

UNITED STATES TARIFF COMMISSION

OPERATION OF THE
TRADE AGREEMENTS PROGRAM

12th Report

July 1958 - June 1959



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**12th Report
July 1958-June 1959**

**Prepared in Conformity with Section 350(e)(2)
of the Tariff Act of 1930, As Amended**

**Washington
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UNITED STATES TARIFF COMMISSION

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Foreword

This, the 12th report of the U.S. Tariff Commission on the operation of the trade agreements program, covers the period from July 1, 1958, through June 30, 1959. The 12th report has been prepared in conformity with the provisions of section 350(e)(2) of the Tariff Act of 1930, as amended, which requires the Tariff Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program. 1/ Before the passage of the Trade Agreements Extension Act of 1955, various Executive orders had directed the Commission to prepare similar annual reports and to submit them to the President and to the Congress.

During the period covered by the 12th report, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) did not sponsor any multilateral tariff negotiations of the Geneva-Annecy-Torquay type. Shortly before the close of the period covered by the report, however, they decided to hold a general tariff conference, beginning in September 1960, for the purpose of negotiating with the member states of the European Economic Community, with countries that desire to accede to the General Agreement, with contracting parties that desire to negotiate new or additional concessions, and with contracting parties that desire to renegotiate concessions in their

1/ Sec. 350(e)(1) of the Tariff Act of 1930, as amended, requires the President to submit to the Congress an annual report on the operation of the trade agreements program. In accordance with this requirement, the President on June 25, 1959, transmitted to the Congress his Third Annual Report of the President of the United States on the Trade Agreements Program. The requirements for the reports by the Tariff Commission and the President were added to sec. 350 by sec. 3(d) of the Trade Agreements Extension Act of 1955.

existing schedules. During the period covered by the 12th report, the United States concluded limited trade-agreement negotiations under article XXV of the General Agreement with Brazil and under article XXVIII or the 1955 Declaration on Continued Application of Schedules, with Australia, Austria, Finland, the Netherlands, and New Zealand. The report describes these negotiations and analyzes the changes that they made in the schedules of concessions of the respective countries.

The 12th report also covers other important developments during 1958-59 with respect to the trade agreements program. These include the major developments relating to the general provisions and administration of the General Agreement; the actions of the United States relating to its trade agreements program; and the major commercial policy developments in countries with which the United States has trade agreements.

C O N T E N T S

Chapter 1. U.S. Trade Agreements Legislation

	Page
Provisions of the Trade Agreements Extension Act of 1958-----	1
Authority to reduce rates of duty-----	2
Authority to increase rates of duty-----	5
Escape-clause provisions-----	6
Peril-point provisions-----	8
National security provision-----	9
Other provisions-----	11
Proposed legislation concerning U.S. participation in the Organization for Trade Cooperation-----	12

Chapter 2. Developments Relating to the Operation of the General Agreement on Tariffs and Trade

Introduction-----	14
Items arising from the operation of the General Agreement:	
Complaints-----	18
Complaints settled by June 30, 1959:	
French discrimination against imported agricultural machinery (art. III)-----	18
Italian discrimination against imported agricultural machinery (art. III)-----	20
Complaints not settled by June 30, 1959:	
Reduced freight rates on shipments of paper products to South Africa (art. VI)-----	21
French stamp tax on imports (art. II)-----	24
French subsidization of exports of wheat and flour (art. XVI)-----	26
Italian measures in favor of domestic production of ships' plates (art. III)-----	27
Italian subsidization of exports of flour (art. XVI)-----	29
U.S. restrictions on imports of dairy products (art. XI)-----	30
Waivers of obligations granted at the 13th and 14th Sessions-----	31
Chilean import charges (art. II)-----	32
Peruvian import charges (arts. I and II)-----	32

(TC29070)

CONTENTS

Chapter 2. Developments Relating to the Operation of the
General Agreement on Tariffs and Trade--Continued

	Page
Items arising from the operation of the General Agreement--Con.	
Reports on existing waivers of obligations:	
Australia's special customs treatment of products from Papua and New Guinea (fifth annual report) (art. I)-----	35
Belgian quantitative restrictions on imports (third annual report) (art. XI)-----	37
Central American free-trade area (art. I)-----	40
European Coal and Steel Community (sixth annual report) (arts. I and XIII)-----	42
Franco-German treaty on the Saar (first annual report) (art. I)-----	44
Italy's preferential customs treatment of Libyan products (sixth annual report) (art. I)-----	46
Luxembourg's quantitative restrictions on imports (third annual report) (art. XI)-----	47
Nicaragua-El Salvador free-trade area (seventh annual report) (arts. I and XIII)-----	49
United Kingdom obligations with respect to products entered free of duty from Commonwealth countries (fifth annual report) (art. I)-----	49
Special problems of the dependent overseas territories of the United Kingdom (fourth annual report) (art. I)-----	51
U.S. restrictions on imports of agricultural products (fourth annual report) (arts. II and XI)-----	52
Releases from obligations-----	56
First annual review of actions under article XVIII-----	57
Releases from obligations considered at the 13th Session-----	58
Examination of quantitative import restrictions imposed for balance-of-payments reasons (arts. XI-XV, XVIII)-----	59
General review of restrictions under articles XII and XVIII:B-----	61
Consultations under articles XII and XVIII:B-----	63
Consultations under article XIV-----	66
Ninth annual report on discriminatory application of quantitative import restrictions (art. XIV)-----	68
West German import restrictions-----	68
Extension of the hard-core decision of March 5, 1955-----	74

CONTENTS

Chapter 2. Developments Relating to the Operation of the
General Agreement on Tariffs and Trade--Continued

	Page
Tariffs and tariff negotiations:	
Plans for future tariff reductions-----	76
European Economic Community-----	78
Proposed European free-trade area-----	82
Franco-Tunisian Customs Union-----	83
Latin American economic integration-----	84
Application of the General Agreement to new countries (art. XXVI:5(c))-----	85
Proposed accession of Israel-----	88
Proposed accession of Poland-----	89
Proposed accession of Switzerland-----	89
Proposed accession of Yugoslavia-----	91
Brazilian tariff negotiations-----	92
Revision of New Zealand's tariff-----	94
Tariff of the Federation of Rhodesia and Nyasaland-----	95
Cuban tariff reform-----	96
Other developments relating to the agreement:	
Application of article XXXV in the accession of Japan-----	97
Limitation and elimination of subsidies-----	98
Notification of state trading activities-----	99
Disposal of surplus agricultural products-----	100
Nomination of officers of the Interim Coordinating Committee for International Commodity Arrangements-----	101
Problems related to trade in primary commodities-----	102
Expansion of international trade-----	104
Restrictive business practices-----	105
Norwegian proposal for study of legislation on antidumping and countervailing duties-----	107
Discrimination in transport insurance-----	109
Trade and customs regulations-----	111
Consular formalities-----	112
Marks of origin-----	112
Nationality of imported goods-----	113
Facilities for temporary admission of professional equipment and packing materials-----	114
Status and administration of the General Agreement:	
Definitive application-----	114
Protocols of amendment, and Agreement on the Organization for Trade Cooperation-----	115
Rectification, modification, and consolidation of schedules-----	117
Intersessional administration of the General Agreement-----	119
Continued application of schedules, and article XXVIII negotiations-----	120

