UNITED STATES TARIFF COMMISSION

Operation of the

TRADE AGREEMENTS PROGRAM

17th Report
July 1964–December 1965

TC Publication 192

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PREPARED IN CONFORMITY WITH SECTION 402(b)
OF THE TRADE EXPANSION ACT OF 1962

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Foreword

This report, the 17th by the United States Tariff Commission on the operation of the trade agreements program, relates to the period from July 1, 1964, through December 31, 1965. Previous reports were usually for a 12-month period ended June 30. Subsequent reports will be on a calendar year basis. Section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902) requires the Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program.[1]

During the period covered by the 17th report, the Automotive Products Trade Act of 1965 became law. The act provided for U.S. implementation of an agreement whereby the United States and Canada would mutually eliminate duties on new motor vehicles and original-equipment parts. Also during the period, the United States and other members of the General Agreement on Tariffs and Trade participated in the sixth round (Kennedy Round) of multilateral trade-agreement negotiations. These and other major developments concerning the trade agreements program are discussed in this report.

The Trade Expansion Act of 1962 provided the legal framework for conduct of the trade agreements program during the period under review. The major features of the act, and related Executive orders, are discussed in the appendix.

This report was prepared principally by Kenneth Armitage, Robert E. Athay, Gerard L. Lagace, and George C. Nichols of the Commission's staff.

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[1] The first report in this series was U.S. Tariff Commission, *Operation of the Trade Agreements Program, June 1934 to April 1948*, Rept. No. 160, 2d ser., 1949. Hereafter that report will be cited as *Operation of the Trade Agreements Program*, 1st report. The 2d, 3d, and succeeding reports of the Tariff Commission on the operation of the trade agreements program will be cited in similar short form.

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Chapter 1

Activities of the United States Relating to Its Trade Agreements Program

STATUS OF U.S. TRADE-AGREEMENT OBLIGATIONS

During the 18-month period covered by this report (July 1, 1964–December 31, 1965), the United States entered into trade agreements with five countries. The agreements with four countries (Burundi, Gambia, Malawi,[1] and Malta) were concluded in connection with their full accession to the General Agreement on Tariffs and Trade (GATT). The agreement with the other country, Yugoslavia, resulted from U.S. acceptance of the declaration for the provisional accession of that country to the GATT.[2]

On December 31, 1965—i.e., at the close of the period under review—the United States had trade agreements in force with a total of 74 countries. Sixty-four of these (and the United States) were full contracting parties to the multilateral agreement, the GATT; six were provisional contracting parties to the GATT;[3] and four that were not contracting parties had bilateral trade agreements in force with the United States. The countries with which the United States had trade agreements in force at the end of 1965 are as follows:

GATT—Full Contracting Parties [1]

Australia	Burundi	Ceylon
Austria	Cameroon	Chad
Brazil	Canada	Chile
Burma	Central African Republic	Congo (Brazzaville)

[1] Czechoslovakia was also a full contracting party to the General Agreement; however, with the permission of the Contracting Parties, the United States had suspended its obligations to that country in November 1951.

[1] Until it attained its independence on July 6, 1964, Malawi was known as Nyasaland.

[2] Yugoslavia provisionally acceded to the General Agreement in November 1962; the declaration for its provisional accession was not signed by the United States, however, until October 1964. During the period covered by this report, the United States also signed a declaration of provisional accession with respect to Iceland. However, the United States already had a bilateral agreement in effect with that country.

[3] The United States also had bilateral agreements in force with a few of these countries.

GATT—Full Contracting Parties—Continued

Cuba [2]
Cyprus
Dahomey
Denmark
Dominican Republic
European Economic Community:
Belgium
France
Germany (Federal Republic)
Italy
Luxembourg
Netherlands
Finland
Gabon
Gambia
Ghana
Greece
Haiti
India
Indonesia
Israel
Ivory Coast
Jamaica
Japan
Kenya
Kuwait
Madagascar
Malawi
Malaysia
Malta
Mauritania
New Zealand
Nicaragua
Niger
Nigeria
Norway
Pakistan
Peru
Portugal
Rhodesia [3]
Senegal
Sierra Leone
South Africa
Spain
Sweden
Tanzania [4]
Togo
Trinidad and Tobago
Turkey
Uganda
United Kingdom
Upper Volta
Uruguay

GATT—Provisional Contracting Parties

Argentina
Iceland
Switzerland
Tunisia
United Arab Republic
Yugoslavia

Bilateral Trade Agreements

Argentina
El Salvador [5]
Honduras [5]
Iceland
Paraguay [5]
Switzerland
Venezuela

[2] In May 1962 the United States suspended the application of its trade-agreement rates of duty to products of Cuban origin until such time as the President decided that Cuba was no longer dominated or controlled by the foreign government or foreign organization controlling the world Communist movement.

[3] Formerly Southern Rhodesia.

[4] Tanzania, which had been formed by the union of Tanganyika and Zanzibar in April 1964, became a single contracting party on Sept. 24, 1964. Tanganyika had been a contracting party to the General Agreement. The United Kingdom had accepted the obligations of the General Agreement for Zanzibar before it acquired its independence on Dec. 10, 1963, but Zanzibar did not maintain any relationship with the General Agreement in the brief period from the time of its independence to the date on which it became part of Tanzania.

[5] The schedules of concessions and the provisions relating to the schedules have been terminated.

The accessions by individual countries to the General Agreement which occurred during the 18 months covered by this report did not result in a material increase in U.S. trade-agreement obligations. Four new GATT members (Gambia, Malawi, Malta, and Burundi) acceded under article XXVI of the General Agreement, which permits a contracting party to sponsor the accession of a former territory on behalf of which it had previously accepted the rights and obligations of the General

Agreement. Gambia, Malawi, and Malta had been territories of the United Kingdom. The fourth new GATT member, Burundi, had been a United Nations trusteeship territory, administered by Belgium prior to achieving its independence in 1962.

During the period covered here, several countries participated in the work of the General Agreement on a de facto basis,[4] or under special arrangements, thereby establishing limited trade-agreement relationships with the United States. On December 31, 1965, five countries (Algeria, Congo (Leopoldville), Mali, Rwanda, and Zambia) were applying the General Agreement on a de facto basis, and two countries (Cambodia and Poland) were participating in the work of the Contracting Parties under special arrangements. Cambodia did so under a special arrangement similar to a provisional accession, while Poland had acquired a relationship with the General Agreement on a more limited basis.

TRADE-AGREEMENT NEGOTIATIONS DURING 1964–65

During the 18 months under review, the United States participated in several consultations and negotiations regarding tariffs and other restrictions to trade. The sixth (Kennedy) round of trade-agreement negotiations sponsored by the General Agreement on Tariffs and Trade constituted the major negotiations during the period. The United States also negotiated with several countries concerning claims for compensation arising from the adoption of its revised tariff schedules. It signed a protocol amending the General Agreement by the introduction of part IV, which dealt with expanding the trade of less developed countries. It also participated in negotiations for compensation under the General Agreement with several countries which had altered their schedules of concessions.[5] These various activities are discussed below.

The Sixth Round of Tariff Negotiations Under the GATT

The sixth round of tariff negotiations under the General Agreement on Tariffs and Trade, which had begun in May 1964, was still in process in Geneva on December 31, 1965. These negotiations were expected to continue for many months. The proceedings are discussed in detail in chapter 2 of this report.

In preparing for the Kennedy Round, the President, on October 22, 1963, had published a list of the items under consideration for trade-

[4] In November 1960 the Contracting Parties had established a policy whereby the provisions of the General Agreement could be applied for a period of 2 years, subject to reciprocity, to a newly independent country to which, as a territory, the General Agreement had previously been applied. During this 2-year transitional period, such a country could formulate its future relations with the General Agreement. In some instances, the Contracting Parties extended the de facto status beyond 2 years.

[5] See ch. 2 of this report.

agreement concessions. The list had been submitted to the Tariff Commission. On April 22, 1964, the Commission, as required by the Trade Expansion Act of 1962, had advised the President as to the probable economic effect of tariff concessions on the respective articles.[6]

On February 20, 1965, the President published a supplemental list identifying various species of tropical hardwood lumber. The notification accompanying the list indicated that consideration would be given to the granting of duty-free entry to such lumber under section 213 of the Trade Expansion Act. Under section 221 of the act, the Tariff Commission was required to advise the President respecting the probable economic effect of reducing or eliminating the duties on such lumber. All of the items in this supplemental list, being dutiable at rates of 5 percent or less, had been included in that part of the President's October 1963 list of items to be considered for possible reduction or elimination of duties pursuant to section 202 of the Trade Expansion Act. Section 202, however, unlike section 213, was subject to a requirement that any reduction or elimination of such duties be accomplished in stages. On May 5, 1965, the Commission submitted a report on the supplemental list advising the President on the probable economic effect of eliminating in one step the rates of duty on imports of the various species of tropical hardwood.[7]

Negotiations Regarding the Revised U.S. Tariff Schedules

During the 18 months under review, the United States continued to renegotiate with its GATT trading partners its schedule of concessions under the GATT in order to formally conform them to the Tariff Schedules of the United States (TSUS) and to provide compensation when warranted.

Before August 31, 1963, when the TSUS became effective,[8] the President, in accordance with section 102 of the Tariff Classification Act of 1962, had obtained from the Contracting Parties a suspension until June 30, 1964 (later extended for two additional 1-year periods), of the U.S. obligations under article II to the extent necessary to enable the United States to put the TSUS into effect.[9] The waiver was subject to a proviso, however, that, during the period from the effective date of the TSUS to the completion of the applicable procedures under article 28, no column 1 rate in the TSUS would be increased, except pursuant to the

[6] For a more detailed account of the procedures involved in the preparation for trade-agreement negotiations, see the provisions of the Trade Expansion Act in the appendix.

[7] Investigation TEA–221(b)–2. By order of the President, reports under sec. 221 of the Trade Expansion Act are held confidential.

[8] The revised schedules replaced those originally set forth in the Tariff Act of 1930, as amended.

[9] The waiver was amended in 1965 so as to bring within its scope the changes made in the provisions of the TSUS by the Tariff Schedules Technical Amendments Act of 1965.

provisions of the GATT, above the level provided therefor under the Tariff Classification Act, unless such classification in the TSUS included no products provided for in U.S. schedule XX to the GATT.

During the 18 months ended December 31, 1965, the United States successfully renegotiated its concessions with 19 of the GATT members: Austria, Brazil, Canada, Chile, Denmark, the Dominican Republic, Finland, Greece, Haiti, India, Indonesia, Nicaragua, Norway, Pakistan, Peru, Portugal, Switzerland,[10] Turkey, and Uruguay. Earlier, the United States had reached agreement with six other contracting parties [11] and with Iceland.

On December 31, 1965, the status of the remaining negotiations was as follows: (1) Negotiations with the United Kingdom had been substantially completed;[12] (2) negotiations with the European Economic Community (EEC), Sweden, South Africa, and Japan were in various stages of progress; and (3) those with Argentina and Venezuela had been suspended indefinitely.[13]

UNITED STATES-CANADIAN AUTOMOTIVE PRODUCTS AGREEMENT

On January 16, 1965, the President of the United States and the Prime Minister of Canada signed an agreement providing, under designated conditions, for the mutual elimination of duties on new motor vehicles and original-equipment components thereof. The objectives of the agreement were as follows:

(a) The creation of a broader intercountry market for automotive products, within which greater benefits from specialization and large-scale production could be achieved;
(b) The liberalization of United States and Canadian automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries; and
(c) The development of conditions in which market forces could operate effectively to attain the most economic pattern of investment, production, and trade.

The automotive products agreement, being an executive agreement, required the approval of both Houses of Congress. Congress later granted

[10] The settlement with Switzerland covered U.S. obligations both under the GATT and under the two bilateral trade agreements with that country.

[11] Australia, Ceylon, Israel, New Zealand, Rhodesia, and Spain.

[12] An agreement between the United States and the United Kingdom was signed on Apr. 5, 1966.

[13] Agreements with Argentina and Venezuela permitting the revised TSUS to be placed in effect prior to the completion of consultations and renegotiations had been signed in July 1963.

the President the authority needed to implement the agreement by passing the Automotive Products Trade Act of 1965 (APTA), which became law on October 21, 1965.

Under the automotive agreement, the United States and Canada agreed to accord one another duty-free treatment of imports of motor vehicles and of parts for use as original equipment in the manufacture of motor vehicles. This reciprocal obligation was limited in various respects. For example, to assure that U.S. duty-free treatment would be extended only to articles whose value originated primarily in Canada, the United States agreed to accord such tariff treatment only to products which met specified Canadian content requirements. The maximum permitted "foreign" [14] content for various articles was as follows:

Motor vehicles:	
Until Jan. 1, 1968	60 percent
Jan. 1, 1968, and after	50 percent
Chassis and parts	50 percent

In Canada, the specified vehicles and parts were to be free of duty only when imported by a "manufacturer" of such vehicles. To qualify as a "manufacturer," a Canadian motor-vehicle producer had to meet three criteria: (1) The firm must have produced vehicles in Canada in each quarter of the base year (August 1963–July 1964); (2) the ratio of the firm's motor-vehicle production to its motor-vehicle sales in Canada in each "model year" must have been at least equal to that of the base year (but no less than 75 to 100); and (3) the "Canadian value added" [15] of the concern's motor-vehicle production in each "model year" must have been at least equal to that of the base year.

Before the agreement was signed, the Canadian automotive producers submitted "letters of undertaking" to the Canadian Government. In these letters, each firm committed itself (1) to increase in each ensuing "model year" the "Canadian value added" of its automotive production, on the average, by nearly 60 percent of the "growth in the market" [16] for its motor vehicles sold for consumption in Canada and, in addition, (2) to increase the "Canadian value added" of its annual production of motor vehicles and parts by a stated amount by the 1968 model year—the aggregate increase, for all companies, to amount to US$241 million. These commitments, along with the provisions of the agreement proper,

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[14] "Foreign" refers to any country other than Canada and the United States.

[15] Approximately equivalent to the manufacturer's sales revenue less the cost of imported materials and parts.

[16] Growth in the market is to be measured by the difference between the cost to the Canadian producer of the vehicles sold in Canada in a model year and the corresponding cost in a preceding base year.

were regarded by the Canadian Government as integral features of a new program to expand the Canadian automotive industry.[17]

The agreement entered into force provisionally on the date of its signature in January 1965, but was not to become definitive until appropriate action had been taken by the legislatures of both countries. On the date of the signature of the agreement, Canada issued two Orders-in-Council[18] which, though not referring to the agreement, appear to have fully carried out Canada's obligations thereunder on a de facto basis. By December 31, 1965, legislation dealing with the agreement had not yet been brought before the Canadian House of Commons. In the United States, the Automotive Products Trade Act of 1965 provided for U.S. implementation of the agreement. The act authorized the President to proclaim the necessary changes in the U.S. tariff and established special temporary adjustment assistance provisions for U.S. firms or groups of workers "injured" by the operation of the agreement.

On October 22, 1965, the President issued a proclamation under section 201 of the act implementing the agreement.[19] The modifications of the Tariff Schedules of the United States proclaimed by the President entered into force on December 20, 1965, but were effective with respect to articles entered on or after January 18, 1965.

The act included provisions designed to make the tariff adjustment and other adjustment assistance provisions of the Trade Expansion Act of 1962 (TEA) applicable to firms and groups of workers injured as a result of the tariff reductions authorized by the Automotive Products Trade Act. The TEA had provided for a variety of tariff and other forms of

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[17] The terms of the agreement are analyzed in more detail in the Tariff Commission's "Report to the Committee on Ways and Means on H.R. 6960, 89th Congress, the Automotive Products Trade Act of 1965" (*Hearings Before the Committee on Finance, United States Senate, . . . on H.R. 9042 . . .*, 89th Cong., 1st sess., 1965, pp. 379–477). See also the Commission's "Report to Committee on Finance on H.R. 9042, 89th Congress, an Act 'To Provide for the Implementation of the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada, and for Other Purposes' " on pp. 374–378 of the same publication.

[18] P.C. 1965–99 and P.C. 1965–100.

[19] Sec. 203 had authorized him to make any such proclamation retroactive to the earliest date, after Jan. 17, 1965, he determined to be practicable. Sec. 204 authorized him to terminate, in whole or in part, any such modification of the TSUS. Sec. 202 included provisions authorizing the implementation of similar automotive products agreements with countries other than Canada. It also included provisions designed to authorize the implementation of further agreements to include the mutual reduction or elimination of duties on replacement parts for motor vehicles; such parts were not covered by the United States-Canadian agreement. The provisions, in effect, were nullified when a committee of conference of the two Houses agreed on an addition to the bill providing that sec. 202 would cease to be in effect on the day following the enactment of the bill. For further explanation, see the conference report (H. Rept. No. 1115, 89th Cong., 1st sess., 1965).

assistance to industries, firms, and groups of workers which established that they had been seriously injured by increased imports resulting in major part from trade-agreement concessions. Industrywide assistance could take the form of an increase in rates of duty or other import restrictions. Assistance to individual firms could be in the form of technical aid, financial help, or tax benefits; that to individual groups of workers, in the form of unemployment compensation, job training, or relocation allowances. Section 301 of the APTA provided that a petition could be filed for tariff adjustment or for a determination of eligibility to apply for adjustment assistance under the appropriate provision of title III of the TEA.[20]

Section 302 of the APTA established special transitional provisions for determining eligibility of firms or groups of workers to apply for the adjustment assistance provided by the TEA. The transitional arrangements of the act differed from the adjustment assistance arrangements of the TEA in that (1) the President rather than the Tariff Commission was authorized to determine the eligibility of the automobile firms and workers to apply for assistance, and (2) different criteria were provided for determining eligibility to apply for such assistance.

The transitional adjustment assistance provisions provided that during a designated period [21] ending at the close of June 30, 1968, a petition for a determination of eligibility to apply for adjustment assistance could be filed with the President by a firm which produced an automotive product, or by a group of workers in such a firm, or by a representative of such a firm or group of workers.

After a petition was filed, the President was to determine whether (1) dislocation of the firm or group of workers had occurred or threatened to occur, i.e., whether serious injury to a firm or unemployment of a group of workers had occurred or threatened to occur; (2) U.S. production of the automotive product concerned, or of a like or directly competitive product, had decreased appreciably; and (3) imports from Canada of the Canadian automotive product like or directly competitive with that produced by the firm had increased appreciably; or U.S. exports to Canada of the product, or of a like or directly competitive product, had decreased appreciably and the decrease was greater than any decrease in Canadian production of like or directly competitive products. The act provided further that if the President made an affirmative determination of eligibility with respect to all of the above criteria, he was to certify the petitioners to be eligible to apply for adjustment assistance, unless he determined that the operation of the agreement had not been the primary factor in dislocation of the petitioner. If the President made an affimative determination that dislocation had occurred or threatened

[20] These provisions are discussed in greater detail in the appendix.

[21] Beginning after the 90th day after the automotive products agreement became law.

to occur, but found negatively in respect to any of the other criteria, he was to determine whether the operation of the agreement had, nevertheless, been the primary factor in causing or threatening to cause dislocation. If he made such an affirmative determination, he was to certify the petitioner eligible for adjustment assistance.

In order to provide a factual record upon which the President could base his determination, he was to transmit promptly to the Tariff Commission a copy of each petition for a determination of eligibility to apply for adjustment assistance and to request the Tariff Commission to conduct an investigation and make a report of the relevant facts disclosed thereby. The President was authorized to specify the particular kind of data he deemed appropriate. In the course of its investigation, the Tariff Commission was to hold a public hearing if requested to do so by the petitioner or by any other person showing a proper interest in the subject matter of the investigation; interested persons were to be afforded an opportunity to be present, to produce evidence, and to be heard at the hearing.

The Tariff Commission was to submit its report to the President not later than 50 days after it received his request for an investigation. The report was to be accompanied by a transcript of the hearing (if a hearing was held) and any briefs submitted in connection with the investigation. The President was to make his final determination only after he had sought advice from the Departments of Commerce, Labor, and the Treasury, the Small Business Administration, and other agencies he deemed appropriate. He was to make a determination not later than 15 days after receiving the Tariff Commission's report, unless, within the 15-day period, he requested additional factual information from the Commission. In that event, the Commission was to submit the additional information in a supplemental report not later than 25 days after it had received the request, and the President was to make his final determination within 10 days after receiving the supplemental report.

Any certification by the President that a group of workers was eligible to apply for adjustment assistance was to specify the date on which unemployment or underemployment (i.e., dislocation) began or threatened to begin. The President was authorized to terminate any such certification whenever he determined that the agreement was no longer the primary factor causing the dislocation. Such a determination was to apply only to separations from employment occurring after the termination date specified by the President.

The act directed the President to submit certain reports to Congress. Section 502 directed him to submit an annual report to Congress on the implementation of the act. The report was to include information relating to activities under the act, an evaluation of the agreement and the act, and specified economic data with respect to the United States

and Canadian motor vehicle industries. Section 205 directed the President to submit special reports to Congress on (1) the results of the joint United States-Canadian comprehensive review of the progress made toward achieving the objectives of the agreement, which was to be undertaken no later than January 1, 1968,[22] and (2) any undertaking entered into by any manufacturer, by reason of governmental action, to increase the Canadian value added of motor vehicles or original-equipment parts produced in Canada after August 31, 1968. The special reports were to include recommendations for any further steps necessary for the achievement of the purposes of the agreement and the act.

On October 21, 1965, the President established an Automotive Agreement Adjustment Assistance Board [23] consisting of the Secretaries of the Treasury, Commerce, and Labor; to this Board he delegated the functions conferred on him in section 302 of the Automotive Products Trade Act of 1965.[24] The President authorized the Board to redelegate any functions it deemed appropriate, other than the making of final determinations, certifications, and terminations of certifications. In its first order, dated January 19, 1966, the Board established the Automotive Assistance Committee, composed of an Assistant Secretary of the Treasury, the Assistant Secretary of Labor for International Affairs, and the Assistant Secretary of Commerce for Domestic and International Business. With the exception of the making of final determinations, certifications, and terminations, the Board delegated all its functions to the Committee.

In giving effect to the agreement, Canada extended the duty-free treatment accorded therein to the United States on imports of new motor vehicles and original-equipment parts to any nation entitled to its most-favored-nation rates of duty or to the benefit of the British preferential tariff. Since the Automotive Products Trade Act of 1965 authorized the President to extend duty-free treatment of automotive products to Canada only, the United States applied for a waiver of its most-favored-nation GATT obligations, which the Contracting Parties to GATT granted on December 20, 1965.[25]

PARTICIPATION IN THE COTTON TEXTILES ARRANGEMENT

During the period here concerned, the United States continued to participate in the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA). The arrangement had been negotiated

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[22] See art. IV(c) of the agreement.

[23] Executive Order 11254.

[24] Under the provisions of sec. 302(k), the President was authorized to exercise any of his functions under the adjustment assistance provisions of the act through any instrumentality of the U.S. Government which he prescribed.

[25] For further discussion of the waiver, see ch. 2.

under the sponsorship of the General Agreement on Tariffs and Trade; it entered into force for a period of 5 years on October 1, 1962.[26] Its objective was to prevent market disruption in importing countries while facilitating the economic expansion of the less developed countries producing cotton textiles. On December 31, 1965, the following countries were LTA participants:

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

[1] Also representing Hong Kong.

Finland, the Republic of Korea, and Turkey acceded to the arrangement during the 18 months under review. Four of the participants (Colombia, Mexico, the Republic of China, and the Republic of Korea) were not contracting parties to the GATT.

Under article 3 of the long-term arrangement, a participating country experiencing or threatened by market disruption caused by imports of cotton textiles could request another participating country to curtail its exports of the particular products to a specified level.[27] If the exporting country failed to agree to the request within 60 days, the importing country could then limit entry of the specified products to the level requested. In critical circumstances, the importing country could impose restrictions without waiting 60 days. If the restrictions were extended beyond the initial 12 months, the importing country was obliged, except in extraordinary circumstances, to raise restraint levels by 5 percent annually. To prevent countries that were not members of the arrangement from circumventing import restrictions applied to members of the arrangement, article 6(c) provided for the application of restrictions to nonparticipants.

On December 31, 1965, the United States was imposing 9 article 3 restraints [28] involving 4 countries and 7 categories.[29] At the beginning of the

[26] For a more detailed account of the history and provisions of the arrangement, see *Operation of the Trade Agreements Program*, 15th report, pp. 71–74.

[27] The minimum annual level that could be requested was equivalent to actual exports (or imports) of the products concerned during the 12-month period terminating 3 months prior to the month in which the request was made.

[28] A "restraint" refers to a restriction placed on imports of a single specified category (or group of categories) from a single country.

[29] For administrative purposes U.S. imports of cotton textiles are subdivided into 64 categories.

period covered by this report, July 1, 1964, there were 47 article 3 restraints involving 11 countries and affecting 30 categories. Most of the article 3 restraints existing at the beginning of the period were incorporated into bilateral agreements during the 18-month period. In another action during the same period, the United States, after consultations with Italy and Japan, took steps under article 6(a)[30] of the long-term arrangement to prevent third countries from exporting products in category 7 (velveteens) originating in Italy or Japan to the United States.

In one instance during the period, restrictions were imposed under article 3 against U.S. exports. In January 1965 the United States and six other countries were requested to limit their exports of gray and bleached cotton fabrics to Italy. Meanwhile, under the "critical circumstances" provisions, Italy imposed quotas effective during the 60-day consultation period. As no agreement was reached within the 60-day period, Italy announced restraints applicable for the remainder of calendar year 1965.

