Canadian tariffs on books and some other publications were suspended through June 30, 1979.

In response to a 6-month extention of an Article XIX import quota on textiles, originally taken in late 1977, the United States and Canada negotiated the additional compensation due to the United States as a result of the extension.

Within the MTN, the United States sought the harmonization of plywood standards with Canada.

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