CONTENTS

Chapter 2. Developments Relating to the Operation of the
General Agreement on Tariffs and Trade--Continued

	Page
Status and administration of the General Agreement--Continued	
Ministerial meetings at sessions of the Contracting Parties-----	121
Election of Chairman and Vice Chairman of the Contracting Parties-----	122
Training program for government officials of contracting parties to the General Agreement-----	123
Financial and budgetary matters-----	124

Chapter 3. Actions of the United States Relating
to Its Trade Agreements Program

U.S. trade-agreement obligations-----	125
Trade-agreement negotiations during 1958-59-----	128
Tariff renegotiations with Brazil-----	128
History of the renegotiations-----	129
Concessions granted to the United States by Brazil-----	133
Status of U.S. concessions to Brazil-----	135
Renegotiations of certain concessions by Australia, Austria, Finland, the Netherlands (for Surinam), and New Zealand-----	138
Australia-----	139
Austria-----	140
Finland-----	141
Netherlands (for Surinam)-----	142
New Zealand-----	143
Actions relating to trade-agreement concessions:	
Entry into force of trade-agreement concessions:	
Concessions granted to Uruguay on certain meat products-----	145
Concessions granted to Korea at Torquay in 1951-----	146
Withdrawal or modification of trade-agreement concessions:	
Lead and zinc-----	147
Crude oil, unfinished oils, and finished products-----	147
Geneva wool-fabric quota-----	150
U.S. restrictions on imports of agricultural products-----	152
Presidential action on long-staple cotton quota (1958)-----	155
Supplemental investigation of long-staple cotton (1959)-----	156
Investigation of rye, rye flour, and rye meal (1959)-----	156
Consultations on import restrictions-----	157

CONTENTS

Chapter 3. Actions of the United States Relating
to Its Trade Agreements Program--Continued

	Page
Activities under the peril-point provision-----	159
Activities under the escape clause of trade agreements-----	160
Status of escape-clause investigations during 1958-59-----	163
Review of escape-clause actions under Executive Order 10401-----	173

Chapter 4. Major Commercial Policy Developments
in Countries With Which the United
States Has Trade Agreements

Introduction-----	177
Developments with respect to currency convertibility and trade restrictions-----	181
OEEC countries-----	184
Common Market countries-----	186
France-----	187
West Germany-----	189
Italy-----	191
Benelux countries-----	192
Member countries of the proposed European Free Trade Association-----	193
Austria-----	194
Denmark-----	195
Norway-----	198
Sweden-----	199
Switzerland-----	201
United Kingdom-----	202
Other OEEC countries:	
Greece-----	205
Iceland-----	208
Turkey-----	208
The overseas sterling area-----	210
Australia-----	211
Ceylon-----	213
India-----	214
New Zealand-----	218
Pakistan-----	219
Union of South Africa-----	221
Burma-----	221
Singapore, Malaya, and Rhodesia-Nyasaland-----	222

CONTENTS

Chapter 4. Major Commercial Policy Developments
in Countries With Which the United States
Has Trade Agreements--Continued

	Page
Developments with respect to currency convertibility and trade restrictions--Continued	
Nondollar countries other than those in OEEC or the sterling area-----	223
Developments with respect to the Common Market-----	226
Activities of the Common Market during 1958-59-----	229
Implementation of tariff, quota, and other provisions of the Common Market Treaty-----	229
Activation of EEC institutions and administrative services-----	234
Institution of studies required for further implementation of the Common Market Treaty-----	237
Cooperation with other international organizations-----	240
Relationship of the Common Market to other international trade organizations-----	241
General Agreement on Tariffs and Trade-----	242
Organization for European Economic Cooperation-----	248
European Coal and Steel Community-----	250
Reactions to establishment of the Common Market-----	252
Effects of the Common Market-----	258
Developments with respect to other regional groupings-----	267
European Free Trade Association-----	267
Latin American regional market-----	279
Nordic common market-----	283

Chapter 1

U.S. Trade Agreements Legislation

During the period covered by this report 1/ the United States conducted its trade agreements program under the provisions of the Trade Agreements Act of 1934, 2/ as amended, the Trade Agreements Extension Act of 1951, 3/ as amended, the Trade Agreements Extension Act of 1958, 4/ Executive Order 10082 of October 5, 1949, and Executive Order 10741 of November 25, 1957.

PROVISIONS OF THE TRADE AGREEMENTS EXTENSION ACT OF 1958

The Trade Agreements Extension Act of 1958, which was approved by the President on August 20, 1958, extends from the close of

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 hereafter be cited in a similar short form. Copies of the Commission's 8th, 9th, and 11th reports on the operation of the trade agreements program may be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. The other reports in the series are out of print.

2/ 48 Stat. 943.

3/ 65 Stat. 72.

4/ Public Law 85-686 (72 Stat. 673).

For the provisions and legislative history of the Trade Agreements Act of 1934 and the subsequent extension acts, see Operation of the Trade Agreements Program as follows: 1st report, pt. II, ch. 2; 2d report, ch. 2; 3d report, ch. 2; 4th report, ch. 2; 6th report, ch. 2; 7th report, ch. 2; 8th report, ch. 1; 9th report, ch. 1; 10th report, ch. 1; and 11th report, ch. 1.

June 30, 1958, until the close of June 30, 1962, the period during which the President is authorized to enter into foreign trade agreements under section 350 of the Tariff Act of 1930, as amended. 1/

Authority To Reduce Rates of Duty

The Trade Agreements Extension Act of 1958 provides that the President may, pursuant to trade agreements, reduce the rate of duty on an article to the lowest rate resulting from the application of any one of three alternative methods. Under the first method the rate of duty on an article may be reduced by as much as 20 percent of the rate applicable on July 1, 1958. Under the second method the rate of duty existing on July 1, 1958, may be reduced by 2 percentage points, except that no duty may be entirely removed. Under the third method any rate of duty may be reduced to 50 percent ad valorem or, for a specific or compound rate of duty, to a rate or combination of rates equivalent to 50 percent ad valorem.

1/ Sec. 350 of the Tariff Act of 1930, as amended, is commonly referred to as the Trade Agreements Act of 1934, as amended.