Article 4 of the long-term arrangement provided for the conclusion of bilateral agreements concerning cotton textiles so long as the terms of such agreements were not inconsistent with the basic objectives of the multilateral agreement. The agreements could be between participants in the long-term arrangement or between participants and nonparticipants. By the end of the period under review, the bulk of the restrictions on cotton textiles exported to the United States were provided for in bilateral agreements, rather than under the aforementioned articles 3 and 6(c).

On December 31, 1965, the United States had bilateral cotton textiles agreements in effect with 20 countries. The countries are identified in the following tabulation, the agreements with those preceded by an asterisk having been concluded during the period under review:

*Colombia [1]	Japan	*Republic of Korea [1]
*Greece [2]	Mexico [1]	Ryukyu Islands [1 2]
Hong Kong [3]	*Pakistan	Spain
India	Philippines [1 2]	*Turkey
Israel	*Poland [2]	United Arab Republic
Italy [4]	Portugal	*Yugoslavia [2]
Jamaica	Republic of China [1]	

[1] Not associated in any way with the General Agreement.

[2] Not a participant in the long-term arrangement.

[3] Before August 1966 the agreement with Hong Kong, although similar to bilateral agreements concluded with a number of countries, was not formally recognized as a bilateral agreement. In August 1966 the United States and Hong Kong concluded a formal bilateral agreement retroactive to Oct. 1, 1965, concerning trade in cotton textiles.

[4] The agreement with Italy had been signed before the long-term cotton textiles arrangement became effective.

[30] Art. 6(a) provides that where a participating country has reason to believe that imports shipped to it from another participating country, and purporting to have originated in that country, did not originate there, it may request that country to consult with it with a view to assisting in the determination of the real origin of the goods.

Most of the bilateral agreements negotiated by the United States covered all 64 categories of cotton textiles.[31] Each agreement established an overall limit on exports by the respective country to the United States either for all 64 categories as a group or for those designated; each also established specific ceilings for certain categories. Most of the agreements further provided for annual increases—usually 5 percent—in both the overall limits and the specific ceilings. The effective period of the agreements ranged from 1 to 4 years.

During 1964, U.S. imports of cotton-textile products of the type covered by the long-term arrangement were equivalent to 1.1 billion square yards; in 1965 they increased to 1.3 billion square yards. Countries participating in the arrangement accounted for imports equivalent to 936 million square yards in 1964, and 1.1 billion square yards in 1965.

GOVERNMENT ACTIONS AFFECTING TRADE-AGREEMENT ITEMS

Several U.S. legislative provisions had authorized a variety of tariff and other forms of assistance to industries, firms, and groups of workers which had established that they had been seriously injured by increased imports resulting from trade-agreement concessions. Procedures varied with the relevant statute, but, in general, investigatory action by a governmental body was necessary before any assistance could be authorized. The remainder of this chapter is devoted to U.S. Government activities under these provisions during the 18-month period ended December 31, 1965. All investigations undertaken by Government agencies are discussed, whether or not import restrictions were imposed.

The Escape Clause

During the period under review, the Tariff Commission conducted four investigations under the escape-clause provisions of trade agreements legislation and made a number of reports reviewing the economic conditions in industries producing articles for which escape-clause actions were in effect. After 1943 all trade agreements concluded by the United States included a safeguarding provision commonly known as the standard escape clause. The clause provided, in essence, that either party to a trade agreement could modify or withdraw its concessions if increased imports resulting from the concessions caused or threatened injury to the domestic industry producing like or directly competitive articles. During the 18-month period here considered, the procedures for administering the escape clause were prescribed in the Trade Expansion Act.[32]

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[31] Some exceptions were the agreements with Poland, Italy, Mexico, India, and Pakistan.

[32] For a detailed account of the provisions of the Trade Expansion Act and the Executive orders establishing procedures for its operation, see the appendix.

During the 18 months that ended December 1965, all the escape-clause investigations were conducted under the provisions of section 301(b) of the TEA. In each of them the Commission unanimously found that the article in question was not being imported, as a result in major part of trade-agreement concessions, in such increased quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles. The articles on which the investigations were made and the dates on which reports were submitted are shown below: [33]

Umbrellas and parts (except handles)	Sept. 1, 1964
Watches, watch movements, and parts of watch movements	Oct. 30, 1964
Mushrooms, prepared or preserved	Jan. 27, 1965
Ice skates and parts	Feb. 19, 1965

During the same period, the Tariff Commission submitted to the President eight reports reviewing the current status of domestic industries in whose interest escape-clause action had previously been taken. The Trade Expansion Act had established formal procedures for Commission review of escape-clause actions initiated under either section 301(b) of that act or section 7 of the Trade Agreements Extension Act of 1951, as amended. Section 351(d)(1) required the Commission to review annually developments relating to such escape-clause action. The articles on which reports were made under the provisions of section 351(d)(1) and the dates on which the reports were submitted to the President are listed below:

Certain carpets and rugs	Sept. 14, 1964
Cotton typewriter-ribbon cloth	Sept. 23, 1964

Section 351(d)(2) required the Commission, under specified circumstances, to advise the President of the probable economic effect on the industry concerned of a reduction or termination of an escape action. Upon receiving the Commission's report under section 351(d)(2), the President could, after seeking the advice of the Secretaries of Commerce and Labor, reduce or terminate the restrictions that had been imposed under the escape-clause provision. Most of the investigations completed under the provisions of this section were initiated at the request of the President. The articles on which such reports were made during the period and the dates on which the reports were submitted to the President are listed below:

Watch movements	Mar. 5, 1965
Stainless-steel table flatware	Apr. 14, 1965
Safety pins	May 17, 1965
Clinical thermometers	May 27, 1965
Unmanufactured lead and zinc	June 8, 1965
Drawn or blown flat glass (sheet glass)	June 11, 1965

[33] For more detailed information, see *Forty-ninth Annual Report of the United States Tariff Commission*, TC Publication 168, 1966.

In October 1965, following the receipt of one of these reports, the President issued a proclamation terminating the escape action on imports of unmanufactured lead and zinc. During the period covered by this report, he took no action affecting the rates of duty on any of the other articles.[34]

Adjustment Assistance

During the period under review, three firms petitioned the Tariff Commission for investigations to determine whether they were eligible to apply for adjustment assistance under the Trade Expansion Act.

The President could authorize a firm or group of workers to apply for adjustment assistance if he received an affirmative finding from the Tariff Commission under the provisions of the TEA. Section 301(b) of the act prescribed the circumstances under which the Tariff Commission should determine whether, as a result in major part of concessions granted under trade agreements, an article was being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article. Section 301(c) provided for similar investigations and determinations by the Commission with respect to individual firms or groups of workers.

Three investigations were conducted under section 301(c) during the 18-month period ended December 1965 in response to petitions by firms. The Danaho Refining Co. of Houston, Tex., complained of injury from imports of crude petroleum; the National Tile & Manufacturing Co. of Anderson, Ind., from imports of ceramic floor and wall tile; and the General Plywood Corp. of Louisville, Ky., from imports of birch and lauan plywood door skins. In each case, the Commission found that the items concerned were not, as a result in major part of concessions granted under trade agreements, being imported in such increased quantities as to cause, or threaten to cause, serious injury to the petitioners.[35]

The National Security Provisions

During the period under review the Office of Emergency Planning (OEP) completed two investigations and initiated three others under the national security provisions of U.S. trade agreements legislation. An investigation concerning textiles and textile manufactures, initiated prior to the period under review, was still in process at the close of the period.[36]

[34] In January 1966 the President terminated the increased rate of duty on clinical thermometers and eased the tariff quota on imports of stainless-steel flatware retroactive to Nov. 1, 1965. In February 1966 he terminated the increased rate of duty on imports of safety pins.

[35] In the plywood decision, the Commission was equally divided and therefore made no affirmative determination.

[36] Initiated by the Director of the Office of Civil and Defense Mobilization under the national security provisions of the Trade Agreements Extension Act of 1958.

Under section 232 of the Trade Expansion Act of 1962, the Director of the OEP, upon the request of the head of any department or agency, upon the application of an interested party, or upon his own motion, was required to conduct an investigation to determine the effects of imports of an article on the national security. If he was of the opinion that imports of the article were threatening to impair the national security, he was to advise the President accordingly. If the President was in agreement, he was required to take such action as he deemed necessary to control the entry of such article.[37]

On July 17, 1964, the Director of the OEP announced that, as a result of an investigation initiated on May 30, 1963, he had found that imports of manganese and chromium ferroalloys and of electrolytic manganese and chromium metals were not threatening to impair national security. The investigation had been initiated at the request of the Manufacturing Chemists Association, Inc., on behalf of 11 companies. In his decision, the Director acknowledged that the domestic industry was facing serious economic problems and that further review under section 232 of the TEA might be required.

On September 23, 1965, the Director of the OEP announced that as a result of an investigation initiated January 21, 1964, he had found that imports of tungsten mill products were not threatening to impair the national security. The investigation had been initiated at the request of the Lamp Division of the General Electric Co.

On April 8, 1965, the Director ordered an investigation to determine whether imports of watches, movements, and parts were threatening to impair the national security. The investigation was initiated at the request of the President. A similar investigation, conducted by the Office of Defense Mobilization (a predecessor of the OEP), had resulted in 1958 in a denial of the domestic producers' request for import restrictions. On October 23, 1964, an investigation was begun to determine whether imports of antifriction bearings and parts were threatening to impair the national security. The investigation followed an application made by the Anti-Friction Bearing Association on behalf of 39 member companies. On December 31, 1965, both of these investigations were still in progress.

During the period covered by this report the United States continued to impose quotas on imports of crude petroleum, unfinished oils, and finished petroleum products; these quotas constituted the only restrictions that had been imposed under the national security provisions. Section 6(a) of the Presidential proclamation [38] imposing the restric-

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[37] These provisions are discussed in greater detail in the appendix.

[38] 24 F.R. 1781.

tions on imports of petroleum required the Office of Defense Mobilization to keep the President informed of circumstances that might necessitate further action. Under this provision, the Director of the OEP, at the request of the Secretary of the Interior, initiated, on April 6, 1965, an investigation to determine if the control of imports of residual fuel oil intended for use as fuel should be continued or eliminated. On December 31, 1965, this investigation was still in progress.

Meat Import Legislation

On August 22, 1964, the Congress enacted legislation providing for the imposition, under specified conditions, of quotas on U.S. imports of fresh, chilled, or frozen beef, veal, mutton, and goat meat.[39] No quotas were imposed, however, during the period under review. For many months before the law was passed, the facts that the domestic prices of cattle were depressed and imports of beef had risen rapidly had concerned U.S. cattle growers.[40] The law provides that if the domestic commercial production of beef should increase or decrease, the quotas established should be changed correspondingly.

The President was to impose quotas for any year, beginning with calendar year 1965, for which the Secretary of Agriculture estimated that imports would otherwise exceed an adjusted base quota by 10 percent or more. The base quota (725.4 million pounds) was to be adjusted annually by the Secretary of Agriculture by the same percentage that he estimated the average annual domestic production of these commodities (based on that year and the 2 preceding years) was above or below average production for the 1959–63 period. Domestic production was to be estimated prior to each calendar year, and imports, prior to each quarter of the calendar year.

The Secretary of Agriculture was to allocate the quota among supplying countries on the basis of the shares they had supplied to the United States during a representative period; however, due account was to be given to special factors which may have affected or may affect trade in these commodities. The President was authorized to suspend the application of quotas, or to increase the quota level, if he determined that (1) such action was required by the overriding economic or national security interests of the United States, weighted in order to take into

[39] 78 Stat. 594. The quotas called for by the law were to be imposed as well as the existing duties of 3 cents per pound for beef and veal and 2.5 cents per pound for mutton and goat meat.

[40] At the request of the Senate Finance Committee, the Tariff Commission in June 1964 submitted a report analyzing the domestic industry and its foreign competition. See U.S. Tariff Commission, *Beef and Beef Products: Report on Investigation No. 332–44,* 1964 [processed].

consideration the importance to the nation of the well-being of the domestic livestock industry; (2) the supply of meats covered by the law was inadequate to meet domestic demand at reasonable prices; or (3) subsequent trade agreements insured that the policy set forth in the law would be carried out.

Chapter 2

Developments Respecting the General Agreement on Tariffs and Trade

INTRODUCTION

During the 18 months that ended December 31, 1965, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) were concerned chiefly with the sixth round of tariff negotiations, measures to alleviate the trade problems of the less developed countries, and activities relating to obligations by the members under the agreement.

Pursuant to article XXV of the General Agreement, the Contracting Parties [1] meet periodically, usually once each year, to review the operation of the agreement and to resolve various problems. The Contracting Parties met for their 22d Session in March 1965. They discussed, and took action with respect to, a number of issues, including regional economic arrangements, requests for waivers of obligations, consultations on balance-of-payments restrictions, quantitative import restrictions, and an appeal by Uruguay regarding restrictions placed by several contracting parties against its exports.

The Contracting Parties also meet occasionally in special sessions. The Second Special Session was held at Geneva in November 1964 and February 1965. It dealt almost exclusively with reports which the Contracting Parties themselves had initiated concerning trade problems of the less developed countries. At the end of this Special Session they initiated measures to amend the General Agreement to include a new part IV, on trade and development.

The intersessional work of the Contracting Parties is conducted by the Council of Representatives. During the period under review the Council met 17 times. In addition, numerous meetings of the special committees and ad hoc working groups were convened to study and report on specific subjects of interest to the Contracting Parties.

The General Agreement is probably the most comprehensive trade agreement ever concluded. Its longrun objectives are to encourage freer trade and nondiscriminatory trade practices through the observance

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

of a set of rules for the orderly conduct and expansion of world trade. These rules embody a general prohibition of the use of quantitative restrictions and provide for the elimination of other forms of administrative protection. The GATT organization, moreover, has sponsored a series of multilateral tariff negotiations with a view to lowering the general level of the import duties imposed by member countries. The GATT also provides a forum—convened at regular intervals—wherein the Contracting Parties review the actions of the individual members and appraise the extent to which their respective obligations have been met.

The General Agreement consists of (1) a series of numbered articles, which set forth the aforementioned code of rules for conducting trade between contracting parties, and (2) the schedules of tariff concessions that have resulted from negotiations between contracting parties. While the agreement was founded on the principle of nondiscriminatory multilateralism, it provides certain conditions under which temporary waivers permit individual contracting parties to apply trade restrictions—even though such restrictions are discriminatory.

On July 1, 1964, 62 countries were full contracting parties to the GATT; during the period under review, 4 additional countries (Burundi, Gambia, Malawi, and Malta) acceded to the agreement. Thus, by December 31, 1965, the full membership of the GATT consisted of the following 66 contracting parties:

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

At the close of the period under review, six other countries (Argentina, Iceland, Switzerland, Tunisia, the United Arab Republic, and Yugoslavia) were provisional GATT members. Two additional countries (Poland and Cambodia) were participating in the work of the Contracting Parties under special arrangements. Six countries (Algeria, Congo (Leopoldville), Mali, Rwanda, Singapore, and Zambia), to whose territories the General Agreement had previously applied as dependent areas, maintained as independent States a de facto application of the agreement pending final decisions as to their future commercial policies.

This chapter summarizes the work of the Contracting Parties during the 18-month period under the following headings: (1) The sixth round of tariff negotiations, (2) activities of interest to the less developed countries, (3) regional economic arrangements, (4) actions relating to GATT obligations, and (5) other developments relating to the General Agreement.

THE SIXTH ROUND OF TARIFF NEGOTIATIONS

During the period under review the Contracting Parties continued the sixth major round [2] of negotiations to reduce barriers to trade. The negotiations principally concerned an endeavor to exchange linear tariff reductions among the members, the reduction of nontariff trade barriers, the minimization of disparities between tariff structures of negotiating contracting parties, the solution of mutual agricultural problems, and the establishment of procedures for participation in the GATT by the less developed countries. In July 1965, when the European Economic Community (EEC) withdrew from active participation in the Kennedy Round, the negotiations reached an impasse, which had not been resolved by the end of 1965.

The objectives of the sixth tariff Conference, as set forth by the GATT Ministers in May 1963, called for negotiations more comprehensive than any previously held under the auspices of the General Agreement. The Ministers had agreed that the negotiations were to apply to all classes of products and were to proceed on the basis of a substantial linear tariff reduction with a minimum of exceptions. A linear reduction was construed to mean a general, across-the-board reduction of rates in a country's tariff schedule by a stipulated percentage; earlier GATT negotiations had been conducted on an item-by-item basis. In addition, the negotiations were to encompass nontariff trade barriers, provide acceptable conditions of access to world markets for agricultural products, and seek to reduce barriers affecting the exports of the less developed countries (LDC's).

[2] Multilateral tariff negotiations under the auspices of the GATT were held previously at Geneva, Switzerland, in 1947; at Annecy, France, in 1949; at Torquay, England, in 1950–51; at Geneva in 1956; and again at Geneva in 1960–62. Because it was made possible by the U.S. Trade Expansion Act of 1962, the sixth round of tariff negotiations soon became known as the Kennedy Round.

The Ministers established a Trade Negotiations Committee (TNC) made up of representatives of all of the countries participating in the negotiations and instructed it to prepare recommendations on—

(1) the depth of the linear tariff reductions to be sought and the rules for exceptions thereto;
(2) the criteria for determining significant disparities in the tariff levels of the contracting parties and special rules for tariff reductions in regard thereto;
(3) a method for achieving adequately balanced concessions for countries having low tariff levels, or for those having special trade situations (such as the less developed countries or countries whose exports consist predominantly of agricultural or other primary products);
(4) rules for negotiating acceptable conditions of access to world markets for agricultural products; and
(5) procedures for the reduction of nontariff trade barriers.

To assist the TNC, subcommittees were set up to deal with the tariff negotiations plan, agricultural problems, nontariff trade barriers, and the participation of the less developed countries. In addition, special GATT groups on cereals and meats were directed to cooperate with the TNC in developing procedures for the negotiations on agricultural products.

The sixth round of tariff negotiations opened with a Ministerial meeting at Geneva on May 4, 1964, with 43 countries participating.[3]

Exceptions Lists

At the beginning of the negotiations, the Ministers reaffirmed the objectives set forth in May 1963, and adopted the tariff negotiating plan recommended by a TNC subcommittee. The plan called for a linear tariff reduction of 50 percent. Exceptions—i.e., the withholding of the stipulated percentage reduction in duty on designated articles—were to be limited to those that could be justified on the basis of overriding national interests.

[3] Argentina
Australia
Austria
Brazil
Canada
Czechoslovakia
Dahomey
Denmark
EEC:
Belgium
France
Germany (Federal Republic)
Italy
Luxembourg
Netherlands
Finland
Gabon
Ghana
Greece
India
Indonesia
Israel
Ivory Coast
Japan
Kuwait
New Zealand
Nigeria
Norway
Pakistan
Peru
Poland
Portugal
Sierra Leone
South Africa
Southern Rhodesia
Spain
Sweden
Switzerland
Turkey
United Arab Republic
United Kingdom
United States
Uruguay
Yugoslavia

The countries that were prepared to negotiate on a linear-tariff-reductions basis—namely, the United States, the United Kingdom, the European Economic Community,[4] Japan, and Finland—exchanged exceptions lists on industrial products on November 16, 1964. Six other countries—Austria, Czechoslovakia, Denmark, Norway, Sweden, and Switzerland—stated that if they were accorded full reciprocity by their negotiating partners they would claim no exceptions.

The TNC agreed that Canada, Australia, New Zealand, and South Africa were in that category of countries whose special economic or trade structures were such that equal linear tariff reductions would not necessarily provide an "adequate balance of advantages." Accordingly, these countries were authorized to participate in the negotiations without adhering to the linear-reduction commitment. Thereupon, they submitted offer lists of trade concessions, rather than exceptions lists.

Special procedures were adopted for the participation of the LDC's. It was agreed that every effort would be made to reduce barriers to the exports from these countries and that the developed countries would not expect full reciprocity for trade concessions granted to the LDC's.[5] Accordingly, when the various countries tabled their exceptions lists in November 1964, they agreed to make available the information relating to those items on the lists which were of particular interest to the LDC's and which they did not want to see excluded from the negotiations.

The "linear countries"—i.e., those undertaking to participate on the basis of linear tariff reductions—met at Geneva in December 1964 to exchange preliminary views on their exceptions lists and to arrange for a more detailed examination of such lists beginning in January 1965. This "confrontation and justification" of the exceptions involved an explanation by each participating country of each item excepted from the negotiations and of the overriding national interests that warranted such exceptions. This exchange of views was completed in early February 1965, following which the participating countries began bilateral talks preparatory to the actual negotiations.

Details concerning the contents of the exceptions lists submitted by the various countries were held confidential. Countries negotiating with the European Economic Community, including the United States, however, expressed the view that the EEC list was too large in relation to those submitted by the other principal countries and was impeding the progress of the negotiations.

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[4] The EEC bargained as a unit at the Kennedy Round, but each decision required the approval of all six member countries.

[5] Steps taken by the Contracting Parties to solve the trade and economic development problems of less developed countries are described on pp. 27–32.

Nontariff Trade Barriers

One major goal of the Kennedy Round was the reduction and elimination of nontariff barriers to trade, which embrace a variety of direct quantitative restrictions as well as legal and administrative regulations that discriminate against imported products.

The General Agreement explicitly prohibits some of these restrictions. Waivers, or exceptions, to the GATT rules may be granted under certain circumstances, but when the conditions warranting such waivers are no longer present, pressure is brought within the Contracting Parties to remove the barriers. As a consequence of consultations within the GATT, the developed countries had removed almost all of such restrictions on industrial products before 1964. The Kennedy Round negotiations did not deal with the restrictions prohibited by the GATT, but concentrated on those nontariff barriers which, although not expressly prohibited, did affect trade. The negotiators recognized that since nontariff trade barriers could impair or nullify tariff concessions, tariff and nontariff restrictions to trade had to be considered together. Offers to liberalize imports are often meaningful only if they include steps to reduce or eliminate nontariff barriers as well as tariff restrictions.

In view of the obvious difficulty of achieving a precise balance of reciprocal concessions in respect to nontariff barriers, each country undertook to present a package offer containing both tariff cuts and substantial reductions in nontariff barriers. The participating nations agreed, moreover, that discussions concerning nontariff trade barriers would proceed on the basis of specific complaints and requests for corrective action. In July 1964, working groups were established to discuss complaints concerning such barriers in the following fields:

(1) Customs valuation, including the American-selling-price system and the "wine gallon" system
(2) Technical and administrative regulations
(3) Government procurement practices
(4) Quantitative restrictions
(5) Internal taxation
(6) Antidumping measures

The discussions on nontariff trade barriers began in 1964. The American-selling-price (ASP) system of customs valuation, which applies to U.S. imports of benzenoid chemicals, rubber-soled footwear with canvas uppers, canned clams, and knit woolen gloves, was one of the main subjects of these discussions. Under the ASP system, the dutiable value of an import is calculated on the basis of the wholesale price of a like or similar competitive American product, rather than the foreign price of the imported product. As a result, the dutiable value is often substantially higher than it would be if the more customary basis of determining dutiable value (export value) was employed. Several countries, including members of

the EEC, Switzerland, the United Kingdom, and Japan, complained that the ASP system placed a heavy burden on their exports of the respective products to the United States.

The United States, in turn, was interested in obtaining the relaxation or removal of a number of nontariff trade barriers imposed by other countries. Of particular interest were certain taxes levied on automobiles by various European countries and Japan. These taxes, though not applied directly to imports, bore heavily on U.S. automobiles with large engines, because they were assessed on the basis of horsepower and cylinder capacity rather than value, and because the levy was progressive in character.

Several working groups were established to examine specific issues involving nontariff trade barriers; bilateral talks were conducted between some of the contracting parties directly concerned, but no concrete results had been achieved in this area by the end of the period under review.

Tariff Disparities

Another problem that received considerable attention in the discussions at Geneva, particularly in the discussions between the United States and the EEC, was that of tariff disparities. Disparate tariffs are those in which the respective rates of duty within one country's tariff schedule differ from one another more widely than in that of another, even though the average rate of duty for all commodities may be approximately the same. The EEC argued that most of the rates in its common external tariff ranged between 10 and 20 percent ad valorem, while in the U.S. tariff many "peak" rates exceeded 50 percent, and that, inasmuch as linear duty reductions would not eliminate such disparities, special duty-reduction rules should be applied to them. Little progress had been made in this direction by the end of the period covered by this report.

Agricultural Lists

The discussions preparatory to the negotiations on agricultural products were an important feature of the deliberations at Geneva. During the summer and fall of 1964, the GATT countries were unable to agree on procedures to govern negotiations in the agricultural sector. The chief difficulty arose because the EEC had been unable to resolve various difficulties associated with its internal agricultural policy—especially the difficulty concerning the level to be fixed for its "common grain prices."

In December 1964, the Community agreed to a uniform level of prices for grains, thus removing what had been a major impediment to the negotiations. Almost immediately, the Executive Secretary [6] of the GATT

[6] By a decision of the Contracting Parties of Mar. 23, 1965, the title of Executive Secretary was changed to that of Director-General. (See Contracting Parties to the GATT, *Basic Instruments and Selected Documents*, 13th supp., Geneva, 1965, p. 19. This series will hereafter be referred to as *Basic Instruments* . . . .)