Under the provisions of the extension act of 1958, the rate of duty on an article on July 1, 1958, determines which of these three methods would result in the maximum permissible reduction. Thus rates of less than 10 percent ad valorem may be reduced in greatest degree by employing the second method (reduction by 2 percentage points); and those between 10 percent and 62-1/2 percent, by the first method (reduction by 20 percent). For rates exceeding 62-1/2 percent the maximum permissible reduction would be accomplished by using the third method (reduction to 50 percent ad valorem, or its equivalent). ^{1/}

In applying the second and third methods of rate reduction, in which the permissible reduction is stated in ad valorem terms, the base rate must, of course, also be stated on an ad valorem basis. The law specifies, therefore, that for specific and compound rates of duty, its provisions shall apply on the basis of the ad valorem equivalents of such rates of duty during a period determined by the President to be representative.

The Trade Agreements Extension Act of 1958 provides that, regardless of the method that is employed in reducing a rate of duty, the reduction may be effected in not more than four annual stages. Separate stages

^{1/} The first and second methods would give identical results if applied to a rate of exactly 10 percent ad valorem, and the first and third methods, if applied to a rate of exactly 62-1/2 percent ad valorem.

must be at least 1 year apart, and the last stage must not be later than 3 years after the first stage. In no stage may the reduction exceed 10 percent of the base rate of duty under the first method, 1 percentage point under the second method, or one-third of the total amount of the reduction under the third method.

Even though a rate of duty may have been increased after July 1, 1958 (as, for example, by termination of a bilateral trade agreement), it may be reduced to the same level as if it had not been so increased, because, under the provisions of the Trade Agreements Extension Act of 1958, the rate of duty existing on July 1, 1958, is without exception the base for determining the permissible reductions in duty. In situations of this kind the limitations on the amount of the reduction that may become effective at one time are either those set forth above or one-third of the total permissible reduction, whichever is the greater.

Unlike the 1955 extension act, which forbade the use of any of the rate-reducing authority under the first alternative after the expiration of the period of extension of authority to enter into trade agreements, the 1958 act permits utilization of the full amount of the authority provided by any one of these alternatives to carry out any trade agreement entered into during the 4-year period ending June 30, 1962. The reductions may be put into effect at any time during that period or thereafter, except that no part of any decrease may come into effect for the first time later than June 30, 1966.

Authority to Increase Rates of Duty

The Trade Agreements Extension Act of 1958 authorizes the President to increase by as much as 50 percent any rate of duty in effect on July 1, 1934. Under legislation in effect before the Trade Agreements Extension Act of 1958 was approved, the President had the authority to increase by as much as 50 percent any rate of duty in effect on January 1, 1945. The new act also provides that a specific rate of duty existing on July 1, 1934, may be converted to its ad valorem equivalent based on the value of imports of the article concerned during the calendar year 1934, and that an ad valorem rate of duty not in excess of 50 percent above such ad valorem equivalent may be imposed on the article.

The trade agreements legislation in effect before passage of the extension act of 1958 forbade the transfer of any article from the dutiable to the free list, or vice versa. The President, therefore, had no authority to impose an import duty on an article that had been bound on the free list in a trade agreement. ^{1/} The extension act of 1958 continues the prohibition against transferring an article from one list to the other, but authorizes the President--in carrying out the escape-clause provisions of the trade agreements legislation--to impose a duty not in excess of 50 percent ad valorem on any article not otherwise subject to duty. Imposition of such a duty, of course, would be only for the time necessary to prevent or remedy serious injury or the threat thereof to the domestic industry concerned.

^{1/} The President was not prohibited, however, from imposing quantitative restrictions on imports of such an article.

Escape-Clause Provisions

The Trade Agreements Extension Act of 1958 continues the escape-clause provisions of the Trade Agreements Extension Act of 1951, as amended, but makes certain changes in the escape-clause procedure.

Section 7 of the Trade Agreements Extension Act of 1951, as amended (which established a statutory escape-clause procedure), provides that the Tariff Commission, upon the request of the President, upon resolution of either House of Congress, upon resolution of either the Senate Committee on Finance or the House Committee on Ways and Means, upon its own motion, or upon application by any interested party, must promptly conduct an investigation to determine whether any product on which a trade-agreement concession has been granted is, as a result, in whole or in part, of the customs treatment reflecting such concession, being imported in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products. In arriving at its findings and conclusions, the Commission is required to consider several factors expressly set forth in section 7(b) of the extension act of 1951, as amended.

Should the Commission find, as a result of its investigation, the existence or threat of serious injury as a result of increased imports, either actual or relative, due, in whole or in part, to the customs treatment reflecting the concession, it must recommend to the President, to the extent and for the time necessary to prevent or remedy such injury, the withdrawal or modification of the concession, or the

suspension of the concession in whole or in part, or the establishment of an import quota.

The Commission must immediately make public its findings and recommendations to the President, including any dissenting or separate findings and recommendations, and must publish a summary thereof in the Federal Register. When, in the Commission's judgment, there is no sufficient reason to recommend to the President that a trade-agreement concession be modified or withdrawn, the Commission must make and publish a report stating its findings and conclusions.

The Trade Agreements Extension Act of 1958 reduces from 9 months to 6 months the period within which the Tariff Commission is to make a report in an escape-clause investigation. It also makes an important change in the escape-clause procedure by providing that the Congress may override the President's rejection in whole or in part of a Tariff Commission recommendation for escape-clause action. Under earlier legislation the President was merely required to report to the Congress, stating his reasons, when he did not follow the Commission's recommendation in an escape-clause case. The new law continues the requirement that the President make such a report to the Congress. It provides, however, that the Congress may, by adopting a concurrent resolution by a two-thirds vote in each House, override the President's rejection of a Tariff Commission recommendation for escape-clause action. Within 15 days after the Congress adopts such a resolution, the President is required to place in effect the Commission's recommendation.

Peril-Point Provisions

The Trade Agreements Extension Act of 1958 continues the statutory requirements for so-called peril-point determinations in connection with proposed trade-agreement negotiations, but makes certain changes in and additions to the peril-point procedure. The peril-point provisions of the Trade Agreements Extension Act of 1951, as amended, require the President, before entering into any trade-agreement negotiation, to transmit to the Tariff Commission a list of the commodities that may be considered for concessions. The Commission is then required to make an investigation, in the course of which it must hold a public hearing, and to report its findings to the President on (1) the maximum decrease in duty, if any, that can be made on each listed commodity without causing or threatening serious injury to the domestic industry producing like or directly competitive products; or (2) the minimum increase in the duty or the additional import restrictions that may be necessary on any of the listed products to avoid serious injury to such domestic industry. The President may not enter into a trade agreement until the Commission has submitted its report to him or until the expiration of the period specified for completion by the Tariff Commission of its peril-point investigation. Should the President conclude a trade agreement that provides for greater reductions in duty than the Commission specifies in its report, or that fails to provide for the minimum increase in duty or the additional import restrictions specified, he must transmit to the Congress a copy of the trade agreement in question, identifying the articles concerned and stating his reason for not acting in accordance with the Tariff Commission's findings.

The Trade Agreements Extension Act of 1958 increases from 120 days to 6 months the period specified for the Tariff Commission to complete a peril-point investigation. The act also requires that the Commission promptly institute an escape-clause investigation with respect to any article on the President's list upon which a tariff concession has been granted, whenever the Commission finds in a peril-point investigation that an increase in duty or additional import restriction is required to avoid serious injury to the domestic industry producing like or directly competitive articles.

The extension act of 1958 further provides that in a peril-point investigation the Commission shall, to the extent practicable and without excluding other factors, ascertain for the last calendar year preceding the investigation the average invoice price at which a listed foreign article was sold for export to the United States, and the average prices at which the like or directly competitive domestic articles were sold at wholesale in the principal markets of the United States. Moreover, the Commission is required, also to the extent practicable, to estimate for each article on the President's list the maximum increase in annual imports which may occur without causing serious injury to the domestic industry producing like or directly competitive articles.

National Security Provision

The so-called national security amendment enacted in section 7 of the Trade Agreements Extension Act of 1955 provided that whenever the Director of the Office of Defense Mobilization 1/ has reason to believe

1/ Now the Office of Civil and Defense Mobilization (OCDM).

that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President. If the President agrees that there is reason for such belief, he shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation and of findings and recommendations made in connection therewith, the President finds that the article is being imported in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust imports of the article to a level that will not threaten to impair the national security.

The Trade Agreements Extension Act of 1958 continues the national security provision of the extension act of 1955, with certain changes and additions. The Director must make an investigation upon request of the head of any department or agency, upon application of any interested party, or upon his own motion. The second investigation by the President is eliminated, but the final decision as to the need for action is made by the President. The scope of the provision is enlarged to include authority to restrict imports of derivatives of the articles which are the subject of a request for investigation, in addition to imports of the articles themselves. A new section added to the national security provision directs the Director of the Office of Defense and Civilian Mobilization 1/ and the President, in the light of the requirements of national security and without excluding other relevant factors, to consider domestic production needed for projected national defense requirements, the capacity of domestic industries to meet such require-

1/ Now the Office of Civil and Defense Mobilization (OCDM).

ments, existing and anticipated availabilities of the human resources, products, raw materials, and other supplies and services essential to the national defense, the requirements of growth of such industries and such supplies and services (including the investment, exploration, and development necessary to assure such growth), and the importation of goods in terms of their quantities, availabilities, character, and use as those affect such industries and the capacity of the United States to meet national security requirements.

In their administration of the national security provision, the extension act of 1958 directs the Director of OCDM and the President to recognize the close relation of the economic welfare of the Nation to the national security, and to take into consideration the impact of foreign competition on the economic welfare of individual domestic industries. It also directs them to consider, without excluding other factors, any substantial unemployment, decrease in revenues of government, loss of skills or investment, or other serious effects resulting from the displacement of any domestic products by excessive imports, in determining whether such weakening of the internal economy may impair the national security.

Other Provisions

Section 9 of the Trade Agreements Extension Act of 1958 grants the Tariff Commission broader subpoena powers than those provided in earlier legislation. Under section 333 of the Tariff Act of 1930 such powers had been available to the Commission only in certain types of investigations; under the provisions of the new act they may be invoked "in

connection with any investigation authorized by law."

Section 7 of the Trade Agreements Extension Act of 1958 establishes the rules that shall govern the Congress in considering concurrent resolutions to override Presidential rejections of Tariff Commission recommendations in escape-clause cases. The Trade Agreements Extension Act of 1958 makes such resolutions highly privileged, and establishes procedures designed to expedite their consideration by the Congress.

PROPOSED LEGISLATION CONCERNING U.S. PARTICIPATION
IN THE ORGANIZATION FOR TRADE COOPERATION

At their Ninth Session in 1954-55, the Contracting Parties to the General Agreement on Tariffs and Trade negotiated an Agreement on the Organization for Trade Cooperation (OTC). The principal function of the proposed organization was to be the administration of the General Agreement. ^{1/} On March 21, 1955, the United States signed the Agreement on the OTC--subject to approval by the U.S. Congress. In a special message to the Congress on April 14, 1955, the President recommended that the Congress enact legislation authorizing U.S. membership in the proposed OTC. In response to the President's recommendation, House bill 5550 was introduced in the House of Representatives on April 14, and was referred to the Committee on Ways and Means. ^{2/} Although the committee reported favorably (with amendments) on the bill during the second session of the 84th Congress, the House of Representatives did not act on it.

^{1/} For a detailed discussion of the proposed Organization for Trade Cooperation, see Operation of the Trade Agreements Program, 8th report, pp. 20-27.

^{2/} For the legislative history of H.R. 5550 and a discussion of its provisions, see Operation of the Trade Agreements Program, 9th report, pp. 7-8.

On January 10, 1957, and on April 3, 1957, in messages to the Congress, 1/ the President again recommended that the Congress enact legislation providing for U.S. membership in the proposed Organization for Trade Cooperation. In response to the President's recommendation, House bill 6630 was introduced in the House of Representatives on April 4, 1957, and was referred to the Committee on Ways and Means. 2/ By August 30, 1957, the end of the first session of the 85th Congress, the House Committee on Ways and Means had not reported on the bill. At the beginning of the second session of the 85th Congress in January 1958 the President in his message to the Congress did not again recommend the enactment of legislation authorizing U.S. membership in OTC, nor was such a recommendation included in the administration's proposals for extending the President's authority to negotiate trade agreements. By the time the 85th Congress adjourned, the House Committee on Ways and Means had not reported on House bill 6630, and the bill therefore lapsed. No bills proposing U.S. membership in the OTC were introduced in the Congress during the period covered by this report.

1/ H. Doc. 1 (85th Cong., 1st sess.), 1957; H. Doc. 146 (85th Cong., 1st sess.), 1957.

2/ For a discussion of the provisions of H.R. 6630, see Operation of the Trade Agreements Program, 10th report, pp. 7-8.

Chapter 2

Developments Relating to the Operation of the General Agreement on Tariffs and Trade

INTRODUCTION

The General Agreement on Tariffs and Trade (GATT), the most important and most comprehensive agreement that the United States has entered into under the provisions of the Trade Agreements Act, is a multilateral agreement to which the United States and 36 other countries are now contracting parties. ^{1/} The General Agreement consists of two parts: (1) The so-called general provisions, which consist of numbered articles that set forth rules for the conduct of trade between contracting parties, ^{2/} and (2) the schedules of tariff concessions that have resulted from the various multilateral negotiations sponsored by the Contracting Parties. On June 30, 1959, the following 37 countries were contracting parties to the General Agreement: Australia, Austria, Belgium, Brazil, Burma, Canada, Ceylon, Chile, Cuba, Czechoslovakia, Denmark, the Dominican Republic, Finland, France, West Germany, Ghana, Greece, Haiti, India, Indonesia, Italy, Japan, Luxembourg, the Federation of Malaya, the Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Peru, the Federation of Rhodesia and Nyasaland, Sweden, Turkey, the Union of South Africa, the United Kingdom, the United States, and Uruguay. Three additional countries--Cambodia, Israel, and Switzerland--although not contracting parties to the General Agreement on June 30,

^{1/} For the earlier history of the General Agreement, see Operation of the Trade Agreements Program: 1st report, pt. II, ch. 3; 2d report, pp. 19-21; 3d report, pp. 31-32; and 5th report, pp. 23-26.