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suggested that offers for agricultural products be tabled. Such offers were designed to achieve the objectives set by the GATT Ministers—namely, to assure that the negotiations on agricultural products would contribute to "the creation of acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products." The countries participating in the GATT Conference agreed that the agricultural negotiations should proceed on the basis of specific offers rather than on the hypothesis of linear tariff reductions as with industrial products. Except for the EEC members, which withdrew from active participation in the Kennedy Round negotiations in July 1965 and did not resume active participation during the year, nearly all countries (including less developed countries) that were to table offers had done so by late 1965, with the understanding that the EEC would make its offer as soon as possible.

Before the EEC withdrew, preliminary discussions with respect to agriculture had taken place. These discussions, which began on May 10, 1965, were aimed at (1) identifying the elements of each country's agricultural support program that were relevant to the negotiations on individual products, and (2) exploring the views of individual countries regarding the type and content of offers that would be made to reduce tariff barriers. Also, on May 17, 1965, the countries participating in the GATT cereals group exchanged proposals concerning a world grain arrangement designed to expand trade in wheat and feed grain.

Temporary EEC Withdrawal From the Kennedy Round

On July 1, 1965, the French Government ceased participating in most of the major activities of the European Economic Community, including the Kennedy Round deliberations. The immediate cause of the French action was the Community's inability to agree on financial arrangements for its common agricultural policy. Since the EEC bargained as a unit at the Kennedy Round, it could take no action without the approval of all six of its members. Hence, it became impossible for the EEC to continue participating actively in the negotiations, including those on industrial tariffs, which were to have been conducted on a sector-of-industry basis, beginning in September 1965.[7] The withdrawal of the EEC from participation in the Kennedy Round talks produced an impasse in the negotiations that had not been resolved by the close of the period under review.

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[7] The problems encountered in attempts to reduce tariff and other barriers to trade for certain products and industries were found to be similar among participating countries. Accordingly, at the suggestion of the Director-General of the GATT, the major participating countries had agreed to multilateral discussions dealing with key industrial sectors such as steel, aluminum, pulp and paper, chemicals, and textiles.

ACTIVITIES IN THE INTEREST OF LESS DEVELOPED COUNTRIES

One of the most pressing and persistent problems confronting the Contracting Parties in recent years has been the generally unsatisfactory position of the less developed countries in world trade. As the number of LDC's among the membership of the GATT increased,[8] the Contracting Parties actively sought solutions to their trade and economic development problems. Accordingly, the Contracting Parties provided for increased flexibility respecting the obligations of the LDC's under the General Agreement, developed programs designed to help the LDC's to increase their export earnings, and initiated measures to amend the General Agreement in order to improve the trade of less developed countries.

In 1963 the GATT Ministers had adopted an Action Program to accelerate the expansion of exports from the LDC's to the more developed contracting parties and established an Action Committee to implement it. The program provided that the participating countries should—

(1) Impose no new tariff or nontariff barriers against imports from LDC's of products of particular interest to LDC's;
(2) Eliminate within 1 year quantitative restrictions on imports from LDC's that are inconsistent with the provisions of the General Agreement; in cases where difficulties arise, eliminate the restrictions by December 31, 1965;
(3) Admit tropical products duty free into industrialized countries by December 31, 1963;
(4) Eliminate tariffs on primary products important in the trade of LDC's;
(5) Eliminate tariff barriers to imports of semiprocessed and processed products from LDC's;
(6) Eliminate, by progressive reductions, internal charges and revenue duties on products wholly or mainly produced in LDC's by December 31, 1965;
(7) If industrialized and maintaining the barriers mentioned above, submit annual reports to the GATT Secretariat concerning progress made in implementing points 1 to 6 above;
(8) Consider other measures for promoting diversification of the economies of the LDC's and expansion of their exports.

The Action Committee had established three subcommittees to deal with various aspects of its program: Subcommittee 1—to develop a program for the removal of barriers to trade of less developed countries; subcommittee 2—to recommend measures to promote diversification of the economies of the LDC's and expansion of their exports; and subcommittee 3—to serve as the liaison group between various GATT and

[8] About two-thirds of the countries participating in the General Agreement at the end of 1965 were deemed to be less developed countries.

other international bodies dealing with projects related to the Action Program.

The Action Committee reported to the Second Special Session in November 1964 concerning its efforts to carry out its mandate.[9] The report noted that during the previous 17-month period most of the industrialized countries that were adherents to the GATT had been able to deal with inflationary or balance-of-payments pressures without adopting restrictive measures adversely affecting the trade of the LDC's. Significant achievements were also reported in eliminating quota restrictions. Nevertheless, the LDC's were concerned about the continued application of quantitative import restrictions to a number of items of importance in their trade, there being no assurance that actions to remove these restrictions would be taken by the target date mentioned in the Action Program.

The Action Committee also noted that conditions in world markets for some of the tropical products exported by the LDC's had improved. Many industrialized countries, for example, had undertaken to eliminate or suspend duties on tea and timber; similar action by several other countries was expected. The Committee pointed out, however, that little progress had been achieved in eliminating duties on such items as coffee and cocoa. Detailed studies on other items were still under way.

The Action Committee further reported some progress in processing proposals to promote both the diversification of the economies of the LDC's and the expansion of their exports. Studies of trade and aid relationships and the development of export promotion services had contributed to these ends. In spite of the limited success cited, the Committee indicated that the Contracting Parties had not advanced very far in implementing the measures that had been agreed upon in the Ministerial Conclusions of May 1963—measures to aid the LDC's in expanding their export earnings.

At their meeting in May 1963, the GATT Ministers had also directed committee III to cooperate with other interested agencies in studying the development plans of individual LDC's. Such studies were to analyze the export and market potential for LDC products and the various measures proposed to overcome problems in those areas. In its report to the Second Special Session in November 1964, committee III stated that papers on the development plans of a number of the LDC contracting parties were in preparation. The plans of Kenya, Uganda, and Nigeria were reviewed by the expert group in July 1965.[10]

At the GATT Ministerial meeting in May 1963, a proposal had been made that, in order to expand the export trade of the less developed

[9] *Basic Instruments . . .*, 13th supp., pp. 68–71.

[10] Contracting Parties to the GATT, *The Activities of GATT, 1964/65*, Geneva, 1965, p. 13. The expert groups, established under the Committee on Trade and Development, are discussed on pp. 31–32.

countries, preferential tariff treatment should be granted to imports of selected products from these countries. A working party on preferences had been established to consider proposals to that end and to report to the Contracting Parties. A report by the working party, submitted to the Contracting Parties at their Special Session in November 1964, contained a proposed amendment to the General Agreement which would allow preferences to be granted to less developed countries by other contracting parties and the exchange of preferences between less developed contracting parties themselves.[11] The working party agreed that countries wishing to do so could submit detailed proposals on preferences, and it recommended that the examination of these proposals, including an assessment of their probable effects, should be entrusted to an appropriate organ of the Contracting Parties. Although the working party agreed to the general objective of providing greater opportunities for the less developed countries to increase their export earnings, several members opposed the granting of preferences as a means to this end. They felt that the Contracting Parties should continue to promote nondiscriminatory measures to increase the export opportunities of the LDC's.

Amendment to the GATT

At the conclusion of the Second Special Session, on February 8, 1965, the Contracting Parties acted to implement the program for the less developed countries by including a part IV in the General Agreement. The new part IV, which was composed of three new articles embodying the recommendations of the Committee on the Legal and Institutional Framework of GATT in Relation to Less Developed Countries, had to do with the trade problems of the LDC's. The three new articles—articles XXXVI, XXXVII, and XXXVIII—provided a contractual and legal basis for commitments on individual and joint actions by the contracting parties, rather than a body of recommendations. They were to enter into force de jure when the protocol to include part IV had been signed by two-thirds of the contracting parties.[12] To provide the necessary review of the implementation of the provisions of part IV, the Contracting Parties created a Committee on Trade and Development.

[11] *Basic Instruments . . .*, 13th supp., p. 100 ff.

[12] The United States and 12 other contracting parties signed the protocol without reservation on Feb. 8, 1965. At the same time, 15 additional contracting parties signed subject to ratification or ad referendum. Also on Feb. 8, 1965, the Contracting Parties adopted a declaration which provided for the de facto implementation of the new articles pending their de jure entry into force. The declaration was to be binding only for those contracting parties that signed it after it had been adopted by the Contracting Parties. Signature was to be construed as evidence of intent to implement the new part IV on a de facto basis but only to the extent not inconsistent with the laws of the signatory and only until Dec. 31, 1965 (later extended to the close of the 24th Session—see *Basic Instruments . . .*, 14th supp., p. 17), or until the new part IV entered into force de jure, whichever date was the earlier. (See *Basic Instruments . . .*, 13th supp., pp. 10–11.)

Article XXXVI sets forth general principles and objectives to guide the Contracting Parties in coping with the trade and development problems of the LDC's. The article recognizes the need for the immediate and sustained expansion of the export earnings of the developing countries and indicates that the guiding rules for trade must be consistent with that need. It notes that many LDC's continued to depend heavily on exports of primary products and recognizes that to achieve the desired goals, favorable conditions of access to world markets will have to be gained for these products. Only thus would it be possible to establish stable, equitable, and remunerative prices for such primary products. The Contracting Parties sought further to encourage the diversification of the economies of the LDC's by providing markets for their exports of processed and manufactured goods. The article states that interrelationships exist between development and financial assistance, and points out the need for close collaboration between the Contracting Parties and international lending agencies to help the LDC's in financing their development programs. The article also indicates that the developed countries should not expect full reciprocity for trade concessions granted to the LDC's.

Article XXXVII outlines the actions to be taken by both the developed countries and the LDC's. The developed countries agree—except in cases where overriding considerations make such actions impossible—to the following: (a) To refrain from imposing new barriers on imports of special interest to the LDC's; (b) to grant high priority to the reduction of barriers to imports of these products; and (c) to seek to reduce taxes that restrict their consumption.

Article XXXVIII provides for cooperative efforts by the Contracting Parties in developing programs to further the following objectives: To expand world markets for primary products; to gain additional knowledge concerning potential markets; to collaborate in analyzing the development plans of individual LDC's; and to identify the measures necessary for the LDC's to realize their full export potential. Collaboration was also to be achieved through the development of technical and commercial standards, the improvement of transportation and marketing, and export promotion. Cooperation was to be sought with organs of the United Nations and other international agencies.

The Committee on Trade and Development, which was to review the implementation of the provisions of the new part IV of the General Agreement, also took over the functions of committee III and the Action Committee. It was directed not only to review periodically the progress attained in removing trade barriers, as called for in the new articles of the agreement, but also to examine proposals for new procedures to ameliorate the trade problems of the LDC's. In addition, the Committee was to review provisions of the General Agreement such as those under

article XVIII dealing with protective measures taken by LDC's to promote their economic development, and the provisions of article XXIII, which deals with the procedures for settling disputes between contracting parties.

The Committee on Trade and Development held its first meeting in February 1965. At a second meeting, in March 1965, the Committee established subsidiary groups to deal with its assigned functions. These groups and their principal areas of responsibility were as follows:[13]

(1) A group to examine the products in which the less developed countries had a particular export interest and to make recommendations for developing the trade in such products.
(2) A group to report on measures being applied, or proposed, by industrialized countries for assisting adjustments in the changing pattern of production, so as to permit an expansion of trade in products of interest to less developed countries and to provide larger opportunities for imports from these countries.
(3) A group to examine the development plans of individual less developed contracting parties with a view to analyzing (a) the proposed trade and aid relationships and (b) the role of the export sector in the development program, including an assessment of the possibilities and prospects offered by such plans.
(4) A working group on international commodity problems, to propose measures that might be taken to—
    (a) Attain stable, equitable, and remunerative prices for exports of the primary products of particular interest to less developed countries; and
    (b) Provide improved and acceptable conditions of access to world markets for such products.
(5) A group to examine what amendments to articles XVIII and XXIII are necessary, or desirable, to meet the special trade and development needs of less developed countries.
(6) A group to examine proposals for the extension of preferences by industrialized countries to less developed countries.
(7) A group to examine the problems involved in the expansion of trade between less developed countries, with particular reference to the role of mutual preferences in promoting such trade.
(8) A group to make appropriate recommendations respecting action to be taken to secure the elimination of residual import restrictions being maintained on the trade of less developed countries inconsistently with provisions of the GATT.

All of these working groups met during 1965 to define and clarify the problems with which they were to deal. Further meetings of the working groups were scheduled, and a full review of the activities of

[13] *Basic Instruments. . .*, 13th supp., pp. 77–87.

the Committee on Trade and Development was slated for the 23d Session of the Contracting Parties in the spring of 1966.

Trade Information Center

In May 1964 the Contracting Parties had established an International Trade Center in Geneva to assist the developing countries in their efforts to expand exports by providing them with information on markets and marketing and by helping them develop export promotion services. An expert group on trade information and trade promotion advisory services in the GATT had also been appointed to guide the activities of the trade center.

The expert group met at Geneva in February 1965 to review the operations of the center and to examine the types of activity deemed to be most useful to exporters in the developing countries. The group reported that the International Trade Center had met a real need, as evidenced by the extensive use that had been made of its facilities during the brief period it had been in operation. In pursuit of its objectives, the center had successfully established the following:

(1) A liaison network with both developed and less developed countries to collect available trade information;
(2) A market information service to answer requests for trade information by developing countries;
(3) A publications program to disseminate information on the promotion of LDC exports;
(4) A program for training officials of the less developed countries in trade promotion through collaboration with national governments.

The expert group recommended not only that these activities be continued but also that the trade center should consider performing certain additional services. They suggested that the center sponsor joint trade promotional efforts by countries having a substantial export interest in given products, and encourage these countries to undertake cooperative research to obtain more comprehensive market information than the trade center could provide from its own resources. The expert group further recommended that the trade center study the advisability of sponsoring international trade fairs as a means of expanding exports from the developing countries.

REGIONAL ECONOMIC ARRANGEMENTS

GATT members participating in customs unions or free-trade areas are required to report to the Contracting Parties on developments related thereto. During the 18-month period covered herein, the Contracting Parties received reports on the European Economic Community, the European Free Trade Association, the Latin American Free Trade Association, the Central American common market, the Central African

Economic and Customs Union, the New Zealand-Australia free-trade agreement, and the Arab common market. This section summarizes the main features of these reports and the actions taken in response thereto. Major developments concerning commercial policy in the regional economic groups, however, are discussed in chapter 3.

In recognition that closer integration between national economies may serve to facilitate international trade, the General Agreement permits the formation of a customs union or free-trade area between two or more contracting parties. Such authorization, however, is granted only on the condition that the tariff and other restrictions imposed on trade with countries outside the customs union or free-trade area are generally not rendered more burdensome thereby. A customs union not only eliminates import duties and other restrictions on substantially all trade between the member countries, but also establishes a common tariff and other restrictions on trade with third countries. A free-trade area, on the other hand, seeks only to eliminate tariffs and other trade barriers between the participating countries; each member country maintains its own tariff and other restrictions on trade with nonmember countries.

European Economic Community

As at previous sessions, the representative of the European Economic Community [14] reported to the Contracting Parties at their 22d Session concerning developments during the previous year in the implementation of the Rome Treaty, which established that organization. The report emphasized that trade between the Community and third countries had expanded greatly with respect to both industrial and agricultural products since the EEC reported at the 21st Session. It pointed out that in January 1965 a new stage had been reached in the reduction of the Community's internal tariff; the level of duties between member countries had been reduced to 30 percent of the 1957 level for industrial products, to 45 percent for nonliberalized agricultural products, and to 50 percent for liberalized agricultural products.

The report indicated that, for industrial products, the program to aline national tariffs with the Community's common external tariff was still at approximately the stage it had reached on July 1, 1963. For agricultural products, the program was approximately at the stage attained on January 1, 1962, except that in certain instances the alinement process had been speeded up. No additional general measures had been taken respecting these products.

The spokesman for the EEC reviewed the efforts made toward the formation of a common economic policy within the customs union and

[14] All full members of the EEC (Belgium, France, Germany (Federal Republic), Italy, Luxembourg, and the Netherlands) are also members of GATT.

indicated that progress toward such coordination among the member States had been generally satisfactory. He noted especially the success in the formation of a common agricultural policy, which covered nearly 90 percent of the Community's agricultural production. The EEC representative also mentioned that the agreement of association with the 18 associated overseas countries and territories had entered into force and that matters related to the agreement had been referred to a working party. The report concluded with a description of the measures taken by the Community to assist developing countries, including duty reductions on items of interest to them.

In commenting on the EEC report, representatives of several contracting parties noted that while the overall growth in EEC trade was evident, the Community's imports of industrial products had grown at a much more rapid rate than its imports of agricultural products. As a result, the benefits from the expansion of extra-Community trade were accruing largely to the industrial countries. These representatives also asserted that the progressive harmonization of Community tariffs had been harmful to the trade of some contracting parties, since the customs duties had been raised in some EEC countries that had previously been large markets for exports of these contracting parties. The representatives of these contracting parties expressed the hope that the EEC would give specific attention to these problems and that mutually satisfactory solutions could be found.

The representative of Greece reported to the Contracting Parties on the implementation of the agreement establishing an association between Greece and the EEC. He noted that the progressive dismantling of customs duties, which had begun in 1962, had continued in 1964 in accordance with the schedule provided for in the association agreement.

Inasmuch as the EEC and Turkey had signed an agreement of association on September 12, 1963, the Council of Representatives of the GATT had set up a working party in May 1964 to examine the provisions of the agreement and to report its findings to the Contracting Parties. The working party met in September 1964; its report was adopted by the Contracting Parties on March 25, 1965.

European Free Trade Association

A report by the European Free Trade Association (EFTA) to the 22d Session cited the progress achieved in eliminating customs tariffs and other barriers to trade among the EFTA member States and Finland.[15] It noted that at the end of 1964 duties on industrial products traded

[15] The EFTA members (Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom) were also full or provisional members of the GATT. Finland, which in effect was an associate member of EFTA, was a full GATT member.

between the EFTA countries were reduced to 30 percent of the basic rates.[16] A further reduction of 10 percent was scheduled to become effective at the end of 1965, and such duties were to be eliminated at the end of 1966. In July 1964, quantitative restrictions on industrial products traded among the member States were further relaxed and, for a number of items, were abolished.

The report noted that the first annual review of EFTA's agricultural trade was completed in 1964. It showed that intra-EFTA trade in agricultural products had grown significantly since 1960, but that the gains from such growth had been distributed unequally among the member States.

Latin American Free Trade Association

At the 22d Session of the Contracting Parties, the members of the Latin American Free Trade Association (LAFTA) that were also signatories to the General Agreement reported on the activities of the Association during 1964.[17] They reported that the program of intra-area trade liberalization provided for in the Montevideo Treaty was proceeding in a satisfactory manner, and that the total value of trade among the member countries was about 70 percent greater in 1964 than in 1961. The report described the considerable amount of work that was done in 1964 to strengthen the integration process between the LAFTA members. Special attention was given to the meeting of high-level experts held in Montevideo in September 1964 to devise methods for integrating the various economic activities. The report of the Montevideo meeting served as a basis for the steps taken by the LAFTA members to further their integration objectives at their fourth annual Conference in Bogota in October–December 1964.

Central American Common Market

The Government of Nicaragua[18] reported to the 22d Session of the Contracting Parties concerning developments under the treaties establishing a Central American customs union. The report reviewed achievements toward economic integration by November 1964. It noted particularly that the schedule established under the General Treaty on Central American Economic Integration (1961) for liberalizing trade between the

[16] Generally, the basic rates of duty were those that the EFTA members applied to each other's goods on Jan. 1, 1960. The reductions in duty and quantitative restrictions cited in the text applied to full EFTA members. Finland followed a somewhat different schedule for its reductions.

[17] The five members of LAFTA that were also full or provisional members of the General Agreement were Argentina, Brazil, Chile, Peru, and Uruguay. The other LAFTA members were Colombia, Ecuador, Mexico, and Paraguay.

[18] Nicaragua was the only member of the Central American common market that was also a contracting party to GATT. The other common market members were Costa Rica, El Salvador, Guatemala, and Honduras.

member States was being adhered to. The value of such trade had doubled since 1961. The report also cited achievements toward the establishment of a uniform import tariff. In connection with its alinement of customs duties with the rates provided for in the common market's external tariff schedule of rates, Nicaragua requested a 3-year extension of the waiver of GATT obligations that had been granted by the Contracting Parties in 1961, and under which it had been authorized to increase certain rates of duty. Several contracting parties commented on the report by Nicaragua and noted their pleasure with the significant progress reported toward the establishment of a free-trade area in Central America. The Contracting Parties then agreed to the 3-year extension of the waiver requested by Nicaragua.

Central African Economic and Customs Union

A treaty establishing a Central African Economic and Customs Union was signed on December 8, 1964, by the member States of the Equatorial Customs Union[19] and by Cameroon. The text of the treaty was transmitted to the Contracting Parties at their 22d Session. The provisions of the treaty were similar to those in an already existing convention between the member States. The Contracting Parties, therefore, only reviewed the new treaty without taking specific action.

New Zealand-Australia Free-Trade Agreement

In October 1965 the Governments of New Zealand and Australia notified the Contracting Parties that they had concluded a free-trade agreement. Initially, the agreement was to apply to a list of commodities which accounted for about 60 percent of the trade between the two countries, but it contained provisions for the expansion of the list. The member countries viewed the agreement as an interim arrangement leading to the formation of a free-trade area within the terms of article XXIV:5 of the GATT.

The GATT Council established a working party to examine the agreement in light of the provisions of the General Agreement and to report its findings to the 23d Session.

The Arab Common Market

The permanent representative of the United Arab Republic submitted to the Contracting Parties at their 22d Session the text of an Agreement

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[19] The member States of the Equatorial Customs Union were the Central African Republic, the Republic of the Congo (Brazzaville), the Gabon Republic, and the Republic of Chad. See *Operation of the Trade Agreements Program*, 16th report, pp. 14–15, for a discussion of this customs union. All members of the Central African Economic and Customs Union were full members of the General Agreement.

for Economic Unity Among Arab League States.[20] The agreement had entered into force on April 30, 1964. Acting under the terms of the agreement, the Council of Arab Economic Unity decided to establish an Arab common market; by March 1965 the United Arab Republic, the Syrian Arab Republic, and the Republic of Iraq had ratified the Council's decision. The final results of the review of the agreement by the Contracting Parties had not been completed by the end of the period covered by this report.

ACTIONS RELATING TO GATT OBLIGATIONS

The reduction of customs duties and the lowering of other trade barriers, together with the elimination of discriminatory trade practices, have already been identified as primary objectives of the General Agreement. Exceptions to the general commitments under the GATT code are permitted under certain circumstances.

Article XII, for example, provides that a contracting party may impose quantitative import restrictions to prevent a serious decline in its monetary reserves arising from an adverse balance of payments, or to rebuild its monetary reserves if they are already low. Contracting parties that maintain import restrictions for balance-of-payments purposes are required to consult annually with the Contracting Parties. A number of provisions under article XVIII permit the less developed countries to deviate from the agreement in order to facilitate their economic development; for those that do so, consultations are required every 2 years.[21] Article XIX contains an "escape clause" which authorizes the withdrawal or modification of tariff concessions under certain conditions. Tariff concessions may also be modified under the provisions of article XXVIII, and article XXV provides that the Contracting Parties may, by two-thirds vote, grant a waiver to any obligation imposed on a member country by the agreement. Such waivers and authorizations are generally granted for a limited period of time, but they are frequently extended. Activities related to the aforementioned articles, and to others, are discussed in the sections which follow.

Import Restrictions for Balance-of-Payments Reasons

Between July 1, 1964, and December 31, 1965, the committee on balance-of-payments restrictions held consultations with 18 contracting

[20] The 12 member States named in the agreement included Jordan, Tunisia, Sudan, Iraq, Saudi Arabia, Syria, Lebanon, Libya, Yemen, Morocco, Kuwait, and the United Arab Republic. Only the two countries last named were contracting parties to the General Agreement.

[21] A committee on balance-of-payments restrictions carries out these consultations according to procedures adopted at the 17th Session. Because of the interrelationship of balance-of-payments restrictions and exchange measures, an examination by the International Monetary Fund is held in conjunction with each consultation.

parties that maintained restrictions on imports under either article XII or article XVIII:B; the members thus involved were as follows:

Country	*GATT authority (article No.)*
Brazil	XVIII:B.
Ceylon	XVIII:B.
Chile	XVIII:B.
Finland	XII.
Ghana	XVIII:B.
Greece	XVIII:B.
Iceland [1]	XII.
India	XVIII:B.
Israel	(2).
New Zealand	XII.
Pakistan	XVIII:B.
South Africa	XII.
Spain	(2).
Tunisia	XVIII:B.
Turkey	XVIII:B.
United Arab Republic [1]	XVIII:B.
Uruguay	XII.
Yugoslavia [1]	XVIII:B.

[1] Provisional member.
[2] Authority not clear.

Consultations were held with 11 countries in the last half of 1964 and 11 countries in 1965.[22] Spain, which had acceded to the General Agreement in 1963, consulted with the committee for the first time in 1964. Iceland and Tunisia, both provisional members of the GATT, reported on their import restrictions for the first time in 1965.