^{2/} 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.

1959, were participating in the work of the Contracting Parties, pending their full accession to the agreement.

At the close of the period covered by this report, the General Agreement embraced the original agreement concluded by the 23 countries that negotiated at Geneva in 1947; the Annecy Protocol of 1949, under which 10 additional countries acceded to the agreement, the Torquay Protocol of 1951, under which 4 other countries acceded; and the Protocol of Terms of Accession of Japan, under which that country acceded in 1955. Indonesia, on behalf of which the Netherlands negotiated concessions at Geneva in 1947, became an independent contracting party in 1950. Ghana and Malaya became contracting parties in 1957 after they were sponsored by the United Kingdom under the provisions of article XXVI. At one time or another during the period commencing with the Geneva Conference in 1947 and ending June 30, 1959, a total of 41 countries became contracting parties to the General Agreement. Four of these countries--the Republic of China, Lebanon, Liberia, and Syria, all of which became contracting parties to the agreement as a result of negotiations at Geneva in 1947 or at Annecy in 1949--have since withdrawn from it.

Article XXV of the General Agreement provides that the Contracting Parties shall meet from time to time to further the objectives of the agreement and to resolve operational problems that may arise. Between the Geneva Conference in 1947 and June 30, 1959, the Contracting Parties met in 14 regular sessions. From the time that the ad hoc Committee for agenda and Intersessional Business--now called the Intersessional Committee--was established in 1951, it has held one or more meetings each year.

The 13th Session of the Contracting Parties, which was held in Geneva from October 16 to November 22, 1958, was attended by representatives of all 37 contracting parties to the General Agreement. The following 18 countries that were not contracting parties were represented by observers: Argentina, Cambodia, Colombia, Costa Rica, Ecuador, Iran, Israel, Libya, Mexico, Panama, the Philippines, Poland, Portugal, Switzerland, Tunisia, the United Arab Republic, Venezuela, and Yugoslavia. 1/ The United Nations, the International Labor Organization, the Food and Agriculture Organization, the International Monetary Fund, the Organization for European Economic Cooperation, the Council of Europe, the European Economic Community, the European Coal and Steel Community, the Customs Cooperation Council, and the League of Arab States were also represented by observers.

The 14th Session of the Contracting Parties was held in Geneva from May 11 to 30, 1959. With minor exceptions, the representation at the 14th Session was the same as that at the 13th. Cambodia and Switzerland, which had been represented by observers during most of the 13th Session, participated in the work of the Contracting Parties at the 14th Session. Israel was represented at the 14th Session by an observer until May 29, when it became a participant in the work of the Contracting Parties. El Salvador and Spain, which were not present at the 13th Session, were represented by observers at the 14th Session.

The following discussion of the principal developments relating to the General Agreement during the period covered by this report is

1/ Cambodia and Switzerland were represented by observers until shortly before the end of the 13th Session, at which time they were invited to participate in the work of the Contracting Parties.

divided into four sections: (1) Items arising from the operation of the agreement; (2) tariffs and tariff negotiations; (3) other developments relating to the agreement; and (4) status and administration of the agreement. The first section--items arising from the operation of the agreement--considers deviations from the General Agreement by contracting parties either under specific provisions for such deviations or as breaches of the rules of the agreement. These deviations may be divided into the following four categories: (a) Deviations with respect to which interested contracting parties have complained to the Contracting Parties under the provisions of article XXIII; ^{1/} (b) waivers of obligations that the Contracting Parties have granted under article XXV; (c) releases from obligations that the Contracting Parties have authorized under article XVIII; and (d) import restrictions that contracting parties impose for balance-of-payments reasons, under the provisions of articles XII, XIV, and XVIII. ^{2/}

^{1/} Unless otherwise specified, the numbers of the articles of the General Agreement as used in this chapter are those of the amended agreement. The third protocol of amendment, which amended pts. II and III of the agreement, entered into force for two-thirds of the contracting parties on Oct. 7, 1957. For the General Agreement as so amended, see Contracting Parties to the General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents: vol. III, Text of the General Agreement, 1958, Sales No.: GATT/1958-5, Geneva, 1958.

^{2/} For the texts of discussions, resolutions, and reports of the 13th Session, see Contracting Parties to GATT, Basic Instruments . . ., 7th supp., Sales No.: GATT/1959-1, Geneva, 1959.

ITEMS ARISING FROM THE OPERATION OF THE GENERAL AGREEMENT

Complaints

Article XXIII of the General Agreement provides that if any contracting party considers that any benefit accruing to it under the agreement is being nullified or impaired by the action of another contracting party, it may bring the alleged impairment to the attention of the contracting party concerned. If this action does not result in an adjustment that is satisfactory to both contracting parties, the matter may be referred to the Contracting Parties for examination and appropriate recommendation. Matters brought before the Contracting Parties in this manner are known as complaints.

At their 13th and 14th Sessions in 1958 and 1959 the Contracting Parties considered a total of eight complaints. By June 30, 1959, the close of the period covered by this report, two of these complaints had been settled. One complaint that had been made but not settled at the 12th Session was not discussed at the 13th and 14th Sessions and thus remained unsettled; this complaint related to the increase by the United States of its rate of duty on spring clothespins. 1/

Complaints settled by June 30, 1959

French discrimination against imported agricultural machinery (art. III).---During their 12th Session the Contracting Parties considered the United Kingdom's complaint that France had violated the provisions of article III of the General Agreement which require that no less favorable

1/ See Operation of the Trade Agreements Program, 11th report, pp. 30-31.

treatment be given to products of foreign origin than to domestic products. A law of April 10, 1954, authorized the French Government to reimburse domestic purchasers of agricultural machinery for 15 percent of the cost of such machinery, up to a maximum of 150,000 francs. The complaint arose because a decree of August 5, 1957, eliminated reimbursement for purchases of imported agricultural machinery. ^{1/} Sweden, which joined the United Kingdom in the complaint, stated that the discrimination against imported agricultural machinery constituted a threat to Swedish exports of machinery.

At the 12th Session the Contracting Parties decided that the discussions which had been taking place between the interested contracting parties should be continued, and that the results should be reported to the Contracting Parties before the session ended. By the end of the 12th Session the problem had not been resolved. The French representative stated, however, that a proposal to reestablish subsidies for purchasers of foreign agricultural machinery would be submitted to his Government. The Contracting Parties agreed that if the matter was not settled satisfactorily by the interested contracting parties, it could be referred to the Intersessional Committee.

At the 13th Session of the Contracting Parties the French representative announced that the decree of August 5, 1957, which had given rise to the complaint, had been declared null and void by an ordinance of September 24, 1958. He also stated that French purchasers of foreign agricultural machinery were being reimbursed for those sums to which they

^{1/} Elimination of the reimbursement on imported agricultural machinery was authorized by a law of June 26, 1957.

had been entitled during the period that the decree of August 5, 1957, was in effect. The representatives of the United Kingdom and Sweden expressed their satisfaction with the action taken by the French Government.

Italian discrimination against imported agricultural machinery (art. III).--Early in their 12th Session the Contracting Parties examined a complaint by the United Kingdom concerning Italian discrimination against imported agricultural machinery. The United Kingdom was joined in the complaint by Denmark and Sweden. Under a law of July 25, 1952, Italy had established a revolving fund to enable Italian farmers to purchase domestic tractors and other agricultural machinery on especially favorable credit terms. Funds were not made available, however, for the purchase of imported agricultural machinery. The representative of the United Kingdom stated that the Italian restriction--aside from the discrimination it involved--impaired the value of the concession on wheeled tractors which Italy had granted to the United Kingdom in 1956, but which had not yet become effective. The Contracting Parties agreed that the interested contracting parties should continue their discussions and that, if necessary, the Contracting Parties would again examine the matter later in the session.

By the end of the 12th Session the problem had not been resolved. The Contracting Parties therefore agreed that if it was not settled before the next meeting of the Intersessional Committee it would be examined by that Committee. At the April 1958 meeting of the Intersessional Committee the United Kingdom reported that it had not reached

agreement with Italy, and requested that the matter be examined by a panel. This procedure was agreeable to Italy, and the Intersessional Committee therefore referred the complaint to a panel for examination.

At their 13th Session the Contracting Parties examined the panel's report. The United Kingdom and Italy informed the Contracting Parties that, should the panel's recommendation be adopted by the Contracting Parties, they would hold further bilateral consultations in an effort to resolve the problem. On October 23, 1958, the Contracting Parties adopted the panel's report and recommended that Italy consider the desirability of extending to purchasers of foreign agricultural machinery the same credit facilities available to purchasers of domestic agricultural machinery. As a result of this recommendation the United Kingdom and Italy renewed their bilateral discussions.

On November 20, 1958, the United Kingdom and Italy informed the Contracting Parties that they had reached an agreement based on the panel's recommendation. The representative of the United Kingdom stated, however, that although agreement had been reached it did not involve amendment of those provisions of the Italian law that had given rise to the discrimination. He nevertheless requested the Contracting Parties to remove the complaint from the agenda, subject to the reservation that the United Kingdom might resubmit it should the occasion arise.

Complaints not settled by June 30, 1959

Reduced freight rates on shipments of paper products to South Africa (art. VI).--At their 13th Session the Contracting Parties considered a complaint by the Union of South Africa under the provisions of article VI

of the General Agreement. The complaint concerned the reduction of freight rates by certain shipping companies engaged in transporting paper products to South Africa. Article VI of the General Agreement condemns dumping if it causes or threatens material injury to an established industry or materially retards the establishment of a domestic industry of a contracting party.

The representative of South Africa informed the Contracting Parties that his Government was greatly concerned about the reduced freight rates because they jeopardized the existence of the country's paper-producing industry. The South African Government had originally granted tariff protection to this "infant" industry after an investigation revealed that there were excellent prospects that it would develop into an economically sound project. Some time after South Africa had granted tariff protection to its paper industry, certain shipping companies reduced their freight rates on shipments from a contracting party which was an important exporter of paper products to South Africa. The lower freight rate applied only to those types of paper products on which South Africa had increased its rates of duty. The lower freight rate resulted in greatly increased imports of paper products into South Africa. Moreover, since the lower freight rate was being applied to shipments from only one contracting party, other contracting parties that exported paper products to South Africa lost part of their share of the South African market for such products. In an attempt to maintain their share of the market, exporters in these other GATT countries had reduced their export prices to such a degree that they were now dumping their goods on the South African market.

In explaining the "freight dumping" problem to the Contracting Parties, the South African representative emphasized the need for action to counteract the effects of the reduced freight rates. He stated that since South Africa had not granted any tariff concessions on the paper products that were being imported in increasing quantities, it was free to increase the duties on those products. However, it did not desire to do so because of the time required to obtain parliamentary authority for such increases. For these reasons, the South African representative stated, the most appropriate course of action for his Government would be to impose a countervailing duty equal to the difference between the "normal" freight rate and the freight rate that was actually being charged. He stated that such action would apply only to commodities carried by shipping companies that had lowered their freight rates. The proposed countervailing duty was to be temporary, and would apply only until such time as the freight rates reverted to their "normal" levels. The South African representative requested that, should the Contracting Parties concur in South Africa's proposed action, a working group be established to investigate and report on the situation. The Contracting Parties agreed to this proposal and established a working group to examine the problem of reduced freight rates.

On November 20, 1958, the Contracting Parties discussed the report of the working group. Some members of the working group stated that, because of the limited time available, it would not be possible for their governments to consider all the issues that might be involved should the Contracting Parties concur in the action proposed by South Africa. The working group noted, however, that on the basis of the facts presented,

the levying of countervailing duties by South Africa would be less restrictive of international trade than would increased rates of duty on paper products. The working group concluded that, since the 13th Session was almost over, the most practical solution would be for the Contracting Parties to note that the plenary discussions had revealed a wide measure of support for South Africa's proposed action. The Contracting Parties approved the conclusions of the working group.

French stamp tax on imports (art. II).--The French stamp tax on imports, which is levied in addition to the regular import duties, was originally designed to defray the costs of clearing imported commodities through the customs. Article II of the General Agreement authorizes such taxes by providing that a contracting party shall not be prevented from imposing fees or other charges on imports commensurate with the cost of services it renders in connection therewith. At the Ninth Session of the Contracting Parties in 1954-55 the United States complained that France had increased its stamp tax beyond the allowable limits. The matter was temporarily resolved, however, when the French representative noted that France had not increased the tax--and did not intend to increase it--beyond the point necessary to meet the cost of services rendered, as authorized by the General Agreement. 1/

In August 1955, despite this expressed intention, France increased the tax from 2 percent to 3 percent, with the specific provision that the increase in the proceeds from it be applied to the budget for agricultural family allowances. The United States immediately complained to the Contracting Parties that France's action was inconsistent with its obliga-

1/ See Operation of the Trade Agreements Program, 8th report, pp. 34-36.

tions under the General Agreement. When the matter came before the Contracting Parties at their 10th Session, the French representative agreed that the increase in the tax violated the agreement. But, he stated, France had decided on the increase under exceptional circumstances; it had been necessary to finance his country's program of agricultural family allowances, and there seemed to be no possibility of financing such allowances by normal methods. Also, he noted, the increase in the level of protection involved was small and did not seem to be of such a nature as to seriously damage the interests of the contracting parties or to alter the channels of trade. He assured the Contracting Parties, however, that his Government would adjust the tax as soon as possible.