Consultations during 1964

Reports on the consultations held with 11 countries in 1964—Brazil, Ceylon, Finland, Ghana, Greece, India, Israel, New Zealand, Pakistan, South Africa, and Spain—were adopted by the Contracting Parties at their 22d Session.

The committee's reports on the consultations with Brazil, Ceylon, Ghana, Greece, India, and Pakistan noted that these countries faced special problems arising from their economic development programs. The Contracting Parties cautioned against fostering uneconomic production through restrictive trade practices and urged these countries to take strong measures to control domestic inflation as a means of easing their balance-of-payments problems.

In addition to the quantitative import restrictions maintained for balance-of-payments purposes by Ceylon, the Contracting Parties had granted that country a waiver in November 1962 permitting it to increase

[22] Four countries—Finland, Israel, New Zealand, and South Africa—consulted with the committee in both 1964 and 1965.

import duties on a number of items.[23] The waiver was scheduled to expire at the end of 1964. The committee on balance-of-payments restrictions held consultations with Ceylon concerning the surcharges imposed under the waiver and reported to the Contracting Parties on these consultations at the 22d Session. In view of Ceylon's continuing balance-of-payments difficulties, the Contracting Parties extended the waiver for a period of 2 years.

The Contracting Parties expressed their satisfaction with the achievements of Finland and New Zealand in reducing the scope of their import restrictions and encouraged these countries to continue their efforts in that direction.

The report on the consultation with Israel indicated that its quantitative controls on imports were under review and that most of them would be removed by the fall of 1965.[24]

The discussions concerning the consultations with South Africa revealed that most representatives of the contracting parties felt that, as a result of its improved balance-of-payments position, the level of import restrictions maintained by South Africa was no longer warranted. These representatives urged more rapid liberalization of import restrictions and the adoption of a specific time schedule for these actions.

The report on the consultations with Spain reflected the view that Spain's balance-of-payments situation would continue to benefit from substantial invisible receipts, especially from tourism and emigrant remittances. The report called upon Spain to reduce import restrictions in order to stimulate competition and guard against the development of an unduly high cost structure in its new and expanding industries. The report urged the utilization of customs duties rather than quotas to protect domestic industries; it also urged the use of global quotas where full liberalization was not possible, and the termination of discrimination in bilateral agreements.

Consultations during 1965

In 1965, the committee consulted with Chile, Finland, Iceland, Israel, New Zealand, South Africa, Tunisia, Turkey, the United Arab Republic, Uruguay, and Yugoslavia concerning import restrictions maintained for balance-of-payments purposes.

Iceland.—Iceland, which had become a provisional member of the GATT in April 1964, maintained quantitative restrictions on imports at the time of its accession. In accordance with the provisions of article XII, Iceland consulted with the committee on balance-of-payments restrictions in May 1965. The committee prepared a report on the con-

[23] *Basic Instruments . . .*, 11th supp., pp. 60–68. See also *Operation of the Trade Agreements Program*, 16th report, p. 19.

[24] See p. 41 for a discussion of the 1965 consultations with Israel.

sultations and recommended that it be adopted by the Contracting Parties at their 23d Session.

In its report to the committee, Iceland noted that its system of import controls had been in effect for approximately 30 years, but that significant progress had been made toward liberalization in 1964 and 1965. By the time of the consultation, about 80 percent of Iceland's imports had been freed from quantitative restrictions. The representative of Iceland stated that, notwithstanding his country's generally weak monetary position, and the uncertainty of its fish exports in 1965 (upon which Iceland depended heavily for foreign-exchange earnings), further liberalization was intended and that most of the remaining import restrictions would be removed.

A corollary report made by the International Monetary Fund (IMF) in conjunction with the GATT consultations indicated that Iceland's balance-of-payments position was sufficiently strong to permit further liberalization. The IMF report urged the early termination of Iceland's bilateral payments agreements.

Tunisia.—Because of a rapid increase in its trade deficit and a decline in its exchange reserves occasioned by the requirements of its new 4-year development program (1965–68), Tunisia adopted a series of measures to ease its balance-of-payments situation. The committee on balance-of-payments restrictions consulted with Tunisia on these measures in November 1965 under the provisions of article XVIII. This was Tunisia's first consultation with the committee.

The Tunisian representative outlined the actions to be taken to control his country's imports as follows:

(1) Essential products were to be freed of quota restrictions and subject to low customs duties;
(2) A large number of nonessential products were to be freed of quantitative controls but subject to high customs duties;
(3) Most products were to be subject to global quotas; and
(4) Bilateral quotas were to be applied to a small number of products which could not be controlled by other means.

Many members of the committee felt that Tunisia's system of quantitative restrictions hampered its trade and increased the costs of obtaining necessary imports. The members recognized the desirability of the increased emphasis on customs duties, as opposed to quantitative restrictions, but felt that too many products were still subject to quotas and to rates of duty too high to allow competition to stimulate domestic industry. The examination of Tunisia's import restrictions by the IMF had not been completed by the end of the period under review.

The committee on balance-of-payments restrictions recommended that the report on the consultations with Tunisia be adopted by the Contracting Parties at their 23d Session.

Other countries.—Finland, Israel, New Zealand, and South Africa consulted with the committee in 1964 and again in 1965 as required by article XII.[25] Finland reported that it had been able to cover its balance-of-payments deficit in 1964 by foreign borrowing, but that in 1965 a sharp tightening of capital markets in Europe and the United States had resulted in a loss of foreign-exchange reserves by the Bank of Finland. To ease the pressure on its monetary reserves arising from balance-of-payments difficulties, therefore, Finland had only limited recourse to internal monetary and fiscal measures. Meanwhile, it had continued to eliminate quantitative restrictions on imports; 4 global quotas had been abolished on August 1, 1965, and 12 quotas had been partly liberalized. The committee noted Finland's serious balance-of-payments position and welcomed the fact that, in spite of these difficulties, the liberalization of imports was being continued.

In its report to the committee on balance-of-payments restrictions, Israel noted a worsening trade deficit in 1964 and 1965, a generally weak position with respect to its monetary reserves, and rather limited prospects for export expansion. In spite of its balance-of-payments difficulties, Israel had continued to remove import restrictions in order to promote price stability and efficiency in industrial production. More than 80 percent of its imports of industrial products were to be freed from quantitative restrictions by November 1965. A majority of the committee members felt that Israel had made much progress toward liberalizing its import trade, and they urged the continued removal of licensing requirements and the reduction of other trade barriers.

The representative of South Africa, in reporting to the committee, reviewed developments in that country's foreign-exchange situation and indicated that, while the economy was generally buoyant, imports had increased more than exports, resulting in a net deficit in the country's current account and a decline in its foreign-exchange reserves. The committee urged South Africa to continue efforts to liberalize its imports and stressed the need for a definite timetable for the removal of trade restrictions.

In reporting on its consultations with New Zealand, the committee indicated that it generally agreed with the statements made by the representative of that country and with the decision of the executive board of the IMF concerning New Zealand's economic situation. The representative of New Zealand said that his country's balance of payments had deteriorated during the latter part of 1964 and in 1965, mainly as a result of a sharp drop in export earnings while imports continued at a high level. The IMF concurred and reported that the abolition of New Zealand's import restrictions was prevented by the country's difficulties in its

[25] The authority for Israel's consultation is not clear, but Israel agreed to annual consultations as required by art. XII.

balance of payments and in maintaining adequate reserves of foreign exchange. Nevertheless, the IMF cautioned that continued reliance on restrictions by New Zealand could lead to misallocation of resources. Adverse terms of trade and the continued need for imported raw materials and equipment to meet the country's requirements for economic development had forced New Zealand to draw on its international reserves during the past 8 years. In spite of these conditions, New Zealand chose not to increase its import restrictions as a means of alleviating its difficulties in the balance of payments. In fact, in July 1965 it added 90 items to the list of products that had been permanently exempted from import licensing. Instead, throughout 1965 New Zealand sought to improve its economic situation by initiating several measures designed to counteract internal inflationary pressures and promote the expansion of export industries.

The committee approved the reports of Finland, Israel, New Zealand, and South Africa and recommended that they be adopted by the Contracting Parties at the 23d Session.

The committee consulted with Chile on import restrictions that it maintained under article XVIII, and also examined Chile's requests for an extension of a waiver concerning import surcharges originally granted in 1959. In view of Chile's balance-of-payments problem, the committee extended the waiver until a new tariff, which was under consideration by the Chilean legislature, could be entered into force or until December 31, 1966, whichever was earlier.

Other consultations under article XVIII revealed that Turkey, the United Arab Republic, and Yugoslavia were suffering continued balance-of-payments difficulties, which had arisen largely from pressures created by their economic development programs. Turkey's problem, however, was of a long-term structural nature, complicated by a heavy long-term foreign debt. The committee agreed that for some time Turkey would require quantitative import restrictions.

The United Arab Republic reported that its imports had increased in 1965 and that it had achieved little progress in closing its exchange gap. Notwithstanding that capital inflows had covered part of the trade deficit, there had been some loss in exchange reserves. Licensing regulations had been liberalized somewhat since the last consultation, and foreign-exchange controls had been rendered more flexible. The committee urged the United Arab Republic to make further efforts to improve its balance-of-payments position and expressed the view that imports could make a greater contribution to the efficiency of production if bilateral agreements were terminated.

Yugoslavia reported that high prices in that country had led to a declining rate of growth for exports and increasing imports. As the country's trade deficit had increased, tighter credit policies and intensified import restrictions had been applied to ease the pressure on foreign-

exchange reserves. The committee recommended that Yugoslavia continue its efforts to liberalize import restrictions and adopt measures to increase the efficiency of its economy, including a significant expansion of the private sector.

In November 1964 Uruguay increased its import surcharges beyond the levels permitted by a waiver which was granted to that country in 1961 and which had been extended several times thereafter. The waiver had permitted Uruguay to impose import surcharges over and above the rates of duty bound in the GATT. The most recent extension of the waiver was to expire on March 31, 1965. Inasmuch as the November 1964 increases in surcharges exceeded the terms of the waiver, Uruguay requested that the waiver be extended for an additional 3 years and that it be amended to cover the increases. In March 1965 Uruguay was given provisional authority (under article XXV) to maintain the increased surcharges until December 31, 1965, by which time a periodic consultation on its quantitative restrictions maintained under article XII for balance-of-payments purposes was to be held. As a result of the consultations, held late in 1965, the Contracting Parties extended the waiver until the end of their first regular session in 1967. The waiver was modified to include the changes Uruguay had made in its surcharges in November 1964.

Consultations with Uruguay in November 1965 revealed that it continued to be confronted with serious balance-of-payments difficulties, that occasionally during the year it had prohibited imports, and that its trade and payments controls had become more complex and restrictive. It was recognized, however, that in October 1965 Uruguay had simplified and liberalized its import controls; when implemented, the new regime would end all discrimination, eliminate certain trade restrictions, and direct commercial policy along the lines advocated by the General Agreement.

The IMF had not completed its examination of the measures taken by Uruguay to protect its external financial position by the end of 1965, but in a statement to the committee on balance-of-payments restrictions the Fund indicated that it had no basis for concluding that the general level of restrictions imposed by Uruguay was excessive. The committee recognized the seriousness of Uruguay's balance-of-payments problem and welcomed the measures taken under the new system of trade and payments.

Residual Import Restrictions

A number of contracting parties continued to maintain so-called residual import restrictions during the period under review. These were quantitative restrictions that had originally been imposed for balance-of-payments purposes and kept in force after the balance-of-payments difficulties had passed. The Contracting Parties had invited member

countries to submit lists of such restrictions that they were maintaining contrary to the GATT rules. At the 20th Session, the Contracting Parties had requested the Council to review the lists from time to time. Such a review was to be made at the 22d Session, and the contracting parties were invited to submit up-to-date information on the subject. However, the GATT Council failed to receive sufficient replies in time to permit it to conduct a review before the 22d Session. The information available to the Contracting Parties in February 1965 indicated that 19 members of the GATT still maintained residual import restrictions.

Special Exchange Agreements

Cuba had withdrawn from the International Monetary Fund in April 1964. Article XV of the General Agreement requires that any contracting party which ceases to be a member of the IMF shall enter into a special exchange agreement with the Contracting Parties. The objective of the requirement is to assure that the General Agreement will not be frustrated by exchange-control actions initiated by a contracting party. Because of a number of legal and practical difficulties associated with the application of the required special exchange agreement, Cuba requested a waiver of its obligations under article XV.[26] In its request, Cuba assured the Contracting Parties that it would act in a manner consistent with the principles that underlie special exchange agreements and in accordance with the intent of the General Agreement.

By a decision of August 7, 1964, the GATT Council, acting for the Contracting Parties, granted Cuba a waiver of its obligations under paragraph 6 of article XV. Thereafter, Cuba was to report immediately to the Contracting Parties any action that it would have been required to report had it entered into a special exchange agreement.[27] The waiver was to be effective for such time as Cuba continued to satisfy the Contracting Parties, through consultations and by submission of appropriate information, that its actions in exchange matters were in accordance with prescribed rules. If, as a result of such consultations, the Contracting Parties determined that Cuba had initiated exchange actions that were not consistent with the intent of the General Agreement, the waiver could be withdrawn.

Import Restrictions for Protection of New Industries

At the 22d Session of the Contracting Parties, the delegate from Ceylon presented (orally) its annual report of actions taken under a release from certain of its obligations under article XVIII:C. The release, originally

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[26] See *Operation of the Trade Agreements Program*, 16th report, p. 22, for a more complete discussion of Cuba's request.

[27] *Basic Instruments . . .*, 13th supp., pp. 23–24.

granted in 1958 and later extended to August 27, 1968,[28] permitted Ceylon to apply prescribed regulations to support the development of certain local textile industries. The report was accepted by the Contracting Parties without comment.

U.S. Import Restrictions on Agricultural Products

The United States submitted its 10th annual report to the Contracting Parties under a waiver granted in 1955, whereby it had been permitted to exempt from the provisions of the GATT its import restrictions on designated agricultural products maintained under section 22 of the Agricultural Adjustment Act, as amended. The waiver requires the United States to account for its activities under section 22 each year. The U.S. report indicated that during the period under review no major changes had been made in the programs for products still under import restrictions, i.e., wheat and wheat products, cotton of certain specified staple lengths, cotton waste and cotton picker lap, peanuts, and certain dairy products. The U.S. report was referred to a working party for review; the report of the working party was presented at the 22d Session.

Certain members of the working party held that the waiver had been in effect too long (10 years) and should have a termination date; some members felt that the United States should remove the restrictions by the end of the sixth round of tariff negotiations; and some expressed the view that section 22 items were negotiable and could be removed without additional legislation. The U.S. representative indicated that the United States was prepared to negotiate on all relevant elements of its agricultural policy and that, while the Trade Expansion Act did not prohibit negotiations on section 22 items, legislation might be necessary, depending on the nature of the commitments negotiated. The Contracting Parties adopted the report of the working party.

Preferential Tariff Treatment

During the 18 months covered by this report, the Contracting Parties considered two new requests for waivers of most-favored-nation obligations, two requests for extensions of waivers already in effect, and nine reports of actions taken under waivers. These waivers were requested or had been granted under the authority of article XXV:5.

Australian request for waiver to grant preferences to imports from less developed countries

In May 1965 Australia requested a waiver under article XXV:5 to permit it to establish lower rates of duty on manufactured and semi-manufactured products imported from less developed countries than the rates imposed on similar products from countries accorded most-favored-

[28] *Basic Instruments . . .*, 13th supp., pp. 65–67.

nation treatment. Australia indicated that it would not seek reciprocal duty reductions from the less developed countries.

The GATT Council established a working party to consider the Australian request. Since this group had not completed its work by the end of 1965, no action was taken by the Contracting Parties during the period under review.

Agreement between Canada and the United States on automotive products

In January 1965 the United States and Canada signed an agreement permitting duty-free trade between the two countries in certain automotive products.[29] Since Canada extended duty-free treatment on the same terms to imports of these products from any country entitled to the British preferential tariff or the most-favored-nation tariff, its actions under the agreement were not inconsistent with its obligations under article I of the GATT. The United States, however, did not extend duty-free treatment to imports of automotive products from countries other than Canada and, therefore, was required to seek a waiver of its obligations under article I.

In December 1965 the GATT Council granted the requested waiver under the authority of article XXV:5. The waiver provided for consultations between the United States and the contracting parties having a substantial interest in U.S. import trade in automotive products, in the event that the contracting party in question felt that the elimination of the duty on imports from Canada had injured, or immediately threatened to injure, its trade in automotive products with the United States. The United States was required to report to the Contracting Parties annually under the waiver; in addition, the Contracting Parties were to conduct a review of the operation of the waiver 2 years after it had become effective, and biennially thereafter if necessary.

Italian preferences for products of Libya

In January 1965 the Contracting Parties extended for the fourth time and until December 31, 1967, a waiver they had granted to Italy in 1952.[30] The waiver permitted Italy to provide special customs treatment to certain products imported from Libya, a country with which Italy had had special relations before World War II.

During the period under review, Italy submitted its 12th and 13th annual reports under the waiver; meanwhile, Libya submitted its 12th annual report. The reports indicated that Italian imports from Libya of products granted special customs treatment accounted for a very small percentage of total Italian imports of these products. The special treatment afforded imports from Libya, therefore, did not appreciably

[29] See ch. 1 for a more complete discussion of this agreement.

[30] *Basic Instruments . . .*, 13th supp., pp. 24–26.

affect Italy's trade with third countries, but it did benefit Libya's economic situation.

Italian preferences for products of Somalia

In December 1965 the GATT Council approved the request of Italy for extension of the 1960 waiver which had authorized it to grant special customs treatment to imports of certain products from Somalia. The waiver was to have expired at the end of 1965. Early in 1965, however, Italy had abolished its state monopoly in bananas—the most important product imported from Somalia. In view of the difficulties encountered in preparing a report on the development of trade with Somalia, upon which future policy was to be based, Italy requested an extension of the waiver until the end of the 23d Session to insure that it could carry out its current commitments to Somalia, and the extension was granted.

Australian preferences for products of Papua and New Guinea

Australia submitted its 11th report on trade with Papua and New Guinea to the 22d Session. The report, which indicated that no new actions had been taken under the waiver since the 21st Session, was limited to a discussion of trade developments in products covered by actions taken under the waiver in earlier years. The Contracting Parties accepted the report without discussion.

Franco-German treaty on the Saar

France and West Germany submitted their seventh and eighth annual reports on the actions taken under a waiver granted by the Contracting Parties in 1957 concerning their trade relations with the Saar, which is part of the German customs and currency area. Trade between the Saar and France is duty free but subject to quotas. The reports indicated that such trade was substantially less than that allowed by the quotas.

Rhodesian preferences for products of dependent territories of the United Kingdom

Rhodesia reported to the Contracting Parties for the fourth time on actions taken under the terms of a waiver granted in December 1960. The waiver authorized Rhodesia to reduce the preferential rates of duty on certain products imported from dependent territories of the United Kingdom. The report indicated that no new steps had been taken under the waiver since the previous report. The Government of Rhodesia felt that the preferential treatment of the goods concerned had not had a significant effect on imports of similar goods from other countries.

South African preferences for products of Rhodesia and Nyasaland

South Africa made its fifth annual report to the Contracting Parties concerning its treatment of products imported from the territories formerly constituting the Federation of Rhodesia and Nyasaland. The

report was required under the terms of a waiver granted to South Africa in 1960. South Africa reported that no new actions had been taken under the waiver during the period covered by its fifth report. The 1960 waiver had permitted South Africa to accord preferential tariff treatment to imports of certain products from the Federation of Rhodesia and Nyasaland. In November 1964, following the dissolution of that Federation, the Governments of South Africa and Rhodesia entered into a new agreement which enlarged some of the existing margins of preference and granted certain new ones.

The Contracting Parties appointed a working party to examine the new agreement to determine whether it contained any provisions that departed from those of the General Agreement. The working party met after the close of the 22d Session and studied technical problems arising from the agreement and prepared a draft decision to cover certain adjustments in the margins of the preferences accorded to Rhodesia by South Africa. The GATT Council received the report of the working party in May 1965, but deferred its consideration until a later meeting of the Council.

United Kingdom preferences for products of Commonwealth countries and dependent territories

The United Kingdom reported for the 11th time on actions taken under a waiver granted in 1953 permitting preferential treatment of imports from Commonwealth countries, and for the 10th time on a waiver granted in 1955, which authorized preferences for products of dependent overseas territories. The reports indicated that the United Kingdom had taken no actions under the waivers since the previous reports.

Escape-Clause Actions

During the period covered by this report, three contracting parties withdrew or modified tariff concessions under article XIX of the General Agreement; two contracting parties, however, terminated actions that had been taken under that article at earlier dates.

Article XIX provides that a contracting party may suspend an obligation in whole or in part, or withdraw or modify a concession, if, as a result of unforeseen developments and of the effect of the obligation incurred by a contracting party under the General Agreement, any product is being imported in such increased quantities and under such conditions as to cause or threaten serious injury to the domestic producers of like or directly competitive products. When a contracting party acts under article XIX, it is required to so advise the Contracting Parties and to consult with any contracting parties that have a substantial interest and that might be adversely affected by the action. The consultations are held with a view to granting other concessions as compensation for those

withdrawn or modified, or to permit the adversely affected party to withdraw concessions of interest to the party that acted under article XIX.

Germany notified the Contracting Parties that in order to prevent the threat of serious injury to its hard coal industry it had decided to subject imports of two types of petroleum fuel to import licenses, effective December 10, 1964.

On April 22, 1965, the Government of Greece notified the Contracting Parties that in order to protect a new tire industry, which was threatened by foreign competition, it was acting under article XIX to increase the customs duty on tires for vehicles.

Australia advised the GATT Secretariat that beginning March 4, 1965, it would place temporary import restrictions on copper and brass sheet, strip, and foil of certain dimensions. The restrictions were designed to prevent serious injury to domestic producers of the revelant goods during a period of shortage of unwrought copper of Australian origin. The import restrictions were removed effective September 1, 1965. Meanwhile, Australia notified the Contracting Parties that an escape-clause action taken under article XIX on woolen piece goods in May 1961 was withdrawn on December 31, 1964, and a similar action on linseed oil imposed in March 1963 was withdrawn on April 22, 1965.

In October 1965 the United States notified the Contracting Parties that it had withdrawn its import quotas on unmanufactured lead and zinc, which had been in effect since October 1958. The quotas on lead and zinc ores were removed on October 22, 1965, and those affecting the metals, 30 days later.

Other Modifications of Tariff Concessions

Renegotiations of tariff schedules

During the 18-month period under review, Peru and Turkey put revised tariff schedules into force. Since the new schedules involved changes in duties bound in the GATT, these countries were obliged to enter into renegotiations with interested contracting parties under the provisions of article XXVIII. Both Peru and Turkey, having requested and received waivers of their obligations under article II, were permitted to put their new tariff schedules into force before the renegotiations were completed. Peru's new tariff became effective October 1, 1964; the waiver, which was granted by the Contracting Parties at their 22d Session, was to be valid until March 31, 1966. The waiver granted to Turkey in August 1964 was to expire October 31, 1965. In September 1965, Turkey requested a 1-year extension because it had not been able to complete the renegotiations within the original time period. The Contracting Parties extended the waiver until the end of the 23d Session.

The new Tariff Schedules of the United States (TSUS) had been placed in effect on August 31, 1963. Consultations under article XXVIII had

been initiated in September 1962, but owing to their length and complexity, the United States had sought and received a waiver of its obligations under the General Agreement to permit it to put the TSUS into effect before the renegotiations had been completed. The waiver was extended for 1 year in 1964 to allow the negotiations to continue. In 1965 it was further extended until June 30, 1966, and was also amended to bring within its scope the changes made in the provisions of the TSUS by the Tariff Schedules Technical Amendments Act of 1965.

Negotiations to modify designated concessions

The General Agreement provides that a contracting party may enter into negotiations with other interested contracting parties to modify or withdraw certain concessions in its tariff schedule (art. XXVIII). In 1963 a number of contracting parties had given notice of their intentions to enter into such negotiations.[31] These negotiations were to have been completed before January 1, 1964. Because some of the contracting parties could not complete their negotiations by the prescribed date, the time limit was extended to the end of the 23d Session.

Uruguay's adjustment of its tariff schedule

Uruguay's customs duties, though levied nominally on an ad valorem basis, are, in effect, specific duties, since they are collected on the basis of fixed official values, or aforos. On August 13, 1964, Uruguay increased these aforos by 100 percent. The General Agreement provides that the Contracting Parties may authorize a country to increase specific duties when a change in the value of its currency warrants such an adjustment (par. 6 of art. II). The Contracting Parties agreed that in view of the reduction in the value of the Uruguayan peso and the commensurate decline in the burden of the customs duties, the increase in the aforos was justified.[32]

Representations and Complaints

During the period covered by this report, several contracting parties consulted with other members of the GATT under the provisions of articles XXII and XXIII for the purpose of resolving specific trade problems.

Article XXII, which provides the basic consultation procedures of the General Agreement, requires a contracting party to consult when requested by another contracting party regarding any representation made respecting the operation of the General Agreement. Multilateral consultations may be arranged to resolve such problems if the bilateral discussions fail to provide a suitable solution. Article XXIII, moreover,

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[31] See *Operation of the Trade Agreements Program*, 16th report, p. 27.

[32] *Basic Instruments . . .*, 13th supp., p. 20.

provides that a contracting party deeming that a benefit accruing to it under the agreement has been nullified or impaired by the action of another contracting party may bring its grievance to the attention of the offending party. If the two parties are not able to reach a mutually satisfactory solution, the issue may be referred to the Contracting Parties for examination and appropriate recommendations. The Contracting Parties may authorize a contracting party to suspend the application to any other member of the GATT of any concession or obligation they deem appropriate.

In August 1964 the United States requested the Federal Republic of Germany to enter into consultations under article XXII concerning certain import restrictions—affecting principally agricultural and food products—maintained by the Federal Republic. Shortly thereafter Canada notified the Contracting Parties that it had an interest in a number of the products concerned; accordingly, it wished to join the consultations, which were to be held in Bonn in October 1964. During the consultations, the representative of the Federal Republic stated that his Government would review its position on the restrictions discussed, and promised to liberalize at least some of them.

The Governments of Belgium and the Netherlands requested consultations with Switzerland under article XXII concerning problems arising from the application of certain Swiss veterinary taxes to imports of commodities which were regarded by these countries as industrial products.

In April 1965 Uruguay requested Japan to enter into consultations under article XXII concerning a list of products on which Japan maintained import restrictions against Uruguay. Japan agreed to engage in the consultations.

In September 1964 the GATT Council reconvened a panel to consider a complaint by Uruguay that import restrictions by various countries had nullified or impaired concessions granted to Uruguay under the General Agreement. The panel had been originally convened in 1962 to study the issue after the Government of Uruguay appealed to the Contracting Parties under the complaint procedures of article XXIII. The panel had recommended that certain restrictions be removed, but by mid-1964 the issue had not been completely settled.[33] When the reconvened panel reported to the GATT Council in late 1964,[34] it noted that most of the contracting parties maintaining restrictions against imports from Uruguay had removed at least some of the restrictions since the previous report. Italy had removed all of the restrictions covered by the recommendations. Austria, France, and the Federal Republic of Germany had removed

[33] *Operation of the Trade Agreements Program*, 16th report, p. 31.

[34] *Basic Instruments . . .*, 13th supp., pp. 45–55.

part of their restrictions, and Norway had initiated a study upon which it was to base its actions. Belgium, however, maintained the position taken earlier that its measures were purely administrative and not incompatible with the GATT. The panel recommended that it again be authorized to deal promptly with any Uruguayan proposal to suspend concessions or obligations to compensate for any nullification or impairment arising from the continued maintenance of trade barriers. The Contracting Parties adopted the report of the panel and agreed to the renewal of the procedures recommended.

OTHER DEVELOPMENTS RELATING TO THE GENERAL AGREEMENT

Nonapplication of the Agreement Between Particular Contracting Parties

During the period covered by this report, a number of contracting parties continued to withhold full application of the General Agreement to one or more members of the GATT, principally Japan. Article XXXV provides that the agreement or, alternatively, article II of the agreement shall not apply between any two contracting parties if either of them, at the time either becomes a contracting party, does not consent to such application. Article II incorporates as part of the General Agreement the tariff and other concessions which apply to GATT members.

At the 22d Session the Contracting Parties reviewed the extent to which article XXXV was being invoked by GATT members. At the time of Japan's accession to the GATT in 1955, 14 contracting parties invoked article XXXV against that country. By the end of 1965, only 3 of these contracting parties—Austria, Haiti, and South Africa—continued to do so, but a number of newly independent countries that had recently acceded to the GATT inherited the legal status of their metropolitan countries and continued to apply article XXXV against Japan. At the end of the period under review, about 28 countries, none of which were major trading countries, were still applying this article against Japan.

The delegates of several contracting parties expressed regret that the number of countries applying article XXXV against Japan had increased, and urged disinvocation of the article. Spokesmen for a number of the less developed countries stated that the continued application of article XXXV had not significantly affected the trade of their countries with Japan since the quotas they applied to imports from Japan were large, but they hoped that their countries would be able to disinvoke the article at an early date.

Cuba advised the Contracting Parties by letters of November 16 and December 18, 1964, that it had ceased to invoke the provisions of article XXXV against Austria and Finland, respectively.[35]

Commodity Problems

Implementation of the cotton textiles arrangement

The Cotton Textiles Committee of the GATT completed the second annual review of the operation of the Long-Term Arrangement Regarding International Trade in Cotton Textiles in December 1964.[36] The long-term arrangement, negotiated under the auspices of the GATT, became effective in October 1962. Article IV of the arrangement provides for bilateral agreements between participating countries to regulate trade in cotton textiles and obviate the need for unilateral restrictions. Several new bilateral agreements of this type were negotiated during the 18-month period covered by this report. The United States was a party to most of them.

In the discussions which followed the presentation of the Cotton Textiles Committee's report to the Contracting Parties, the representatives of several less developed countries criticized the industrialized countries for the wide use of bilateral agreements to restrict imports of cotton textiles on grounds of market disruption. These spokesmen stressed the importance of the cotton textiles industry to the developing countries as a means of expanding their export earnings and intimated that the industrialized countries were indifferent to the needs of the LDC's.

The committee agreed to undertake a major review of the first 3 years of the operation of the long-term arrangement, including a study of the developments in the production of, and trade in, cotton textiles during the 3-year period. The Committee concluded its review in December 1965. The Committee Chairman pointed out that, notwithstanding the restrictive measures employed, imports of cotton textiles into the industrialized countries increased somewhat during the period that the arrangement had been in operation. He noted that although the rate of growth of such imports was lower during this period than during the late 1950's the rapid growth in such imports prior to 1961 had created the very conditions that had given rise to the long-term arrangement. The Chairman stressed that while it was difficult to make an accurate judgment of the effects of the long-term arrangement on the development of trade in cotton textiles, it was unlikely that the arrangement had harmed the

[35] On Aug. 6, 1963, the latest date for which a complete tabulation is available, art. XXXV was being applied by 5 contracting parties to 17 GATT members other than Japan.

[36] Ch. 1 of this report presents a more complete account of the long-term arrangement and of the actions taken thereunder by the United States.

export possibilities of the less developed countries. The recourse to unilateral restrictions as an alternative measure would probably have been more detrimental to their interests.

The discussions revealed that the less developed countries were seriously concerned that widespread restrictions would continue to be applied to trade in cotton textiles. The LDC's feared that the protection afforded the cotton textiles industries in the developed countries under the long-term arrangement would afford these countries an opportunity to negate the comparative advantage enjoyed by the less developed countries in the production of certain textile products. It was pointed out that restraint in one market leads to the diversion of trade to other more open markets, and countries with liberal import policies would have difficulty in maintaining them in the face of widespread restrictions.

The members of the Cotton Textiles Committee generally agreed that a modus vivendi for trade in cotton textiles should be sought through the Kennedy Round negotiations. They stressed that governments should engage actively in the negotiations in order to achieve the highest possible degree of liberalization.

Consultations on agricultural policy

In January and February 1965 the Contracting Parties held consultations with the European Economic Community, the United States, and the United Kingdom concerning changes in their agricultural policies. These consultations were held pursuant to a decision of the Contracting Parties of December 7, 1961, under which contracting parties had been invited to discuss any substantial changes in their agricultural policies. Notifications of such changes had regularly been referred to committee II for examination.[37]

Committee II consulted with the EEC concerning changes in the agricultural policies which arose from the further implementation of the common agricultural policy of the six member States. These changes concerned the adoption of basic regulations dealing with dairy products, beef and veal, and rice. The ensuing discussions indicated that certain countries were concerned over certain provisions of the EEC regulations—viz, the wide discretionary powers embodied in the regulations, the safeguard clause in connection with article XIX, the refund system in connection with article XVI, the fact that the variable-levy system employed by the EEC countries insulated their domestic producers from world prices,

[37] The Contracting Parties had established committee II under the program for the expansion of international trade initiated in 1958. The committee was instructed to study international trade in agricultural products with particular reference to the use and effects of nontariff measures for the protection of agriculture, or support of income for agricultural producers. See Contracting Parties to the GATT, *Trade in Agricultural Products: Reports of Committee II on Consultations with the European Economic Community, the United States of America and the United Kingdom*, Geneva, 1965, pp. 1–2.

and the uncertainty induced by the levy and import permit systems. In responding, the EEC representative expressed the view that the fears of third-country suppliers concerning the practical effects of the common agricultural policy were not generally justified. Although trade had declined in some cases, the declines had been offset by increased trade in other items.

The delegations of some contracting parties were of the opinion that the beef legislation recently enacted by the United States had been passed without evidence that imports of manufacturing beef, the type with which the legislation was primarily concerned, were adversely affecting the prices of prime beef in the United States. Moreover, they regretted that potentially restrictive legislation of this type had been enacted at a time when trade liberalization was being discussed in the GATT. The United States emphasized, however, that no restrictions on beef imports had been introduced. The legislation merely empowers the U.S. Government to take action should the need arise. Moreover, the legislation provides that even if restrictions were adopted, imports would share in the growth of the U.S. market.

In the discussions on the United Kingdom's new policies on cereal and bacon, the United Kingdom declared its intent to maintain its policy of consulting with principal suppliers in connection with its agricultural policies.

Impact of commodity problems on international trade

At the beginning of the 22d Session, the Contracting Parties requested the Committee on Trade and Development to conduct the annual review of developments in international commodity trade. As in previous years, the review was to be based primarily on a report submitted by the Chairman of the Interim Coordinating Committee for International Commodity Arrangements (ICCICA).[38]

The Chairman of the ICCICA noted that since his last statement to the Contracting Parties, the United Nations Conference on Trade and Development (UNCTAD) had made a number of important recommendations respecting commodity trade, with particular reference to the difficulties confronting the developing countries in connection with this trade. In reviewing the last report of the Committee ("1964 Review of International Commodity Problems"), the Chairman noted that it embodied a review of international activities in the commodity field during the postwar period. He noted particularly the sections which dealt with the need for continuity in commodity negotiations, and the chapter dealing with the problems connected with the negotiation and operation of commodity agreements. Since the Advisory Committee to the Trade and Development Board of UNCTAD had replaced the

[38] See *Operation of the Trade Agreements Program,* 16th report, p. 33.

ICCICA, this was to be the Chairman's last report to the Contracting Parties.

Several delegates to the 22d Session expressed the opinion that the Contracting Parties had not given sufficient attention to the problems arising from commodity trade. They noted that the working party on commodity problems had last convened in 1959; since that time there had been no discussions in the GATT similar to those that had occurred regularly in meetings of the U.N. Commission on International Commodity Trade.

Disposal of surplus commodities

In early 1965, several contracting parties reported to the Director-General of the Contracting Parties to the GATT concerning a variety of related commodity problems, including the disposal of surplus commodities, the liquidation of strategic stocks, and the disposal of other stocks held by Government agencies. From the information thus supplied, the Director-General prepared a summary for review at the 22d Session. Such a review has been conducted annually to assess experience in disposing of surplus stocks, which consist largely of minerals, metals, and agricultural products.

Notifications of disposal of surplus commodities were received from Canada, Sweden, the United Kingdom, and the United States. The report from Canada concerned the disposal of dairy products and pork in the fiscal year ended March 31, 1963. That from Sweden concerned the disposal of 2,350 metric tons of copper, while that from the United Kingdom dealt with the disposal of certain metals and essential foodstuffs between July 1, 1963, and December 31, 1964. The U.S. report related to the disposal of surplus agricultural products in fiscal 1964, largely under Public Law 480.

The Elimination of Consular Formalities as Import Restrictions

At their 22d Session, the Contracting Parties conducted a review of the consular formalities still being maintained by GATT members. In 1962 a special GATT panel had listed the countries that maintained unnecessarily burdensome procedures, such as unnecessary documentation, formalities, and fees in connection with importation and exportation. Governments imposing such trade impediments were urged to remove them in conformity with the provisions of article VIII of the General Agreement.

Argentina reported that although it had discontinued the use of consular fees in 1961, it later found reintroduction of them necessary. The levying of consular fees constituted the only type of consular restriction still maintained by Argentina.

Turkey reported that legislation pertaining to the elimination of fees paid for certificates of origin was put into force in July 1964. However, a bill which would exempt certain goods from the provisions of certificates of origin and provide greater administrative flexibility had been introduced into the legislature.

Brazil and Peru reported that they were studying means of eliminating consular formalities. Several other contracting parties that still employed these trade restrictions failed to report. The Contracting Parties placed this item on the agenda for the 23d Session.

Changes in Subsidies and State Trading Measures

During the period covered by this report, 10 countries notified the Contracting Parties of changes in their export subsidies, and 8 reported changes in the status of their state trading measures.

Article XVI of the General Agreement requires members to report to the Contracting Parties on the nature and extent of the subsidies they maintain. Article XVII contains provisions relating to state trading enterprises. At their 20th Session, the Contracting Parties had modified the procedures for reporting subsidies and state trading measures. After that, reports were required every 3 years, the first report being due at the end of January 1963. Changes in subsidies or state trading measures, however, were to be reported annually.[39] Although a number of such reports were submitted in 1965, several countries that maintained subsidies or state trading enterprises failed to report.

[39] See *Operation of the Trade Agreements Program*, 16th report, pp. 35–36, for a more complete discussion of the provisions relating to subsidies.

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Chapter 3

Major Commercial Policy Developments in Countries With Which the United States Has Trade Agreements

INTRODUCTION

This chapter reviews the important developments in the commercial policies of the principal U.S. trading partners that occurred between July 1, 1964, and December 31, 1965. Such changes are important to the United States because they affect not only its foreign trade and balance of payments, but also the attainment of its own commercial policy objectives. The following sections are devoted principally to concerted actions taken within the major regional economic organizations: The European Economic Community, the European Free Trade Association, the Latin American Free Trade Association, and the Central American common market.[1]

The sixth (Kennedy) round of trade-agreement negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT) had officially opened on May 4, 1964, before the period under review. Details of what had been achieved in the Kennedy Round, by the end of the period, were presented in chapter 2. These negotiations, which were still in process at the end of 1965, constituted the most important development in international commercial policy during the period covered by this report. All countries participating in the Kennedy Round were aware of the substantial contributions that successful negotiations could make to world trade and economic growth. The progress of the negotiations was influenced materially, however, by developments within the regional economic groups of which the major negotiating countries were members. Most of the countries were also contracting parties to GATT and therefore had trade-agreement obligations to the other contracting parties.

[1] During the period under review, two other regional economic organizations came into being—the Central African Economic and Customs Union and the Arab common market. The (British) Commonwealth of Nations, a far older trade arrangement of different character, also granted extensive preferential tariff treatment to trade among its members. However, no major commercial policy developments affecting U.S. foreign trade occurred during this period in these areas. The automotive products agreement concluded between the United States and Canada in 1965 is reviewed in ch. 1.

During the year and a half under consideration, the members of the European Economic Community (EEC) advanced toward their goal of establishing a Community-wide market for their products. Specifically, they further reduced intra-Community customs duties on both industrial and agricultural products, eliminated many of the remaining quotas (primarily agricultural) on trade between member States, and replaced them by a system of variable import levies on trade with third countries. The members also advanced toward a common agricultural policy (CAP): they began to implement the common price-support and marketing practices previously agreed upon for a number of key agricultural products, clarified the scope and procedures for operation of the agricultural fund, and arranged for the redistribution of customs receipts among the member nations. They also initiated measures to merge the three European "communities,"[2] concluded association and trade agreements with a number of nonmember countries, and conducted preliminary negotiations with a view to concluding similar agreements with several others.

Members of the European Free Trade Association (EFTA) adhered successfully to the time schedule agreed upon in May 1963 for the abolition of customs duties and quantitative import restrictions on trade between the respective members. Indeed, intra-Association customs duties were reduced and quotas expanded more rapidly than originally contemplated so that members envisioned complete freedom from both types of trade barriers by 1967—i.e., 3 years ahead of the schedule initially specified in the convention that had established the Association. The members also sought means of removing some of the less obvious nontariff barriers, as well as means of achieving greater cooperation with the European Economic Community. The progress of the Association was somewhat blunted, however, when the United Kingdom unexpectedly imposed a 15-percent import surcharge in 1964 to alleviate its balance-of-payments difficulties.

The members of the Latin American Free Trade Association (LAFTA) held their fourth and fifth annual Conferences, during which nearly 1,100 new tariff concessions were added to the schedules of concessions previously negotiated. More than half of the new concessions related to manufactured and semimanufactured commodities. Though usually negotiated between two or more member States, the concessions granted by each member were extended to all other LAFTA members. In addition, the members completed the first of four scheduled triennial meetings, at which they initiated the projected common schedule of concessions. Intra-LAFTA trade in the commodities in the common schedule, which was applicable to more than 25 percent of the area's trade in 1964, was

[2] The European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community.

to be completely freed by 1973. To enhance their industrial integration, the members also discussed various agreements designed to develop particular economic sectors.

The members of the Central American common market progressed rapidly toward complete internal freedom of trade and the establishment of a common external tariff—both to be achieved by 1966. By the end of 1965, trade between the member States was, except for a few items, totally free; more than 95 percent of the member States' rates of duty had been alined in a common external tariff. The removal of many internal trade barriers had led to a remarkable increase in the trade between the members, an expansion of industrial capacity, and increased foreign investment in the common market.

EUROPEAN ECONOMIC COMMUNITY

During the period July 1, 1964, to December 31, 1965, the member States of the European Economic Community moved substantially closer to their goal of establishing a Community-wide market for their products and, eventually, an even more comprehensive economic union. In spite of protracted negotiations and delays, the members made important advances that were to have far-reaching effects on the future growth of the Community, the pattern of its foreign trade, and the development of international economic policies and relations.

The Community's principal achievements during the period were as follows: (a) Intra-Community customs duties on both industrial and agricultural products were further reduced; (b) certain import quotas, primarily on agricultural products traded between member States, were abolished; various import duties and restrictions, mostly on agricultural products traded between EEC member States and third countries, were replaced by import levies; (c) the Community's common agricultural policy for several important products was implemented; (d) the functions of the European Agricultural Guidance and Guarantee Fund were redefined and expanded; (e) steps were taken to merge the three European economic Communities; (f) a new association agreement with the Netherlands Antilles was signed and another renewed; and (g) association and trade negotiations were conducted with several countries.

Reduction of Intra-Community Customs Duties

On January 1, 1965, and again on January 1, 1966, member States of the European Economic Community reduced their customs duties on imports originating within the Community. Such duties were generally lowered by 10 percent of the base rates (those in force on January 1, 1957). These actions (in conjunction with those completed earlier) reduced the rates on most industrial commodities to 20 percent of the base rates;

duties on certain "liberalized" agricultural products[3] were reduced to 40 percent of the base rates, and those on all other agricultural products, to 35 percent. The new rates also applied to imports into the Community from the associated African States and Madagascar.

In January 1965 the Community's Commission proposed that all customs duties in intra-Community trade be completely abolished by July 1, 1967—2½ years ahead of the schedule initially provided for in the treaty that had established the EEC. By the end of the year, however, this proposal had not been implemented.

Common External Tariff

No further alinement of the tariff schedules of the respective EEC members with the Community's common external tariff was achieved during the period covered by this report. Earlier alinements had eliminated 60 percent of the difference (for industrial commodities only) between the schedules of individual members and those provided for in the common external tariff. The third and final alinement of the national rates of duty on industrial commodities was scheduled to become effective on July 1, 1967.[4] On that date the member States were to bring the rates of duty in their respective tariffs applicable to imports of manufactured products from nonmember countries into complete alinement with the rates specified in the common external tariff. For agricultural products not subject to the common agricultural policy, a second alinement was scheduled, in accordance with the original timetable, to become effective on January 1, 1966.

On July 1, 1964, West Germany alined its rates of duty on industrial commodities imported from non-EEC countries to the final rates specified in the common external tariff.[5] The alinement, which affected approximately 300 items, was put into effect in order to stem the country's increasing export surplus and the threat of inflation.

Early in 1965 the EEC members increased the import levy being imposed on commodities traded within the Community that incorporated components imported from third countries. The levy applied only to

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[3] This category included some farm products covered by the common agricultural policy regulations, as well as certain other agricultural products, all of which were excluded from the May 15, 1962, decision to accelerate reductions in duties. "Liberalized" products are those for which a systematic program is in effect to free the respective imports from quantitative restrictions.

[4] According to the Treaty of Rome, the projected alinement of duties was to be effected in three steps, as follows: A 30-percent adjustment of the basic rates on Jan. 1, 1962; another 30-percent adjustment on Jan. 1, 1966; and a 40-percent adjustment on Jan. 1, 1970.

[5] The levels of the rates in the common external tariff were, for the most part, based on a modified arithmetic average of the national duties in existence on Jan. 1, 1957. In the process of alining their tariff rates, some member countries, therefore, had to reduce their duties, while others had to raise theirs.

non-EEC components on which no import duties or similar charges had previously been levied nor drawbacks had been granted. For industrial commodities and agricultural products not subject to the common agricultural policy, the intra-EEC levy was to be equal to 65 percent of the rate applicable in the common external tariff. For agricultural products under the CAP levy system, the intra-EEC levy was to be equal to 65 percent of the arithmetic mean of the respective external levies applicable to the imported component. The 65-percent rate was to remain in effect from February 1 to December 31, 1965.[6]

Elimination of Quotas

By the end of 1965 only a few intra-Community import quotas were still in force. With few exceptions, quotas on industrial commodities originating within the EEC had been eliminated by January 1, 1962; moreover, the quotas on agricultural products subject to the EEC common agricultural policy were being increased at the rate of at least 20 percent annually until ultimately abolished. Quotas on agricultural products not subject to the common agricultural policy were also being abolished, as provided by the Treaty of Rome, whenever such quotas had not been filled for 2 consecutive years.

By the end of the period under review, most of the quotas still being applied by EEC members to imports from nonmembers involved agricultural products. Many of the quotas and other restrictions had been replaced by variable import levies. Industrial commodities still subject to quota restrictions, although small in number compared with agricultural products subject to like restrictions, included several products of particular importance in the U.S. export trade, such as radio, telegraph, and telephone sets, electric lights, automobiles, ships, aircraft, coal, and oil. Many of the quantitative restrictions involved had been introduced by the EEC countries when they were confronted with balance-of-payments difficulties.

In July 1965, as part of the Community's common commercial policy action program adopted in 1962, the Commission proposed the preparation of a common list of the import commodities for which quantitative restrictions had been completely eliminated by all the members of the Community. Thereafter, no quantitative restriction on commodities placed on the list could be imposed by a member without unanimous approval by the Council (by majority vote after December 31, 1965). No significant developments toward this end were reported by the close of the period under review. The Community, nevertheless, was expected to make rapid progress in this area, inasmuch as the six member States had already eliminated quantitative trade barriers on most commodities

[6] The rate of levy in effect before Feb. 1, 1965, was 55 percent.

(810 out of 1,097 tariff positions in the common external tariff) imported from contracting parties to the GATT.

Common Agricultural Policy

The EEC's common agricultural policy was developed because the achievement of a Community-wide market for agricultural products through the mere elimination of customs duties and quotas was not possible. Other trade controls had to be reckoned with. Unlike industrial commodities, most agricultural products important to the Community's economies enjoyed some sort of price support by the member States. The United States had a vital interest in the types of protective measures, price mechanisms, and other regulations being developed to implement the common agricultural policy; U.S. agriculture was far more dependent on exports than was U.S. industry. In recent years, agricultural products had accounted for more than a fourth of the value of U.S. exports to the Community; moreover, Western Europe, including the EEC countries, provided a growing market for such products.

The establishment of a single, Community-wide market for agricultural products (common agricultural policy) was scheduled to be completed by January 1, 1970. The common policy was to be developed during the intervening or transition period. The first CAP regulations, dealing with six groups of products (cereals, pork, eggs, poultry, fruit and vegetables, and wines), had become effective as early as July 1962.

During the 18-month period under review, the EEC made further progress in implementing its common agricultural policy, even though no formal decisions were made during the last 6 months of 1965 because of the absence of French representation at meetings of the Council of Ministers. The principal accomplishments in the field of agriculture during the period covered by this report included the following: The initial application of common marketing and pricing regulations for dairy products, beef and veal, and rice; agreement on price-support levels for grains; adoption of new regulations designed to implement the common agricultural policy on fruits and vegetables; and clarification of the scope and procedures of the operation of the European Agricultural Guidance and Guarantee Fund.

Price-support mechanisms

Various terms are employed throughout the remainder of this section to describe the common agricultural policy. For the convenience of the reader they are described below:

> Three principal mechanisms are used to support the domestic prices of the respective agricultural products: "target prices," "intervention prices," and "import levies." The target prices are essentially price "goals," which the member States seek to attain for their agricultural products. The intervention prices, on the

other hand, are actual prices which the member States stand ready to pay to assure that the domestic prices for the products involved do not fall materially below the target prices. The variable import levies are employed to assure that imports do not enter the domestic market at price levels which interfere with the attainment of target prices.

Target price

The target price (prix indicatif) is a goal which the CAP endeavors to achieve within the EEC for the respective agricultural products. It is designed to (a) assure an adequate standard of living and employment to domestic producers, (b) develop intra-EEC trade, and (c) insure the sale of the domestic output of the product during the marketing year. Target prices are wholesale prices, determined at regular intervals, usually annually, and they vary from one marketing area to another. The target prices prevailing in the EEC member States are to be alined with one another so that, by the end of the transition period, a common target price will obtain for each product throughout the Community. Basic target prices are determined by the EEC Commission for marketing areas designated as having large deficits in the supply of a product (hence, relatively high prices). Derived target prices are determined for all other marketing areas in the member States.