At the 11th Session the French delegate informed the Contracting Parties that the draft of his country's Finance Act for 1957 provided for the reduction of the stamp tax from 3 to 2 percent. The Contracting Parties requested the French Government to inform them when the measure had been approved. As approved by the French National Assembly on December 29, 1956, however, the Finance Act continued the stamp tax at the rate of 3 percent.

At the 12th Session, when the Contracting Parties again considered the U.S. complaint, the French representative stated that in the appropriation bill for 1958 his Government would again seek to have the tax rate reduced from 3 to 2 percent. Once again, however, the Finance Act, as approved by the French National Assembly, continued the stamp tax at the rate of 3 percent.

At the 13th Session in 1958 the French representative informed the Contracting Parties that no finance committee existed and that the Government, which was then ruling by decree, was directly responsible for drawing up the budget. He stated that, in view of this circumstance, there was every reason to believe that the stamp tax would be reduced to 2 percent by the end of 1958. By the end of the 14th Session in May 1959, however, the French stamp tax had not been reduced, and the Contracting Parties therefore retained the U.S. complaint on their agenda for future consideration.

French subsidization of exports of wheat and flour (art. XVI).---At its meeting in April 1958 the Intersessional Committee considered a complaint by Australia that France had subsidized exports of wheat and flour since 1953 and that, by so doing, France was obtaining more than an equitable share of the world trade in those products. Australia complained that the subsidy, which it claimed was contrary to the provisions of article XVI, had distorted the pattern of trade in wheat and flour, and that if France continued the subsidy Australia might be forced out of its traditional export markets for these commodities.

Since France had indicated during bilateral consultations with Australia that it did not intend to modify the subsidy, the Intersessional Committee referred the complaint to a panel. After hearing statements by France and Australia, the panel adjourned so that the two contracting parties might resume bilateral consultations. These consultations having proved unsuccessful, the panel reconvened, examined the Australian complaint, and submitted a report to the Contracting Parties.

On November 21, 1958, during their 13th Session, the Contracting Parties discussed the panel's report. The panel found that, as a result of French subsidies on wheat and flour, Australia had suffered direct damage and that France, contrary to the provisions of article XVI, had obtained more than an equitable share of the world trade in these products. To remedy this situation, the panel recommended that in granting future subsidies France provide that they operate in such a manner as not to create adverse effects on the markets for wheat and flour. To this end the panel suggested that France consult with Australia before French exporters enter into new contracts for the exportation of wheat and flour.

The Contracting Parties adopted the panel's report and approved its recommendation. The French representative stated that he would call the recommendation to his Government's attention, and the Australian representative expressed his country's hope that, as a result of the recommendation, the problem could be solved.

Italian measures in favor of domestic production of ships' plates (art. III).--Shortly before the Contracting Parties convened for their 13th Session, Austria submitted a complaint concerning the Italian measures designed to stimulate domestic production of ships' plates. Austria stated that pursuant to a law of July 17, 1954 (the Tambroni law), Italy grants tax remission and other tax benefits to the Italian shipbuilding industry when it uses domestically produced ships' plates, but does not extend these benefits to the industry when it employs imported ships' plates. According to Austria, Austrian exports of ships' plates to Italy had steadily declined since the law of July 17, 1954, became effective. The Austrian Government stated that its attempts to

consult with Italy on this matter had been unsuccessful, and it therefore requested that the problem be placed on the agenda for the 13th Session.

On November 3, 1958, during their 13th Session, the Contracting Parties examined the Austrian complaint and heard statements by the representatives of Austria and Italy. The Italian representative stated that in the opinion of his delegation the decline in, and ultimate cessation of, Austrian exports of ships' plates to Italy had resulted from the recession in the shipbuilding industry. The Austrian delegate agreed that the recession was partly responsible for this development, but stated that the other important factor involved was the tax remission granted by the Italian Government. The Austrian delegate stated that Austria and Italy had recently entered into consultations and therefore requested that the complaint be retained on the agenda. The Chairman of the Contracting Parties agreed to this procedure and invited the interested contracting parties to report the results of their consultations.

On November 20, 1958, the Austrian and Italian delegates informed the Contracting Parties that agreement had been reached and requested that the matter be dropped from the agenda. On April 20, 1959, however, Austria notified the Contracting Parties of a new development. According to Austria the Italian Government had on January 26, 1959, submitted a draft law modifying the Tambroni law in such a way as to extend the benefits being granted to domestic producers of ships' plates and other articles to producers of articles in the other five member countries of the European Coal and Steel Community. ^{1/} Austria therefore proposed

^{1/} The member countries of the European Coal and Steel Community are Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands.

further consultations with Italy and requested that the matter be placed on the agenda for the 14th Session. During the 14th Session Italy stated that it would consult with Austria but suggested that the consultation be held at a later date. The Contracting Parties did not, therefore, discuss the matter during their 14th Session.

Italian subsidization of exports of flour (art. XVI).---During September 1958 the Intersessional Committee considered a complaint by Australia concerning Italian subsidization of exports of flour. The Australian representative stated that as a result of such subsidization Italy was obtaining a disproportionate share of the world trade in flour--to the detriment of Australian exports. Australia and Italy had entered into bilateral consultations in July 1958, but had not reached a satisfactory solution to the problem. At the request of the Australian representative the Intersessional Committee suggested that both countries continue their bilateral consultations and agreed that should no satisfactory agreement be reached by the 13th Session the matter could be examined by a panel during that Session.

In November 1958, during the 13th Session, the Italian representative informed the Contracting Parties that his country had revised the type of assistance granted to exporters of flour, but that his delegation had not yet received the text of the new regulations. He stated that his delegation would not object to having the matter referred to a panel if the complete text of the revised regulations had not been received before the close of the 13th Session. The Contracting Parties agreed to follow this procedure and urged the interested parties to continue their bilateral negotiations.

U.S. restrictions on imports of dairy products (art. XI).--In 1951, at the Sixth Session of the Contracting Parties, Denmark and the Netherlands, supported by Australia, Canada, France, Italy, New Zealand, and Norway, complained that U.S. restrictions on imports of certain dairy products violated the provisions of article XI, which require the general elimination of quantitative restrictions on imports. These countries maintained that the restrictions in question impaired concessions that the United States had granted under the General Agreement. They therefore contended that the complaining parties were entitled--in retaliation--to request suspension of certain of their obligations to the United States, as provided for in article XXIII. Accordingly, at their Seventh Session in 1952 the Contracting Parties authorized the Netherlands to limit imports of wheat flour from the United States to 60,000 metric tons a year. At their Eighth Session in 1953 the Contracting Parties requested the United States to report annually on the import restrictions in question. 1/

In 1958, during the 13th Session of the Contracting Parties, the United States submitted the fourth annual report on its import restrictions on dairy products. 2/ The Contracting Parties adopted the report and again authorized the Netherlands--as they have each year since 1952--to limit imports of wheat flour from the United States to 60,000 metric tons for the calendar year 1959.