Intervention price

A major price-support mechanism employed under the CAP is the intervention price (prix d'intervention). It is a support price designed to maintain domestic prices for the respective products near the target level. The intervention price is the price at which designated intervention agencies in the member States are obliged to purchase all quantities of the domestic product offered on the market. The intervention price is usually fixed at a level slightly below the target price for the product. It applies only at designated intervention centers; elsewhere, the intervention price is generally lower to reflect transportation costs to the nearest intervention center. For certain products, the State may intervene further to prevent domestic prices from falling below the intervention price. Intervention measures may be taken only after the intervention price exceeds the price of the domestic product for a specified number of days (e.g., 7 days for meats).

Variable import levy

The variable import levy is imposed to assure that imports of agricultural products subject to CAP supports will not enter at prices that interfere with the attainment of the target price. The variable import levy is designed to bring the cost of the imports up to or near the threshold price (discussed below). It is imposed in lieu of import duties (in addition to duties, for beef) if the lowest c.i.f.[7] price, after certain adjustments, is lower than the sum of the threshold price and the standard amount (also discussed below).

[7] Cost, insurance, and freight.

The variable import levy, therefore, generally equals the difference between the price of the product in the importing member State and the lowest delivered price of its imported counterpart. More specifically, the import levy on a given product equates the difference between the threshold price plus the "standard amount" (also discussed below) and either the "free-at-frontier price" of the imported product originating in another member State, or the lowest adjusted c.i.f. quotation for imports from outside the EEC. Two types of import levies are imposed: (a) one on all imports originating from outside the EEC and (b) another on imports originating in another member State. The discussion which follows immediately relates *only* to the levy imposed on imports from nonmember States. (The character of the import levy on entries from member States is described at the end of this discussion.) The height of the import levy is determined by the following formula: (threshold price plus standard amount) minus lowest c.i.f. price equals the variable import levy.

Threshold price

The threshold price (prix de seuil), which—as indicated—is one component for calculating the variable import levy, is determined administratively as the minimum price at which imports may be entered for sale in the domestic market of the member State. In conjunction with the standard amount (with adjustments for quality), this price is used as a base for determining the height of the variable import levies. The threshold price generally equals the target price adjusted for transportation costs to the border. Threshold prices for processed dairy products, however, are set in relation to "reference" prices (discussed below) for representative dairy products selected to preserve desired price relationships. In the event that a particular product, e.g., rice, is not produced in one or more of the member States, the EEC Council determines either a threshold price for that member State or a common threshold price for all nonproducer member States.

Standard amount

The standard amount (montant forfaitaire) is the second component of the formula for computing the height of the variable import levy. Its purpose is to give domestic producers a fixed preference over third-country suppliers. The standard amount is usually determined annually for each product for which a threshold price has been established. Its level is to be such that the resultant variable import levy will foster the gradual development of trade in the product between the member States during the transition period.

C.I.F. and free-at-frontier prices

The c.i.f. and free-at-frontier prices (prix franco-frontière) are used in conjunction with the threshold price and the standard amount to determine the magnitude of the variable import levy. In other words, if the threshold price plus the standard amount greatly exceeds the c.i.f. or free-at-frontier price, a substantial import levy would be required to assure that imports do not

interfere with the CAP price-support program for the respective commodity. In essence, the free-at-frontier price of a product imported from another member State approximates the c.i.f. price of that product, but for imports from third countries actual c.i.f. quotations are used to select the lowest representative world price.

The variable import levy imposed on commodities traded between EEC members is designed to equate the difference between the threshold price of the commodity and its free-at-frontier price. The standard amount is excluded from the calculation of the import levy.

Reference price

The reference price (prix de référence), which is used for determining the threshold price of certain dairy products and the minimum import price for certain fresh fruits and vegetables, equates the average wholesale market price of the product in the respective member States. It is derived from data representing a period preceding the full operation of the regulation controlling the marketing of the product.

Regulations respecting selected agricultural products

In December 1963 the Council of Ministers agreed on regulations to support a common agricultural policy for milk and other dairy products, beef and veal, and rice. The new regulations, which entered into force for all member States on February 28, 1964, became fully operative on November 1, 1964, for dairy products and beef, and on September 1, 1964, for rice.[8] Also during the period under review, common target prices, to become effective July 1, 1967, were agreed upon for grains.

The regulations for the three categories were similar in that they provided for (a) the progressive establishment of common markets for the aforementioned products, markets that were to be fully operative by December 31, 1969, i.e., at the end of the transition period for agricultural products; (b) support of the market for these products through a combination of variable import levies, a system of target prices, and other price supports and export subsidies; and (c) replacement—when the common agricultural policy for a given category of products becomes fully operative—of all protective measures, charges, and quantitative import restrictions, by a system of variable import levies (for beef and veal, a system of customs duties and levies).

Apart from these similarities, the regulations for the three categories differed substantially from one another, both in detail and in the principles and mechanisms employed for establishing a Community-wide market for the respective products. The major features of each regulation are summarized below.

[8] The regulations became fully operative on the date that the trade and levy systems became applicable.

Milk and dairy products.—During the transition period, each member State was to establish annually a target price for fresh milk. The target level in each State was to be sufficient to maintain required levels of employment and acceptable standards of living for producers and was to remain in force for 1 year. National target prices were to be alined gradually so that by the end of the transition period a single price for milk would prevail throughout the Community. For the marketing year 1964/65, the Council set upper and lower limits within which each member State determined its own target price for fresh milk. During the remainder of the transition period, the Council was to determine annually a common target price to serve as a base for the national target prices.

The regulation also authorized price-support operations by member States whenever the domestic prices of fresh butter fell below a certain level (intervention price), fixed annually by the member State. Intervention agencies, located throughout the State, were to purchase all quantities offered to them at that price. With regard to other dairy products, a member State could resort to price-support operations only during the transition period and after first notifying the Commission of its intention.

The target price for dairy products was supplemented by an import levy to offset differences in prices between exporting countries (whether or not EEC members) and importing member States. The levy was designed to equate the difference between the threshold price and the free-at-frontier price of the importing member State. For imports from third countries, the standard amount previously referred to was added to the threshold price; the free-at-frontier prices for such imports (determined weekly by the EEC Commission) reflected lowest representative world market prices. For imports from member States, the free-at-frontier prices were based on internal market (threshold) prices prevailing therein.

The Council was required to determine annually, before March 15, a threshold price for each of 13 groups of dairy products. These threshold prices were to be determined on the basis of the internal market prices prevailing in each of the member States. A threshold price, with a standard amount added thereto, was to be used in conjunction with the free-at-frontier prices in determining the import levy on entries from nonmember countries. On trade between member countries, the threshold price alone was, in effect, to be used, in conjunction with the free-at-frontier price, to determine the intra-Community levy, thus creating a preference in favor of intra-Community trade. During the transition period, the standard amounts were to be determined annually with a view to developing intra-Community trade in these products.

To encourage member States to participate in world trade, exporting member States were permitted to grant "refunds" to individual exporters; the amount of the refund was to be fixed by the member State but was not

to exceed the difference between the exporter's f.o.b.[9] price and the world market price. For intra-Community trade, the refund was to reflect the difference between the free-at-frontier price of the exporting member State (internal market price) and the threshold price of the importing member State.

In order to avoid disrupting the dairy market in the Community, the Council permitted continuation, during the transition period, of individual subsidy programs already being maintained by member States. To provide for their ultimate elimination, however, the Council was to determine annually the amount by which such subsidies were to be reduced.

Beef and veal.—During the two marketing seasons 1964/65 and 1965/66, each member State established its own guide price for live cattle within upper and lower limits fixed by the Council.[10] Like the target prices, the guide prices were designed to assure adequate returns to producers and encourage greater meat production in the Community.

Prices of beef and veal within each member State were to continue to be protected primarily by customs duties on imports from third countries and, during the transition period, from member States. Beginning on January 1, 1970, however, the common external tariff was to apply to trade with third countries. Since the alinement of national customs duties to the common external tariff was to be achieved progressively, it was expected that by April 1, 1966, the difference between the national customs duties on beef and veal in force on January 1, 1957, and the common external tariff would have been reduced by 65 percent; by April 1, 1965, they had already been reduced by 50 percent. The customs duties on intra-Community trade were to be reduced more rapidly, so that a single market for meats could be fully developed by the end of the transition period.

As a further support to internal prices for beef and veal, the respective regulations provided that import levies be used to supplement customs duties whenever the import price[11] of beef or veal imported from outside the Community, together with the customs duty, was lower than the guide price of the importing member State and average market prices in the importing State were less than the guide price. For imports from member States, however, a levy could be imposed on imports of cattle and beef only, when the importing country was intervening in its market or when the market price in the exporting member State was less than 90 percent of the guide price in the importing country. The member

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[9] Freight on board.

[10] Guide prices are established only for live cattle.

[11] The import price is determined by the Commission on the basis of prices prevailing in certain third countries.

State could resort to direct purchases whenever the internal prices were equal to or below the intervention price.

Finally, the regulation allowed a member State exporting to third countries to grant refunds whenever necessary to offset the difference between internal prices and lower prices prevailing in third countries. The amount of the refund was to be determined by the member States on the basis of a maximum designated by the Commission.

Rice.—The regulation respecting rice was applied not only to rice in its various forms, but also to rice products—paddy rice, husked rice, milled rice, and broken rice, as well as rice flour, rice groats and meal, and rice starch. Prices and levies were to be determined primarily for husked rice, because most of the rice imported by the EEC countries was entered in that form. The prices and import levies for all other forms of rice and rice products were to be fixed primarily on the basis of those determined for husked rice. Accordingly, unless otherwise specified, the discussion that follows refers only to husked rice.

Each of the two producer member States[12] was to determine annually a target price which would guarantee an adequate standard of living and employment to producers of rice. The target prices were to be based on the wholesale price in the marketing area having the greatest deficit in rice (i.e., the area designated by the EEC Commission as having the least adequate supply of rice and, hence, generally having the highest wholesale price). The "basic" target prices were to be used by the two producer States to determine "derived" target prices for the other marketing areas. The basic target prices in the two producer member States, moreover, were to be harmonized progressively so that by the close of the transition period a single target price for rice would prevail. To this end, the Council fixed upper and lower limits for derived target prices for 1964/65 that were narrower than for the preceding marketing year.

The two producer member States were to fix an intervention price for paddy rice for each of the marketing areas for which they determined a derived target price. Whenever the market price of paddy fell below its target price,[13] purchases would be initiated at the intervention price. As a means of protecting the income of producers of paddy rice, the regulations provided that the market price of paddy should always be maintained at an appropriate relationship to the target price.

The regulation on rice also provided for import levies to offset the difference between (a) EEC prices and world prices, and (b), during the transition period, prices in one member State and another (the four nonproducer member States being treated as a single market). For rice imported from third countries, the levy was to equal the difference between

[12] Only Italy and France produce rice in marketable quantities. However, a number of the nonproducer member States had important rice milling industries.

[13] The target price for paddy was based on the corresponding price for husked rice.

the domestic threshold price (plus the standard amount) and the c.i.f. price of imports. For rice imported from a member State, it was to equal the difference between the threshold price (plus the standard amount) and the free-at-frontier price. If, in the latter case, the rice was produced in the exporting member State, the levy would, in effect, be reduced by the standard amount.

During the transition period, each producer member State was to determine also a threshold price for rice, to be used for assessing import levies. A common threshold price for the nonproducer member States was to be determined by the Council. Different criteria were to be used to determine the threshold prices in the producer and nonproducer member States. The threshold price (plus the standard amount) in each producer State was to be fixed so that the price of imported rice would equal the basic target price (i.e., the price in the marketing area designated as having the least adequate supply of the rice). For nonproducer member States, the single threshold price was to be fixed by the Council on the basis of world market prices for rice. The standard amount, which was uniform for all member States, was used to create a preference in intra-Community trade. It was to be calculated each year and fixed at a level which would insure the gradual development of trade among member States.

Twice each month the Commission was also to determine a free-at-frontier price for rice. This price was to be determined on the basis of the lowest prices prevailing for French and Italian rice in the representative export markets of each importing member State, both in the producer member States and in the nonproducer member States treated as a unit. From these export prices (with appropriate adjustments) the Commission was to determine the lowest free-at-frontier price for each importing member State. To each free-at-frontier price were to be added appropriate freight charges and the marketing costs, which costs were to be the same for all member States. For rice from the United States and other third countries, the Commission was to determine c.i.f. prices weekly.

The regulation also provided for refunds on exports. For exports to third countries, the refund could cover the difference between the prevailing world prices and the higher prices maintained in the exporting member State. The level of the refund was to be fixed by each member State, subject to certain limitations. For intra-Community trade, a refund was to be permitted whenever the free-at-frontier price of the exporting producer member State exceeded the threshold price of the importing member State.

In order to encourage the use of broken rice in the manufacture of starch, the regulation provided for the granting of refunds on the production of starch produced from such rice. The amount of the refund,

which was to be determined by each member State on the basis of the broken rice entering manufacture, was not to exceed a designated level.

Grains.—On December 15, 1964, the Council of Ministers of the EEC reached agreement on common target prices for grains to become effective in all the Community member States by July 1, 1967. The agreement was considered to be the most significant advance to date toward the attainment of a common agricultural policy. Harmonization of grain prices held the key to future agricultural development in the EEC because grain is widely produced in the Community and grain prices influence the prices of many other farm products. Community-wide target prices for cereals could be used to guide government support activities in the implementation of EEC's common agricultural policy. By bringing national agricultural policies in so important a sector of the Community trade under a single common price system, the grain price agreement constituted a vital step in molding the most important agricultural trading area in the world. Moreover, it cleared the way for discussions on the remaining farm products and enhanced the possibility of achieving a common market for all agricultural products before the date envisioned by the Treaty of Rome.

West Germany paved the way for the agreement when, in early December 1964, it announced that it was withdrawing its insistence on a high level of price for grains—a position it had maintained for at least 2 years. As mentioned earlier, grains had been subject to CAP regulations since July 1962. It had been difficult, however, to reach agreement on a common price for grains because of the wide differences occurring in the agricultural structures of member States and in the policies and programs adopted for their solution. These differences had been reflected in a wide disparity in the prices of grain among the six countries. Prices had generally been lowest in France—the largest producer in EEC—and highest in West Germany—the member with the highest protective measures. France had been interested in the establishment of a common target price for grains that would assure expansion of its markets, particularly within the Community. West Germany, on the other hand, had insisted on relatively high prices in order to safeguard the earnings and employment of its grain producers.

The December 15 agreement followed rather closely the proposals that had been originally submitted to the member States in November 1963 (the so-called Mansholt Plan).[14] The basic proposal made at that time was to proceed with a single alinement of cereal prices to become effective the following marketing year, 1964/65. Failure to reach agreement on the Mansholt Plan had forced the Commission to propose retention of the

[14] Particularly with respect to the target prices proposed for soft wheat and for rye; the target prices agreed upon for barley and corn were lower than originally proposed, in compliance with a request from the Italian Government.

same range of target prices for cereals in the marketing year 1964/65 as was used in 1963/64 and, also, to defer until December 15 its decision on a single grain price for the 1966/67 marketing season.

The agreement reached on December 15 established a separate basic target price for each type of grain, effective throughout the Community. The prices of domestic grains could generally adjust to the levels of the target prices without being affected by grain offers from nonmember countries. The basic target prices, however, were to serve as a basis for determining regional target prices applicable in the various areas of cultivation (after due account of transport costs), as well as the threshold prices and the intervention prices. Intervention prices in the surplus-producing areas were to be kept low enough—after due consideration for freight costs—to encourage movement of surpluses to the deficit areas. Freight-cost differentials between marketing centers, rather than between a given trading center and the principal deficit area, as had been proposed in the original plan, were to determine the levels of regional intervention prices. Regulations to complement these regional differences were the major uncompleted part of the common grain policy.

Use of the common target prices for grains was expected to affect the various members of the Community differently. In France prices were expected to rise substantially, and in Germany, to decline appreciably. To compensate farmers suffering income losses, the EEC Council agreed to make designated payments to Germany, Italy, and Luxembourg during the three seasons 1967/68 to 1969/70. These payments were to be completely phased out by the end of the 1969/70 season. All six member States were to contribute to these compensatory payments. The agreement was also expected to have a pronounced impact on third countries, particularly those, such as the United States, which had been important suppliers of grain to the EEC countries. The assurance of higher prices for grains inside the Community during the ensuing years would undoubtedly lead to higher domestic production and lower imports from third countries, unless this course was changed as a result of Kennedy Round trade negotiations.

Fruits and vegetables.—A new regulation for fruits and vegetables was adopted by the Council during the period under review. Fruits and vegetables,[15] like grains, had been under CAP regulations since July 1962. Quantitative restrictions and other equivalent measures on these products had been abolished in intra-Community trade by January 1, 1964. The regulation provided for (a) new procedures for calculating reference prices (in effect, threshold prices) as a means of guaranteeing fair prices for fruits and vegetables grown by Community producers, and (b) the use of "compensatory taxes" on imports of fruits and vegetables from non-

[15] Class I fruits and vegetables.

member countries. The compensatory taxes were to be used whenever estimated c.i.f. entry prices dropped below the Community reference prices. The wholesale market prices received by producers in all six member States were to be used in determining the reference prices—i.e., the reference price for a given product covered by the new regulation was to equal the arithmetic mean of the domestic market prices of such products during the 3 preceding years. The difference between a reference price and any lower entry price was to determine the level of the compensatory tax. As under the original regulation, imports of fruits and vegetables were also subject to the rates of duty imposed by the individual member States; these rates were to be alined gradually with the common external tariff by 1970.

The European Agricultural Guidance and Guarantee Fund

The European Agricultural Guidance and Guarantee Fund was established in 1962 to promote the following objectives: (a) To finance the Community price-support operations through the purchase of surplus farm products; (b) to encourage the sale of farm products to third countries at world prices, through the use of export rebates; and (c) to improve agricultural productivity in all member States, primarily through investment. To finance these activities, the Fund had derived part of its working capital (80 percent in fiscal year 1964/65) from contributions by EEC members according to a scale provided for in the Treaty of Rome. The remaining part, also obtained from the member States, was assessed in proportion to the net value of their agricultural imports from third countries. For the marketing years 1962/63 and 1963/64, the Fund had paid a sixth and a third, respectively, of the costs incurred by the Community in supporting its common agricultural policy. In 1964/65 the share had increased to one-half. The member States had contributed the remaining amount directly.

In April 1965, the Commission presented recommendations to the Council for financing the Community's agricultural policy after June 30, 1965.[16] The Commission suggested two alternatives—depending on when the common agricultural policy became fully operative—respecting the share of total CAP expenditures to be paid by the European Agricultural Guidance and Guarantee Fund. It proposed that if the common market for agricultural products was to become fully operative on July 1, 1967, the Fund should assume four-sixths of the total costs in 1965/66, five-sixths in 1966/67, and the full amount thereafter. If, however, the single agricultural market did not become effective until January 1, 1970, the member States' direct contributions would be reduced in five steps of 10 percentage points each from mid-1965 to the end of 1969,

[16] The original regulation referred to above, dealing with the financing of the common agricultural policy, expired on June 30, 1965.

when the Fund would assume full responsibility for CAP costs. The Commission proposed that the member States continue their direct contributions to the Fund up to the end of 1969, and it worked out a payments schedule for each member State.

The Commission further recommended that the proceeds from all agricultural import levies be paid to the Community when the common agricultural policy became fully implemented, rather than to the individual member States as had been done during the transition period. In addition, the Commission recommended that all proceeds derived from customs duties on industrial commodities be paid to the Community. This would assure the Commission an independent budget with which to finance not only its program of balanced economic development within EEC but also the common agricultural policy. The political implications of this proposal and other factors led the French in June 1965 to withdraw their representation from Community meetings. From then until the end of the year, no action was taken by the Council.[17]

Merger of the Three European Economic Communities

One of the major developments during the period under review was the agreement in April 1965 to merge the Commissions and Councils of Ministers of the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community. The treaty creating a single Council of Ministers and a single Commission was signed by the representatives of the six governments in April 1965 but had not been ratified by all the member States by the end of the year. When the treaty was ratified, a new Commission of 14 members would be chosen. After 3 years the Commission would be reduced to 9 members. Ratification and implementation of the treaty had been delayed by political difficulties.

Association Agreements and Related Activities

Responding to requests for such arrangements, the EEC negotiated agreements of association and trade agreements with a number of countries. In addition, it entered into preliminary negotiations of a similar character with several other countries. An agreement of association generally provides that the original EEC members will extend to the new associate member the same trade advantages, respecting reductions of duties and other import restrictions, that they accord to intra-Community trade. In return the associate member agrees to extend preferential tariff treatment to imports from EEC members and, over a specified period of time, to eliminate customs duties completely on such imports.

[17] The full EEC Council reached agreement on agricultural financing at its meeting on May 9–10, 1966.

In the fall of 1964 the Netherlands Antilles[18] became an associate member of the European Economic Community. As a consequence of its association, the Antilles would enjoy the benefits of a gradual reduction of intra-EEC trade barriers, but it retained wide freedom in fixing its own tariff rates on imports both from the EEC States and from third countries. In addition, a special protocol added to the Treaty of Rome permitted the duty-free importation of petroleum products into the EEC from the Antilles, up to a maximum of 2 million tons per year.

The association between the EEC and 18 African and Malagasy States[19] moved closer to its goal in late 1964. A second convention of association went into operation in June 1964. The convention provided not only that customs duties and other import restrictions on one another's trade be gradually abolished by the signatories, but also that the European Development Fund would make $730 million available to aid the economies of the respective African States for the years 1963–68.

During 1965, the EEC also completed a draft of an association agreement with Nigeria. The latter sought free access to Community markets for its exports limited by quotas on cocoa, palm and peanut oil, and plywood. In return, the agreement was to provide for small trade concessions to the EEC, but not for aid to Nigeria from EEC's European Development Fund.

In 1965, Austria and the EEC entered into negotiations which would aline the commercial policy of that country more closely with the EEC. Austria indicated that it would agree to a reciprocal elimination of customs duties and to its external tariff and agricultural policies with those of the European Economic Community. It sought, however, to retain the right to conclude trade agreements with third countries, after consultation with the EEC. The character of the final agreement, if reached, and whether it would provide for a new type of association or deal largely with commercial matters was uncertain. The outcome depended materially on Austria's association with EFTA and its political status of neutrality, which precluded turning over the conduct of its economic policy to a supranational authority.

In May 1965 the EEC and Lebanon signed a 3-year agreement for trade and technical cooperation. This trade agreement was the first concluded by the EEC with a third country that provided for the extension of technical cooperation by EEC members. Earlier agreements, concluded with Iran and Israel, had been limited to reciprocal trade concessions. The agreement with Lebanon provided that both parties

[18] Aruba, Bonaire, Curaçao, Saba, St. Eustatius, and the southern part of St. Martin.

[19] The 18 associated States, formerly colonial and trust dependencies of France, Belgium, and Italy, were Burundi, Cameroon, the Central African Republic, Chad, the Congo (Brazzaville), the Congo (Leopoldville), Dahomey, Gabon, the Ivory Coast, Malagasy Republic, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, and Upper Volta.

extend most-favored-nation treatment to one another with respect to all duties, other charges, and nontariff barriers affecting both imports and exports. The agreement was to become effective on ratification by the EEC members and Lebanon.

Exploratory talks between the EEC and three north African States—Algeria, Morocco, and Tunisia—for the purpose of concluding a preferential trade agreement had been initiated in 1964. Actual negotiations between the EEC and Tunisia and Morocco began in mid-1965. Negotiations with a similar objective also were conducted with the east African Commonwealth countries (Kenya, Uganda, and Tanzania).

EUROPEAN FREE TRADE ASSOCIATION

During the 18-month period under review, the members of the European Free Trade Association[20] adhered to the time schedule that had been agreed to in May 1963 for the abolition of both customs duties and quantitative import restrictions between member States. Determined to establish an effective free-trade area for industrial commodities by the end of 1966, they also turned their attention to methods for removing some of the less obvious barriers to trade. Other important items discussed at EFTA meetings during this period included the 15-percent import surcharge that was imposed by the United Kingdom in October 1964, the relationship between EFTA and EEC and means to enhance cooperation between the two groups, and the Association's position in the Kennedy Round trade negotiations.

Reduction of Internal Customs Duties

Between July 1, 1964, and January 1, 1966, EFTA members reduced the rates of duty they applied to industrial commodities[21] traded between one another by an amount equal to 20 percent of their basic rates—i.e., those in effect in early 1960. By January 1, 1966, the rates in effect had generally been reduced to only 20 percent of the basic rates. They were now to be completely eliminated by December 31, 1966—3 full years ahead of the original timetable specified in the convention that had established the Association.[22] The elimination of customs duties by the end of 1966 would make EFTA a completely free-trade area for

[20] The Association included the following countries as members: Austria, Denmark, Norway, Portugal, Switzerland, Sweden, and the United Kingdom. Finland became, in effect, an associate member in 1961.

[21] The term "industrial commodities" was broadly defined to cover all goods other than those agricultural and marine products specifically listed in annexes D and E of the Stockholm Convention and therefore included industrial raw materials, semimanufactured and manufactured goods, and some processed farm and fishery products.

[22] Finland, which in effect had become an associate member of EFTA a year after the convention entered into force, was not scheduled to eliminate its duties on intra-Association industrial trade completely until Dec. 31, 1967.

industrial commodities originating within the area.[23] Agricultural and fisheries products [24] generally were not to be freely traded within the Association. Many of these products, however, were granted special trade concessions through bilateral agreements concluded between member States.

Elimination of Quantitative Import Restrictions

Complete elimination of intra-area import quotas on industrial commodities by all EFTA members except Finland was scheduled to coincide with the elimination of internal customs duties on such commodities, i.e., on December 31, 1966.[25] This goal had been achieved in advance of schedule. Following the creation of EFTA, member States had agreed to expand by 20 percent annually their basic quotas[26] for industrial products originating within the area. The program had been successful; by June 1963, the majority of such quotas had been abolished.

Elimination of Other Trade Barriers

The prospective abolition of all customs duties and quantitative import restrictions on industrial commodities traded between members was but one essential step toward the further growth of intra-EFTA trade. To assure effective operation of the free-trade area in industrial commodities after December 31, 1966, however, various other trade barriers would have to be eliminated. These barriers included a multitude of administrative and other practices which, if applied unreasonably, could hamper intra-area trade as effectively as customs duties and import quotas. Examples of other potential barriers are stringent safety or health provisions, double taxation, complicated registration procedures for products, differing industrial standards, patents, and drawbacks. Even though many of these practices were not specifically prohibited by the EFTA convention, it did include certain "rules of competition," which were intended to prevent the informal establishment of barriers to trade. The rules dealt with problems such as discrimination in the purchasing policies of public authorities, restrictive business practices, and the right to establish and operate a business in another EFTA country.

With its continuing concern over the possible increase in the number or intensity of informal barriers to trade after December 31, 1966, the

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[23] The rules of origin stipulated that the commodities must have been manufactured in one of the EFTA countries according to a specified process of production or that 50 percent of their export value was produced in the area.

[24] Those listed in annexes D and E of the Stockholm Convention.

[25] For Finland, the deadline for the complete dismantlement of quantitative restrictions on industrial imports from EFTA member countries was Dec. 31, 1967.

[26] Basic quotas were those in effect in EFTA countries in 1959.

EFTA had established several working parties to review a number of restrictive practices and the problems inherent therein. These practices and problems were also discussed extensively at EFTA meetings held in July 1964, even though most of the final reports of the working parties had not yet been completed.

At meetings held in October 1965, the EFTA Ministers examined article 15 of the Stockholm Convention, which dealt with restrictive business practices. To prevent such barriers from negating the benefits to be derived from the operation of a large, single market, the EFTA amended article 15. The amendment declared that certain practices and actions were incompatible with the provisions of article 15 and established a procedure for handling complaints by members alleging unfair trade practices.

United Kingdom's Import Surcharge

On October 26, 1964, the Government of the United Kingdom—confronted with balance-of-payments difficulties and desiring to increase British exports, particularly those by small manufacturers—imposed a customs surcharge of 15 percent ad valorem on all imports except basic raw materials, foodstuffs, and unmanufactured tobacco. The charge applied to imports from all sources and was levied against the importer. At the same time, the Government offered United Kingdom exporters tax rebates varying from 1 to 3 percent, but averaging about 1.5 percent of the total value of exported goods.

A large percentage of U.S. and European exports to the United Kingdom were subject to the surcharge. Nearly half (or about 700 million dollars' worth) of all U.S. exports to the United Kingdom were affected. Similarly, nearly three-fifths of the EEC exports to the United Kingdom and a third of the EFTA exports to that country were affected by the surcharge. EFTA members were particularly concerned because (a) in many instances the surcharge more than offset all duty reductions that had been made since the inception of the EFTA, and (b) the surcharge was imposed largely on those industrial commodities that had been covered by the Stockholm Convention. Despite the large export shares cited above, the actual value of trade affected by the surcharge did not exceed 3 percent of the total exports from the respective areas. Moreover, the surcharge affected only about one-eighth of United Kingdom imports from either the Commonwealth countries or the other countries of the world excluding the EEC, the EFTA, and the United States.

In statements submitted to the Executive Secretariat of GATT in October 1964 and at an EFTA meeting in November 1964, the British Government explained that the import surcharge had been imposed temporarily in order to correct the country's deteriorating balance of payments. It indicated that the urgent need to reduce its deficit had necessitated prompt action, and had made it difficult to comply with

article XII of the GATT and article 19 of the Stockholm Convention, both of which stipulated that any restraint on imports should be limited to the use of quantitative restrictions. They also reported that the surcharge would be reduced and eventually removed as soon as circumstances warranted. The psychological impact of the surcharge was serious. An opinion expressed in various quarters was that the unilateral imposition of the surcharge by the United Kingdom, without previous consultation with its trading partners, had dealt a serious blow not only to the spirit of cooperation that had been built within both EFTA and the GATT countries, but also to the prospect of successful negotiations at the Kennedy Round.

The United Kingdom was criticized by GATT and EFTA countries for not having consulted with its trading partners and for not having utilized internal measures prior to the introduction of the surcharge.[27] In an attempt to prevent similar action by other members in the future, EFTA, at its November 1964 meeting, formed a permanent economic committee and charged it with the task of considering balance-of-payments difficulties of member States and means of dealing with them. In December 1964, following a previous debate on the subject, the Council of GATT charged that Britain, by imposing a 15-percent surcharge on certain imports, had violated its obligations under GATT.

The surcharge was reduced from 15 to 10 percent, effective April 27, 1965—6 months after it had been imposed. Although representatives of the United Kingdom stated, late in 1965, that the surcharge had contributed to an improvement of that country's balance-of-payments difficulties and that the United Kingdom expected the deficit would be eliminated during 1966, it did not further reduce the surcharge during 1965.

Cooperation With the European Economic Community

At a meeting of the European Free Trade Association in May 1965, the relationship between the Association and the European Economic Community received considerable attention. It was pointed out that the continued separate development of the EFTA and the EEC did not augur well for the future growth and prosperity of Western Europe. The EFTA had been established as a transitional arrangement on the premise that eventually it would join the EEC in a larger European trade unit. The probability of merging the two groups had diminished in January 1963, when the United Kingdom failed to gain membership in the EEC.

The EFTA members stressed the importance of intensifying their efforts to achieve increased collaboration between the two areas through

[27] It was pointed out that the surcharge "had no legal basis in the GATT" and that it was inconsistent with Britain's obligations under the EFTA convention (*Board of Trade Journal*, vol. 187, Nov. 13, 1964, p. 1049).

closer contact and the adoption of policies that would expand intra-area trade. Accordingly, the Council was asked to study and make recommendations on (a) procedural arrangements that would facilitate greater collaboration between the EFTA and the EEC, and (b) policy issues that might be fruitful subjects of discussion between them. The reduction of trade obstacles, collaboration in the fields of research and development, and harmonization of standards and regulations in both the manufacturing and marketing of commodities were among the topics considered by EFTA members as subjects for fruitful discussion between the EFTA and the EEC.

These matters were further considered at the EFTA meeting held in October 1965. The Ministers reaffirmed their conviction of the need for greater cooperation between the EFTA and the EEC. They also discussed a number of items—industrial standards, patent laws, and others—which preliminary study had shown might lead to closer cooperation between the two areas. They further agreed to seek a meeting at the Ministerial level between EFTA and EEC members at the earliest opportunity.

EFTA and the Kennedy Round

At a July 1964 EFTA meeting, the member countries expressed complete support for a full 50-percent reduction in customs duties at the Kennedy Round trade negotiations. They also agreed to keep their exceptions lists as small as possible. A successful Kennedy Round leading to substantial reductions in rates would be of great advantage to EFTA countries, which otherwise would be adversely affected by the system of increasing preferences accruing from the approach to free trade within the Common Market and the simultaneous implementation of the common external tariff. All seven EFTA countries met the November 16, 1964, deadline for submitting exceptions lists for industrial commodities; five of them indicated that they were prepared to reduce their duties across the board by 50 percent—without exceptions—in return for reciprocal concessions from other participants in the Kennedy Round.

LATIN AMERICAN FREE TRADE ASSOCIATION

During the 18-month period July 1, 1964, to December 31, 1965, the nine nations comprising the Latin American Free Trade Association[28] progressed further toward increasing intraregional trade through the complete elimination of internal trade barriers by 1973. They held their fourth and fifth annual Conferences and concluded their first triennial meeting, each of which was devoted to reducing such barriers.

At the annual Conferences the members negotiated to place additional trade items on LAFTA's national schedules of concessions. Each country's

[28] Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Uruguay.

schedule of concessions to the other members at each Conference was to extend duty reductions equivalent to at least 8 percent of the weighted average ad valorem equivalent of the duties and import charges applied to imports from third countries. Although the negotiations were usually conducted between two or more member States, the concessions agreed upon by one member were extended to all other LAFTA members. The concessions could later be changed or withdrawn (as for example, in the broader negotiations at the triennial meetings), provided that such alterations were compensated for by reductions in restrictions applied to other items and provided that they had not been consolidated in the "Common Schedule."

The purpose of the triennial meetings, on the other hand, was to determine the items that should be placed in the more permanent Common Schedule—i.e., a list of products that all members agreed would be freed of virtually all barriers to intra-LAFTA trade by 1973. The value of the products placed on the Common Schedule at each of four projected triennial meetings was to be equal to at least 25 percent of the average annual value of intra-area trade during the preceding 3-year period. Inclusion of products in the Common Schedule was to be final, and the concessions made thereon were not to be removed or withdrawn. The progress ultimately achieved at each of LAFTA's triennial meetings, as well as at the annual Conferences, would determine the extent to which the Association could reach its goal—complete freedom of trade among its members by 1973.

During LAFTA's fourth annual Conference, held from October to December 1964, eight of the nine member nations[29] granted more than 200 concessions, compared with more than 600 in 1963 and 7,500 prior thereto. It was recognized that, more or less proportionately with the success already achieved, it would become increasingly difficult to negotiate additional concessions as the goal of complete elimination of trade restrictions was approached and that for further reductions negotiators would have to look to commodities produced by high-cost, protected industries.

Greater progress was achieved at LAFTA's fifth annual Conference (November–December 1965). Approximately 580 tariff concessions were negotiated among LAFTA members—i.e., more than two and one-half times the number granted at the fourth Conference. Of even greater significance is the fact that nearly half of the reductions in duty granted were on manufactured and semimanufactured commodities, such as machine tools, agricultural machinery, electric and electronic equipment, and household appliances. In addition, LAFTA members instructed their Secretariat not only to conduct studies of nontariff barriers to intra-community trade, including the administrative practices of member

[29] Uruguay did not participate in the negotiations.

countries, but also to compare the duties charged on LAFTA products and competitive products from non-LAFTA countries.

Negotiations respecting the Common Schedule were initiated at the first triennial meeting, which lasted from May to December 1964. Altogether, 113 commodities, which accounted for slightly more than 25 percent of intra-LAFTA trade in 1964, were approved for inclusion in the Common Schedule. Five of these commodities—coffee, cotton, copper, cacao, and bananas—were basic LAFTA products and accounted for 17 percent of the area's trade in 1964.

Even though numerous concessions had been granted prior to 1964, intraregional trade by the end of that year constituted only about 10 percent of the total trade of the member countries, and the average level of duties between LAFTA members still exceeded an equivalent of 100 percent ad valorem. Concern over what some deemed to be the inadequate rate at which trade barriers were being reduced or eliminated appears to have been the motive that prompted the President of Chile to invite four leading economists of Latin America to prepare a plan for the acceleration of Latin American economic integration. Their recommendations, published by the United Nations in April 1965, included consideration of a Latin American common market broadly patterned after the European Common Market—an approach to economic integration in Latin America that was radically different from that envisaged by the Treaty of Montevideo. The main features of the common market plan included the creation of a supreme council of ministers, an executive board whose members would represent the community rather than their respective governments, and a Latin American parliament to accelerate economic integration. In the area of trade barriers, the plan called for automatic across-the-board reductions to be made systematically over a period of 10 years until no member would be levying customs duties on intraregional trade of more than 20 percent of the c.i.f. value of each product. Complete freedom of trade within the community was considered a remote objective. The plan also proposed that regional investment policies be developed to foster industrialization.

The prospects of industrial integration by LAFTA members improved during 1965. In that year, member States had under consideration numerous "complementation agreements" designed to facilitate the area-wide development of designated economic sectors. If implemented, these agreements would relate to the production of such commodities as machine tools, dairy equipment, home appliances, construction and mining equipment, communications equipment, chemicals, and motor-vehicle parts. It is noteworthy that Argentina, Brazil, and Mexico, the three largest countries in Latin America, were active participants in these discussions. Two agreements, respecting the production of punch-card office machinery and electronic tubes, were concluded by the end

of 1965. Meetings to discuss additional complementation agreements were planned for 1966.

CENTRAL AMERICAN COMMON MARKET

The Central American common market was exceptionally successful during the period in moving toward its goal of complete intra-area freedom of trade and a common external tariff by 1966. The organization had been created in 1960, when Guatemala, El Salvador, Honduras, and Nicaragua signed the General Treaty on Central American Economic Integration. Costa Rica signed the treaty in 1963.

In an attempt to develop their agricultural and food-processing industries, the member States had by 1961 eliminated customs duties on intra-area trade covered by 95 percent of the member-country tariff classifications.

By the end of 1965, except for a few items, trade between member States was completely free. Rapid progress was also made in alining the customs duties in the tariff schedules of the individual member countries with those in the common market's external tariff. By the end of 1965, more than 95 percent of the rates specified in the common market's external tariff had been put into force by its members. Two steps still remained to be taken—namely, the adoption of a common customs administration and the development of an acceptable system of distribution of customs duties receipts.

The rapid progress toward establishing a common market for the region contributed materially important results. As trade barriers among the member States were being removed between 1961 and 1964, their intraregional trade increased at the remarkable average annual rate of 42 percent. The increase in 1964 was 59 percent, and in January–June 1965, 46 percent. Manufactured and semimanufactured goods accounted for an increasing portion of the intraregional trade; industrial capacity, stimulated by foreign investment, also expanded. At the end of 1964, intraregional trade constituted about 14 percent of the area members' total imports, compared with only about 4 percent before the creation of the common market.

Appendix

LEGISLATIVE AND ADMINISTRATIVE FRAMEWORK OF THE OPERATION OF THE TRADE AGREEMENTS PROGRAM

During the period covered by the foregoing report (July 1964 through December 1965), the United States conducted its trade agreements program under the provisions of the Trade Expansion Act of 1962[1] and related Executive orders. These provisions are discussed below under four main headings: (1) Trade-agreement negotiations; (2) postnegotiation tariff and other adjustment assistance; (3) general provisions; and (4) administrative provisions.

Trade-Agreement Negotiations

The Trade Expansion Act of 1962 (sec. 201) granted the President authority (1) to enter into trade agreements with foreign countries for the 5-year period from July 1, 1962, to June 30, 1967, and, (2) as he deemed appropriate to carry out such agreements, either to modify rates of duty or other import restrictions, to continue existing duties or duty-free treatment, or to impose additional import restrictions. Several provisions in the act established limits on the President's authority to modify U.S. rates of duty. Others dealt with prenegotiation procedures, the reservation of articles from negotiations, staging requirements and rounding authorizations, and the transmission of copies of trade agreements to the Congress.

Authority to modify rates of duty

The basic trade-agreement authority granted to the President (sec. 201) permitted him—in order to carry out a trade agreement—to decrease any rate of duty to a level 50 percent below that existing on July 1, 1962,[2] or to increase any rate of duty to (or impose) a rate 50 percent above that existing on July 1, 1934. For certain articles, however, the President's authority to reduce rates of duty under trade agreements was unlimited—i.e., he could proclaim dutiable articles to be free of duty.

Low-rate articles.—Section 202 authorized the President to eliminate the duties applicable to articles for which the rate on July 1, 1962, was not more than 5 percent ad valorem (or ad valorem equivalent).

Tropical agricultural and forestry commodities.—Section 213 authorized the President, under certain circumstances, to eliminate the duties on tropical agricultural or forestry products. As prerequisites to such action, the President had to determine that (1) the European Economic Community (EEC) had made commitments with respect to the product which made its access into the EEC comparable to the access contemplated for the product into the United States, (2) such commitments applied about equally to all free-world countries of origin, and (3) the like article was not produced in significant quantities in the United States. Before the President made his determination, the Tariff Commission was to make findings as to whether (1) the like article was produced in significant quantities in the United States, and (2) the article was an agricultural or forestry product more than half of the world production of which occurred between the 20-degree lines of latitude.

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[1] 76 Stat. 872–903.

[2] The term "existing on July 1, 1962" referred to the lowest nonpreferential rate of duty existing on such date (however established, and even though temporarily suspended by act of Congress or otherwise) or (if lower) the lowest nonpreferential rate to which the United States was committed on such date and which might be proclaimed under sec. 350 of the Tariff Act of 1930 (sec. 256(4)).

Negotiations with the European Economic Community.—Section 211 permitted the President, in concluding trade agreements with the EEC, to eliminate duties on articles in any category for which he had previously determined that the United States and the EEC accounted for at least 80 percent of the total free-world export value in a representative period. The act directed the President to select the classification system to be used in the categorization of articles for this purpose and to make this selection public. Before the President made the aforementioned determination regarding each category, the Tariff Commission was to make findings as to (1) the representative period to be employed; (2) the articles that fell within each category; and (3) the percentage of free-world export value of the articles within each category accounted for by the United States and the EEC.

The authority granted by section 211 was not to apply to any article listed in Agriculture Handbook No. 143 of the U.S. Department of Agriculture, issued in September 1959. Section 212, however, authorized the President, in carrying out trade agreements with the EEC, to eliminate the duties on any product listed in that handbook, if he determined beforehand that the agreement would tend to maintain or expand U.S. exports of the like article.

Prenegotiation procedures

The Trade Expansion Act directed the President, before he entered into a trade agreement, to seek advice and information from various Government departments and agencies, and to afford interested parties an opportunity to present their views.

Section 221 of the 1962 act, which replaced the so-called peril-point provisions of the previous trade agreements legislation, required the President, before entering into trade-agreement negotiations, to publish and to furnish to the Tariff Commission a list or lists of articles which might be considered for trade-agreement concessions.[3] For each article on which a reduction in the rate of duty in excess of the President's basic trade-agreement authority was to be considered (i.e., in excess of 50 percent of the rate existing on July 1, 1962), the President was to specify on the list the section or sections of the act under which such reductions might be made. Within 6 months after receipt of a list, the Tariff Commission was to advise the President of its judgment as to the probable economic effect of modifications of duties or other import restrictions applicable to each listed article on industries producing like or directly competitive articles. The President could not offer trade-agreement concessions on the articles until he had received the Tariff Commission's advice or until the expiration of the 6-month period, whichever occurred first (sec. 224).

In preparing its advice to the President, the Commission was required to hold public hearings. It was also directed, to the extent practicable, to (1) investigate the conditions, causes, and effects of competition between the foreign industries producing the articles in question and the domestic industries producing the like or directly competitive articles; (2) analyze the production, trade, and consumption of each like or directly competitive article, taking into consideration employment, profit levels, the use of the U.S. productive facilities, and such other economic factors in the domestic industries as the Commission considered relevant (including prices, wages, sales, inventories, patterns of demand, capital investment, obsolescence of equipment, and diversification of production); (3) describe the probable nature and extent of significant changes which trade-agreement concessions on the listed articles would cause in employment, profit levels, use of productive facilities, and such other conditions it deemed relevant in the domestic industries concerned; and (4) make special studies of particular proposed concessions, including studies of the real wages paid in foreign supplying countries, whenever it deemed such studies warranted.

Section 222 required the President, before entering into any trade agreement, to seek information and advice from the Departments of Agriculture, Commerce, Defense, In-

[3] The President directed the Special Representative for Trade Negotiations to furnish him from time to time lists of articles proposed for publication and transmittal to the Tariff Commission (48 CFR 1.3).

terior, Labor, State, and Treasury, and other sources he deemed appropriate. The President delegated these functions to the Special Representative for Trade Negotiations.[4]

Section 223 of the act provided for public hearings, distinct from those conducted by the Tariff Commission, to be held by an agency or interagency committee designated by the President. These hearings were designed to provide any interested person the opportunity to present his views concerning matters pertinent to proposed trade-agreement negotiations. The agency or committee which held the hearings was directed to furnish the President with a summary thereof; the President could not offer trade-agreement concessions until he had received such summary (sec. 224). The President also delegated his functions under section 223 to the Special Representative for Trade Negotiations, who in turn established a Trade Information Committee to conduct the required hearings.[5]

Reservation of articles from negotiation

Several provisions of the Trade Expansion Act of 1962 directed the President to reserve various articles from trade-agreement negotiations. Some of the provisions (e.g., sec. 225(a)) were specific and mandatory; others (e.g., sec. 225 (c)) were general directives or guidelines.

Section 225(a) directed the President to reserve from trade-agreement negotiations for the reduction of duty or other import restriction or the elimination of duty any article for which an action was in effect under the national security or escape-clause provisions of the Trade Expansion Act of 1962 or the comparable provisions of the previous legislation.[6]

Section 225(b) directed the President, under certain conditions, to reserve from negotiations for the reduction of duty or other import restriction or the elimination of duty—for a 5-year period following the enactment of the act—any article (1) which the Tariff Commission in an earlier escape-clause investigation [7] had found, by majority vote, was being imported in such increased quantities as to cause or threaten serious injury to a domestic industry and (2) for which no escape-clause action was in effect. The President was required to reserve such an article from negotiation when the following conditions were met: (a) The article was included in a list of articles to be considered for negotiation furnished to the Tariff Commission by the President pursuant to section 221 (and had not been included in a prior list so furnished), and (b) the Tariff Commission, upon request of the industry made not later than 60 days after the date of publication of such list, found and advised the President that economic conditions in the industry had not substantially improved since the date of the report of its earlier finding of injury.

Section 225(c) directed the President to reserve also any article he determined to be appropriate, taking into consideration the advice of the Tariff Commission (sec. 221), the advice of other Government agencies or sources (sec. 222), and the summary of the public hearings furnished to him (sec. 223).

Section 232 prohibited the President from using his trade-agreement authority to decrease or eliminate the duty or other import restrictions on any article if he determined that such reduction or elimination would threaten to impair the national security.

Staging and rounding

Section 253 of the act stipulated that reductions in rates of duty must be so staged that, generally, the aggregate of a given reduction which was in effect at any time would not exceed that which would have been in effect if the reduction had been made in five annual installments of equal magnitude. Reductions made in rates of duty on tropical agricultural and forestry products under section 213 were exempted from the staging requirement.

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[4] 48 CFR 1.3.

[5] 48 CFR 1.3 and 202.3. See the section of this appendix on administrative provisions.

[6] Sec. 232, 351, or 352 of the Trade Expansion Act of 1962, sec. 7 of the Trade Agreements Extension Act of 1951, as amended, and sec. 2(b) of the extension act of 1954 (68 Stat. 360), as amended.

[7] Sec. 225(b) specified an investigation under sec. 7 of the Trade Agreements Extension Act of 1951 (or a comparable Executive order).

Section 254 permitted rates of duty to be rounded so as to avoid complex fractions or decimals. Whenever he determined that such action would simplify the calculation of the amount of duty imposed on any article, the President could exceed his basic authority to reduce rates of duty (sec. 201), as well as the limitations imposed by staging requirements (sec. 253), by the lesser of (a) the difference between the limitation and the next lower whole number, or (b) one-half of 1 percent ad valorem or an amount the ad valorem equivalent of which was one-half of 1 percent.

Transmission of agreements to Congress

Section 226 directed the President to transmit promptly to each House of Congress a copy of each trade agreement that he negotiated under the authority granted by the act. He was also to transmit a statement which, in the light of the advice of the Tariff Commission (sec. 221) and of other relevant considerations, gave his reasons for entering into the agreement.

Postnegotiation Tariff and Other Adjustment Assistance

The Trade Expansion Act of 1962 provided for a variety of tariff and other forms of assistance to industries, firms, and groups of workers which established that they had been seriously injured by increased imports resulting in major part from trade-agreement concessions. Industry-wide assistance could take the form of an increase in rates of duty or other import restrictions (so-called escape-clause action), or the negotiation of marketing agreements with foreign countries. Assistance to individual firms could be in the form of technical aid, financial help, or tax benefits; that to individual groups of workers, in the form of unemployment compensation, job training, or relocation allowances for adversely affected workers.

Tariff assistance to industries

Under section 301 of the act, a petition for tariff adjustment could be filed with the Tariff Commission by a trade association, firm, certified or recognized union, or other representative of an industry. Upon the filing of such a petition, or upon request of the President, resolution of either the Senate Committee on Finance or the House Committee on Ways and Means, or its own motion, the Tariff Commission was promptly to conduct an investigation to determine whether, as a result in major part of concessions granted under trade agreements, an article was being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to an industry producing an article which was like or directly competitive with the article being imported.

Tariff Commission investigations.—During the course of its investigation, the Tariff Commission was required to hold public hearings and afford interested parties an opportunity to present their views. It was to report the result of each such investigation to the President as soon as practicable, but not later than 6 months after the date on which the petition was filed. Whenever the Commission determined, as a result of an investigation, that serious injury to a domestic industry had occurred or was threatened, it had to find the amount of increase in, or imposition of, any duty or other import restriction that it deemed necessary to prevent or remedy such injury, and include the finding in its report to the President.[8]

In making a determination concerning injury to an industry, the Tariff Commission was directed to take into account all economic factors which it considered relevant, including the idling of productive facilities, inability to operate at a level of reasonable profit, and unemployment or underemployment. The Commission was also directed to consider that

[8] Under Executive Order 11075, the Commission's report, as well as a transcript of the hearing and the briefs relating thereto, was to be transmitted to the President through the Special Representative for Trade Negotiations. See the later section of this appendix on administrative provisions.

the increased imports caused, or threatened to cause, serious injury to the domestic industry concerned when it found that such increased imports had been the major factor in causing, or threatening to cause, such injury.

Presidential action.—Section 302 of the act provided several alternative courses of action that the President could take after he had received a report containing an affirmative finding by the Tariff Commission with respect to a domestic industry:

(1) The President could proclaim such increase in, or imposition of, any duty or other import restriction on the article concerned as he determined to be necessary to prevent or remedy serious injury to the industry involved (sec. 351). The President generally could not, however, increase any rate of duty more than 50 percent above that existing on July 1, 1934, or, if the article was not subject to duty, he could not impose a duty in excess of 50 percent ad valorem.[9] In lieu of such action, the President could negotiate international agreements with foreign countries limiting exports from such countries to the United States of the article causing or threatening to cause serious injury to a domestic industry, whenever he determined that such action would be more appropriate to prevent or remedy serious injury to such industry than would increased duties or other import restrictions (sec. 352).[10]

(2) The President could provide that the firms in the industry in question could request the Secretary of Commerce for certification of eligibility to apply for financial and other forms of assistance provided in chapter 2 of the act.[11] Upon a showing by any such firm to the satisfaction of the Secretary of Commerce that the increased imports (which the Tariff Commission had determined to result from concessions granted under trade agreements) had caused or threatened to cause serious injury to the firm in question, the Secretary was to certify it to be eligible to apply for adjustment assistance.

(3) The President could provide that the workers in the industry in question could request the Secretary of Labor for certification of eligibility to apply for the adjustment assistance provided in chapter 3 of the act.[11] Upon a showing by a group of workers in such industry to the satisfaction of the Secretary of Labor that the increased imports (which the Tariff Commission had determined to result from concessions granted under trade agreements) had caused or threatened to cause unemployment or underemployment of a significant number or proportion of workers of such workers' firm or subdivision thereof, the Secretary was to certify such workers to be eligible to apply for adjustment assistance.

(4) The President could take any combination of these actions.

Section 351 of the act provided that, if the President did not, within 60 days following the receipt of an affirmative finding from the Tariff Commission, proclaim the increase in, or imposition of, a duty or other import restriction found by the Tariff Commission, he had to report immediately to both Houses of Congress his reasons for not so doing. If within 60 days thereafter both Houses of Congress adopted a concurrent resolution stating in effect that they approved the finding of the Tariff Commission, the President, within 15 days after the adoption of the resolution, had to proclaim the increase in, or imposition of, duty or other import restriction found by the Tariff Commission to be necessary to prevent or remedy serious injury to the industry concerned.[12]

The President could, within 60 days after the receipt of an affirmative finding of injury by the Tariff Commission, request additional information from that body. The supplemental report by the Tariff Commission, in response to the President's request, had to be

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[9] For a few dutiable articles for which no rate existed on July 1, 1934, the President could not increase the rate of duty more than 50 percent above that existing at the time of the proclamation.

[10] Sec. 352(b) authorized the President to issue regulations governing the entry or withdrawal from warehouse of any article covered by such international agreement and, furthermore, to issue regulations governing the entry or withdrawal from warehouse of a like article from countries not party to an agreement in order to carry out a multilateral agreement concluded among countries accounting for a significant part of world trade in such article. The President delegated his authority under this subsection to the Secretary of the Treasury.

[11] The types of assistance available to eligible firms and groups of workers are discussed in the later section on adjustment assistance to firms and workers.

[12] Each House of Congress had to approve the resolution by the affirmative vote of a majority of its authorized membership. Days on which either House was not in session because of adjournment of more than 3 days to a day certain or an adjournment of the Congress sine die were not to be counted for purposes of computing the 60-day period.

submitted as soon as practicable, but in no event later than 120 days following the receipt of such a request.

Review of escape-clause restrictions.—Section 351 contained several provisions relating to the review of escape-clause restrictions imposed by the President and to their extension or termination. Basically, any increase in, or imposition of, duty or other import restriction pursuant to the escape clause was—in the absence of action by the President—to terminate automatically after being in effect for 4 years.[13] Under certain circumstances, however, the President was authorized to reduce or terminate such a restriction at any time; under other circumstances, he was authorized to extend a restriction, in whole or in part, for such periods as he designated (but not to exceed 4 years at any one time).

So long as any increase in, or imposition of, any duty or other import restriction remained in effect pursuant to the escape clause, the Tariff Commission was to keep under review developments with respect to the industry concerned and to make annual reports to the President concerning such developments (sec. 351(d)(1)). Although these annual reports would keep the President informed, he could not, until meeting other requirements described below, alter an import restriction he had earlier imposed.

Before the President could reduce or terminate an escape-clause restriction, he was required to take into account advice from the Tariff Commission of its judgment as to the probable economic effect of the reduction or termination of the restriction, and to seek advice of the Secretaries of Commerce and Labor whether such reduction or termination was in the national interest. The Tariff Commission was obligated to advise the President at his request, or it was permitted to do so on its own motion (sec. 351(d)(2)).

Before the President could extend an escape-clause restriction for an additional period, he had to determine that such extension was in the national interest. In doing so, he had to take into account advice received from the Tariff Commission of its judgment as to the probable economic effect of the termination of such restriction, and seek the advice of the Secretaries of Commerce and Labor. The Commission was authorized to advise the President only upon petition on behalf of the industry concerned, which had to be filed not earlier than 9 months nor later than 6 months before the escape-clause restriction would automatically terminate (sec. 351(d)(3)). In effect, then, the procedure to extend an escape-clause restriction beyond the initial 4-year period (or beyond an extended period) could be instituted only by the industry concerned.

In advising the President as to the probable economic effect on the industry concerned of the termination of escape-clause restrictions, the Tariff Commission was to take into account all economic factors which it considered relevant, including idling of productive facilities, inability to operate at a level of reasonable profit, and unemployment or underemployment. The advice was to be given on the basis of an investigation, during the course of which the Commission was to hold a public hearing.

Adjustment assistance to firms and workers

The Trade Expansion Act of 1962 provided two avenues whereby individual firms and groups of workers could become eligible to receive the adjustment assistance provided for in the act. One avenue has been discussed in the previous sections: After receiving a report from the Tariff Commission containing an affirmative finding under section 301 with respect to any industry, the President could authorize the firms and workers in such industry to apply to the Secretary of Commerce and the Secretary of Labor, respectively, for certification of eligibility. The second avenue, wherein individual firms or groups of workers petitioned the Tariff Commission for a determination of eligibility to apply for adjustment assistance, is discussed below.

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[13] Escape-clause restrictions proclaimed by the President under sec. 7 of the Trade Agreements Extension Act of 1951 were to terminate automatically 5 years after the date of the enactment of the Trade Expansion Act of 1962 (Oct. 11, 1962).

Determination of eligibility.—Under section 301, an individual firm or its representative could file with the Tariff Commission a petition for determination of eligibility to apply for adjustment assistance. Upon receipt of such a petition, the Tariff Commission was to make an investigation to determine whether, as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by the firm was being imported in such increased quantities as to cause, or threaten to cause, serious injury to such firm. In making its determination, the Tariff Commission was to take cognizance of all economic factors which it considered relevant, including idling of the firm's productive facilities, the firm's inability to operate at a level of reasonable profit, and unemployment or underemployment of workers in the firm.

Also under section 301, a group of workers, or their certified or recognized union or other duly authorized representative, could file with the Commission a petition for determination of eligibility to apply for adjustment assistance. When it received such a petition, the Tariff Commission was to conduct an investigation to determine whether, as a result in major part of concessions granted under trade agreements, an article like or directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, was being imported into the United States in such increased quantities as to cause, or threaten to cause, unemployment or underemployment of a significant number or proportion of the workers of such firm or subdivision.

For purposes of any investigation to determine the eligibility of a firm or group of workers for adjustment assistance, the Commission was to consider that increased imports caused, or threatened to cause, serious injury to a firm or unemployment or underemployment of a group of workers, as the case might be, whenever it found that such increased imports had been the major factor in causing, or threatening to cause, such injury or unemployment or underemployment. The Commission was to hold public hearings, if so requested by the petitioner, or if, within 10 days after notice of the filing of a petition, a hearing was requested by any other party demonstrating a proper interest in the matter.

The results of each investigation had to be reported to the President not later than 60 days after the date of filing of the petition. After an affirmative finding by the Tariff Commission of injury to a firm or group of workers, the President could certify that such firm or group of workers was eligible to apply for adjustment assistance. The President delegated his certifying authority with respect to a firm to the Secretary of Commerce, and with respect to a group of workers, to the Secretary of Labor.[14]

Types of assistance to firms.—Adjustment assistance to firms could consist of technical, financial, or tax assistance. Such measures might be provided separately or collectively.

Under the provisions of section 311, a firm certified as eligible to apply for adjustment assistance could apply for such assistance to the Secretary of Commerce at any time within 2 years after certification. Within a reasonable time after making application, the firm would have to submit a proposal for its economic adjustment. Except for technical assistance rendered to assist a firm to prepare an adjustment proposal, no adjustment assistance could be authorized until the Secretary of Commerce had certified that the adjustment proposals of the firm (1) were reasonably calculated to contribute materially to the economic adjustment of the firm, (2) gave adequate consideration to the interests of the workers of such firm adversely affected by actions taken in carrying out trade agreements, and (3) demonstrated that the firm would make all reasonable efforts to use its own resources for economic development.

Under section 312, once the Secretary of Commerce had certified a firm's economic adjustment proposal, he then had to refer it to the U.S. Government agency or agencies he determined appropriate to provide the technical and financial assistance called for. Each such agency was to examine the features of the proposal relevant to its functions and inform

[14] 48 CFR 1.7 and 1.8. The Tariff Commission reports, as well as transcripts of hearings and briefs relating thereto, were to be transmitted to the President through the appropriate Secretary.

the Secretary of Commerce which parts of the proposed technical and financial assistance it was prepared to furnish. To the extent that an agency determined not to provide assistance, and if the Secretary of Commerce determined that such assistance was necessary to carry out the adjustment proposal, the Secretary was authorized to provide such assistance on the terms and under the conditions he determined to be appropriate.

Technical assistance to firms (sec. 313) could consist of such aids as information, market and other economic research, managerial advice and training, and assistance in research and development. To the maximum extent practicable, technical assistance was to be furnished through existing agencies of the Federal Government. Financial assistance (sec. 314) could be in the form of loans, guarantees of loans, or agreements for deferred participation in loans. Such financial assistance was to be used by the firm for acquisition or expansion of fixed capital; in cases determined by the Secretary of Commerce to be exceptional, it could be used for working capital. Tax assistance (sec. 317) would permit a firm to carry back a net operating loss to each of the 5 taxable years preceding the year of the loss, rather than to just 3 years as provided by the Internal Revenue Code of 1954. The extended carryback period could be applied only with reference to operating losses incurred in taxable years ending on or after December 31, 1962, for which the Secretary of Commerce had issued a specific certification.

Types of assistance to workers.—Adjustment assistance to workers could consist of trade readjustment (unemployment) allowances (secs. 322 to 325), training (secs. 326 and 327), and relocation allowances (secs. 328 to 330). An unemployed or underemployed worker in a group of workers that had been certified for adjustment assistance could apply for unemployment compensation, i.e., trade readjustment allowances. Such weekly allowances were to amount to the lesser of 65 percent of the worker's average weekly wage or 65 percent of the average manufacturing wage, reduced by 50 percent of the amount of the worker's remuneration for services performed during such week. Such payments were generally to be limited to a period of 52 weeks, except that a worker who was 60 years of age or older at the time of separation was entitled to 13 additional weeks, and a worker undergoing approved training was to receive up to 26 additional weeks of allowances if needed to enable him to complete such training.

Workers adversely affected were to be afforded, where appropriate, the testing, counseling, placement, and training facilities provided under any Federal law. Transportation and subsistence payments were authorized when the training provided was not within commuting distance of the worker's residence. A worker who was the head of a family and who had been totally separated from adversely affected employment could qualify for relocation allowances. Such allowances were to be paid for moves within the United States when the Secretary of Labor determined that the worker to receive the allowance did not have reasonable prospects of gaining suitable employment within commuting distance of his place of residence, and that he had a suitable job elsewhere or a bona fide offer of such a job.

General Provisions

The Trade Expansion Act included provisions relating to the generalization of trade-agreement concessions, the restriction of imports that might impair national security, and the conservation of fishery resources.

Generalization of concessions

Under section 251 of the act, any duty or other import restriction proclaimed to carry out a trade agreement was, in general, to apply to products of all foreign countries. The legal requirement that the duties resulting from trade-agreement concessions be thus generalized had been a part of U.S. trade agreements legislation since the passage of the original trade agreements act in 1934. However, the 1962 act, like earlier trade agreements legislation, established several exceptions to the generalization policy; those established by the 1962

act related chiefly to the goods of Communist-dominated countries and to unjustifiable and unreasonable foreign import restrictions.

Section 231 directed the President, as soon as practicable, to withhold the application of trade-agreement rates of duty to products, whether imported directly or indirectly, of any country or area dominated or controlled by Communism. The language of the section differed somewhat from the earlier directive contained in trade agreements legislation, which referred to "the Union of Soviet Socialist Republics and . . . any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement." [15] According to the report of the House Ways and Means Committee on H.R. 11970, the change in language was intended to assure that Cuba, Poland, and Yugoslavia were included among the "Communist countries" denied trade-agreement rates of duty. At the time the Trade Expansion Act of 1962 became law, Cuba was in fact denied trade-agreement rates of duty (pursuant to sec. 401(a) of the Tariff Classification Act of 1962 [16]), but Poland and Yugoslavia were not. Effective December 16, 1963, section 231 was amended to permit the President to extend trade-agreement concessions to imports from Poland and Yugoslavia, if he determined that such treatment would be important to the national interest and would promote the independence of those countries from domination by international Communism. [17]

Section 252 of the act authorized the President to counter unreasonable and unjustifiable foreign import restrictions, among other ways, by not applying trade-agreement rates of duty to products of the foreign country concerned. Section 252 set forth the following provisions:

> (1) The President was directed to take all appropriate and feasible steps within his power to eliminate unjustifiable foreign import restrictions whenever they impaired the value of tariff commitments made to the United States, oppressed the commerce of the United States, or prevented the expansion of foreign trade. The President was not to obtain the reduction or elimination of any such unjustifiable restriction by offering in negotiations to remove or reduce any import restriction of the United States.
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> (2) Notwithstanding any provision of any trade agreement, and to the extent he deemed necessary and appropriate, the President was directed to impose duties or other import restrictions on the products of any country establishing or maintaining unjustifiable import restrictions against U.S. agricultural products when he deemed such action necessary and appropriate to provide access for U.S. agricultural products to the markets of that country on an equitable basis.
>
> (3) To the extent that such action was consistent with the purposes stated in the act, the President was directed to deny the benefits of existing trade-agreement concessions to, or to refrain from proclaiming the benefits of any new concession to carry out a trade agreement with, any foreign country which maintained nontariff trade restrictions, including variable import fees, which substantially burdened the commerce of the United States in a manner inconsistent with the provisions of trade agreements or engaged in discriminatory or other treatment unjustifiably restricting U.S. commerce.
>
> (4) The President was authorized to deny the benefits of existing trade-agreement concessions to, or to refrain from proclaiming new concessions to carry out a trade agreement with, any foreign country maintaining unreasonable import restrictions which substantially burdened the commerce of the United States, either directly or indirectly. In taking such action, the President was directed to act with due regard for the international obligations of the United States and for the stated purposes of the act.

Section 252 also directed the President to provide an opportunity for interested parties to present their views at appropriate public hearings concerning unjustifiable and unreasonable foreign import restrictions. The President delegated his responsibilities under section 252 to the Special Representative for Trade Negotiations.

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[15] Sec. 5 of the Trade Agreements Extension Act of 1951.

[16] 76 Stat. 78.

[17] Sec. 402 of Public Law 88–205.

National security provisions

The national security provisions of the act (sec. 232) directed the President to reserve from trade-agreement negotiations any article on which a reduction in duty or other import restrictions would threaten to impair the national security, as well as to control entries of any article being imported in such quantities or under such circumstances as to threaten to impair the national security. These provisions were nearly identical with the national security provisions of the previous trade agreements legislation (i.e., those contained in the Trade Agreements Extension Act of 1958). Section 225(a) further directed the President to reserve from trade-agreement negotiations for the reduction or the elimination of duty any article for which an action was in effect under the national security provisions of the Trade Expansion Act or the comparable provisions of earlier trade agreements legislation.

Also under section 232, the Director of the Office of Emergency Planning was required, upon the request of the head of any department or agency, upon the application of an interested party, or upon his own motion, to conduct an investigation to determine the effects on the national security of imports of any article. Such investigations presumably could be conducted at any time and on any article (whether or not a trade-agreement concession had been granted thereon). If the investigation established to the satisfaction of the Director that the subject article was being imported in such quantities or under such circumstances as to threaten to impair the national security, he was to so advise the President. In turn, the President, unless he determined that the article was not being imported in such quantities or under such circumstances as to threaten to impair the national security, was to take such action as he considered necessary to "adjust" imports of such article so that they would not threaten to impair the national security. The President's authority to impose import restrictions under these circumstances was unlimited; he could, for example, impose an import duty higher than 50 percent above that in effect in 1934 (the limit for escape-clause restrictions).

During the course of each investigation, the Director was to seek information and advice from other appropriate departments and agencies. Without excluding other relevant factors, the Director and the President were also to consider a number of criteria set forth in section 232. The Director was to publish a report on his disposition of each investigation.

Fishery resources

The provisions of the Trade Expansion Act on the conservation of fishery resources (sec. 257(i)) were not related directly to the U.S. trade agreements program. The provisions, rather, directed the President, upon convocation of a conference, to seek to persuade countries whose practices or policies affect international fishery resources to negotiate relating to the use or conservation of such resources. If, in the President's judgment, a country whose fishery conservation policies or practices affected the interests of the United States (and other countries that were willing to negotiate) failed or refused to negotiate in good faith relating to such practices, the President was authorized to increase the rate of duty on any fish product imported from such country for such time as he deemed necessary. The rate of duty could be increased to a level not more than 50 percent above the rate existing on July 1, 1934.

Administrative Provisions

Procedures for administering the Trade Expansion Act of 1962 were provided for in part by the act itself and in part by Executive orders and directives. The Executive documents included Executive Order 11075 of January 15, 1963, Executive Order 11106 of April 18, 1963, and Executive Order 11113 of June 13, 1963.[18] The Special Representative for Trade Negotiations and the Chairman of the Trade Information Committee (see below) also issued regulations. All of the Executive documents were made part of title 48 of the Code of Federal Regulations.

[18] 28 F.R. 473, 28 F.R. 3911, and 28 F.R. 6183, respectively.

Special Representative for Trade Negotiations

Under section 241 of the Trade Expansion Act, the President was required to appoint, by and with the advice and consent of the Senate, a Special Representative for Trade Negotiations. The Special Representative was to serve as the chief representative of the United States at trade-agreement negotiations. He was also designated to be chairman of the interagency advisory committee provided for by section 242 of the act. Generally, the Special Representative was to assist the President in the administration of the trade agreements program and to advise the President with respect to nontariff barriers to international trade, international commodity agreements, and other matters relating to the operation of the trade agreements program. By Executive order, the President also created the positions of two Deputy Special Representatives for Trade Negotiations. The Deputy Special Representatives were assigned the principal function of conducting trade-agreement negotiations; they were also to perform such additional duties as the Special Representative might direct.

Interdepartmental committees

To carry out the traditional interdepartmental administration of the trade agreements program, the Congress and the Executive established a series of governmental (interagency) committees. Certain of the newly identified committees were counterparts of committees that had functioned under earlier legislation and Executive orders.

Trade Expansion Act Advisory Committee.—Pursuant to section 242, the President established the Trade Expansion Act Advisory Committee. The Committee was composed of the Special Representative for Trade Negotiations (chairman) and the Secretaries of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury. Each Secretary was authorized to designate an official from his department (who had status not below that of Assistant Secretary) as his alternate on the Committee. The Special Representative was authorized to designate the Deputy Special Representative for a similar purpose.

Under section 242, the advisory Committee was to (1) make recommendations to the President on basic policy issues arising in the administration of the trade agreements program; (2) make recommendations to the President with respect to reports concerning tariff adjustment submitted to him by the Tariff Commission; (3) advise the President respecting foreign import restrictions; and (4) perform such other functions relating to the operation of the trade agreements program as the President designated.

Trade Executive Committee.—The Trade Executive Committee was composed of the Deputy Special Representative for Trade Negotiations (chairman) and representatives designated from their respective departments by the Secretaries of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury. The members of the Committee so designated were to be equal in status at least to Assistant Secretary. Alternate members of the Committee, with rank at least equal to that of Deputy Assistant Secretary, could be chosen by the Secretaries of the respective departments and by the Special Representative.

The functions of the Trade Executive Committee were to (1) plan, direct, and coordinate interagency activities concerning the trade agreements program and related matters; (2) recommend policies and actions, and transmit appropriate materials, to the Special Representative concerning the trade agreements program and related matters; (3) supervise and direct the activities of the Trade Staff Committee and the Trade Information Committee (see below); and (4) perform such other functions as the Special Representative might from time to time determine.

Trade Staff Committee.—The Trade Staff Committee was composed of a chairman chosen from his office by the Special Representative and of officials designated from their respective agencies by the Secretaries of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury, and by the Chairman of the Tariff Commission. The official from the Tariff Commission was a nonvoting member; he did not participate in the discussion of any policy matter or in the consideration of any report submitted by the Tariff Commission.

The functions of the Trade Staff Committee were to—

(1) Obtain information and advice from agencies and other sources concerning any proposed trade agreement, and furnish summaries of such information and advice, together with recommendations of action with respect thereto, to the Trade Executive Committee;

(2) Review summaries of information concerning any proposed trade agreement furnished by the Trade Information Committee and transmit such summaries, together with recommendations of action with respect thereto, to the Trade Executive Committee;

(3) Review summaries of information concerning foreign import restrictions furnished by the Trade Information Committee and transmit recommendations of action with respect thereto through the Trade Executive Committee to the Trade Expansion Act Advisory Committee;

(4) Review reports concerning tariff adjustment submitted by the Tariff Commission, and transmit such reports, together with recommendations of action with respect thereto, through the Trade Executive Committee to the Trade Expansion Act Advisory Committee;

(5) Review all materials required to be furnished by the Tariff Commission to the President through the Special Representative, and transmit such materials, together with recommendations of action with respect thereto, to the Trade Executive Committee;

(6) Recommend policies and actions to the Trade Executive Committee concerning the trade agreements program and related matters, or, when appropriate, approve such policies and actions;

(7) Keep regularly informed of the operation and effect of the trade agreements program and related matters; and

(8) Perform such other functions as the Trade Executive Committee might from time to time determine.

Trade Information Committee.—The Trade Information Committee consisted of a chairman appointed from his office by the Special Representative and of officials designated from their respective agencies by the Secretaries of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury.

The functions of the Trade Information Committee were to—

(1) Provide an opportunity, by the holding of public hearings and by such other means as it deemed appropriate, for any interested party to present an oral or written statement concerning any proposed trade agreement, and furnish summaries of such hearings and other pertinent information so received to the Trade Staff Committee;

(2) Provide an opportunity, by the holding of public hearings, upon request by any interested party, and by such other means as it deemed appropriate, for any interested party to present an oral or written statement concerning foreign import restrictions, and furnish summaries of such hearings and other pertinent information so received to the Trade Staff Committee and the Trade Expansion Act Advisory Committee;

(3) Provide an opportunity, by such means as it deemed appropriate, for any interested party to present an oral or written statement concerning any other aspect of the trade agreements program and related matters, and furnish summaries of pertinent information so received to the Trade Staff Committee;

(4) Issue regulations governing the conduct of its public hearings and the performance of such of its other functions as it deems necessary; and

(5) Perform such other functions as the Trade Executive Committee might from time to time determine.

Adjustment Assistance Advisory Board.—Section 361 of the Trade Expansion Act provided for an Adjustment Assistance Advisory Board. The Board consisted of the Secretary of Commerce (chairman), the Secretaries of the Treasury, Agriculture, Labor, Interior, and Health, Education, and Welfare, the Administrator of the Small Business Administration, and such other members as the President might designate. The function of the Adjustment Assistance Advisory Board was to advise the President and the agencies furnishing adjustment assistance under the act on the development of coordinated programs for assistance to firms and workers. The Chairman of the advisory Board was authorized to appoint industry committees composed of representatives of employers, workers, and the public for the purpose of advising the Board.

Congressional representation at negotiations

Section 243 of the Trade Expansion Act directed the President to select, upon the recommendation of the Speaker of the House of Representatives, two members of the House Committee on Ways and Means, and, upon the recommendation of the President of the Senate, two members of the Senate Committee on Finance to be accredited as members of the U.S. delegation to any trade-agreement negotiation. The two delegates from each House of Congress were not to be members of the same political party.

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