1/ See Operation of the Trade Agreements Program: 5th report, pp. 32-33; 6th report, pp. 43-45; 7th report, pp. 59-61; 8th report, pp. 59-62; 9th report, pp. 16-17; 10th report, p. 18; and 11th report pp. 29-30.

2/ The report that the United States submitted to the 13th Session on its restrictions on imports of dairy products was incorporated in the more comprehensive report that the United States submitted to the Contracting Parties under the terms of the sec. 22 waiver granted to the United States in 1955. That report is discussed in the section of this chapter that relates to waivers.

Waivers of Obligations Granted at the 13th and 14th Sessions

Article XXV of the General Agreement provides that in exceptional circumstances not elsewhere provided for, the Contracting Parties may waive an obligation imposed on a contracting party by the General Agreement. Any such waiver of an obligation must, however, be approved by a two-thirds majority of the votes cast, and such majority must comprise more than half of the contracting parties. This exception to the general voting procedure, which provides for a majority vote of the representatives present and voting, emphasizes the importance that the Contracting Parties attach to the waiving of an obligation imposed on a contracting party by the General Agreement.

The waiver that the Contracting Parties granted to Brazil at their 12th Session to permit that country to place its new tariff in effect, as well as certain waivers granted to New Zealand and to the Federation of Rhodesia and Nyasaland, are discussed in the section of this chapter on tariffs and tariff negotiations. Not discussed in this report are the waivers granted at the Ninth Session to Czechoslovakia and New Zealand, relieving those countries of certain of their obligations under the exchange-agreement provisions of article XV. At the 12th Session these two countries were relieved of their obligation to submit an annual report as required by the terms of the waiver. In the future, Czechoslovakia and New Zealand will submit reports only after they have taken action that has a significant effect on the application of the General Agreement or that is inconsistent with the principles of the International Monetary Fund Agreement.

Chilean import charges (art. II)

At their 14th Session the Contracting Parties considered a request made by Chile for a waiver of its obligations under article II, so that it might take additional steps to halt inflation, to increase governmental receipts, and to improve its balance-of-payments position. Chile stated that because actions previously taken to achieve these ends had proved ineffectual it was requesting permission to impose surcharges on imports. The imposition of such surcharges was to be accompanied by other steps designed to ameliorate its economic and financial situation.

The Contracting Parties appointed a working party to examine Chile's request. As a result of the working party's recommendations, the Contracting Parties, pursuant to the provisions of article XXV:5, granted Chile a waiver of its obligations under paragraph 1 of article II to permit it to impose surcharges on imports. The surcharges, which are to be maintained by Chile only to the extent necessary to correct its economic and financial difficulties, are to be eliminated before January 1, 1961.

Peruvian import charges (arts. I and II)

In June 1958 the Intersessional Committee convened to discuss a communication from Peru concerning its proposed action to arrest a serious decline in its foreign exchange reserves resulting from balance-of-payments problems. Peru stated that it had already consulted the International Monetary Fund about this problem and that the IMF had recommended certain corrective measures. Some of these measures, in Peru's opinion, implied the need to increase import duties rather than to restrict expenditures for nonessential products by imposing

quantitative restrictions on imports. Peru considered that the revenue derived from import duties was necessary to insure the success of the country's stabilization program. Moreover, Peru did not desire to impose quantitative restrictions because experience had shown that, once imposed, they are difficult to eliminate. Peru believed, therefore, that it would be preferable to increase its customs revenue and that this could best be accomplished by imposing supplementary charges on all imports.

Inasmuch as Peru's need for increased customs revenue had arisen from the country's balance-of-payments difficulties, Peru believed that the Contracting Parties should consider its problem under the provisions of article XII. The Intersessional Committee agreed on Peru's need to solve its problem, but could not agree that recourse to article XII would be appropriate for the particular remedial action Peru proposed to take. Article XII deals with the application and intensification of import restrictions to alleviate balance-of-payments difficulties. It does not, however, provide for unilateral increase of bound rates of duty, and more than half of Peru's imports by value consist of commodities for which the rates of duty have been bound. Having been unable to resolve the problem, the Intersessional Committee recommended that the Contracting Parties consider the matter at their 13th Session. Subsequently, Peru informed the Contracting Parties that it had made its supplementary charges on imports effective on June 9, 1958, and that later in June it had increased those charges.

In discussing the problem of Peruvian import surcharges at their 13th Session in 1958, the Contracting Parties agreed that the fundamental issue was whether the General Agreement is flexible enough to permit a country with serious balance-of-payments difficulties to overcome its problems by adopting measures other than import restrictions when immediate corrective action is necessary. On the one hand, article XII permits a contracting party to impose restrictions to safeguard its balance-of-payments position. Peru, however, did not desire to employ such restrictions, because once imposed they would be difficult to eliminate; moreover, recourse to such restrictions would be contrary to Peru's traditional liberal trade and exchange policy. On the other hand, Peru desired to impose import surcharges. Although imposition of such surcharges would be less restrictive of international trade than the imposition of quantitative restrictions, such action did not appear to be compatible with the provisions of the General Agreement. To resolve this conflict between article XII and the spirit of the General Agreement, the Contracting Parties--at the suggestion of the United States--established a working party to examine the problem.

The working party reported its findings to the Contracting Parties during their 13th Session. According to the working party, the import surcharges levied by Peru were not permitted by article XII and, moreover, were inconsistent with article II insofar as they applied to commodities on which Peru had negotiated concessions with other contracting parties. The working party also found that Peru's action violated article I because the surcharges did not apply to imports from neighboring countries with which Peru had bilateral agreements, resulting in a widening of the margin of preference. The working party found, however, that Peru's action was less restrictive of international trade than the measures provided for under article XII. It

therefore recommended that the Contracting Parties act under the provisions of article XXV:5, and that they waive the provisions of articles I and II to the extent necessary to permit Peru to continue its emergency measures until its adverse balance-of-payments position shall have been corrected.

The Contracting Parties approved the decision of the working party and granted Peru a waiver of its obligations under articles I and II. The waiver will remain in effect until June 8, 1961, or until such time as Peru eliminates its import surcharges--whichever occurs first. Should Peru impose the quantitative restrictions on imports which it had originally declined to impose, the waiver would immediately cease to be operative. The Contracting Parties also requested Peru to submit an annual report of its actions under the waiver.

Reports on Existing Waivers of Obligations

Australia's special customs treatment of products from Papua and New Guinea (fifth annual report) (art. I)

At their Eighth Session in 1953 the Contracting Parties granted Australia a waiver of its most-favored-nation obligations under article I of the General Agreement, to permit Australia to assist in the economic development of the territories of Papua and New Guinea. ^{1/} The waiver permitted Australia to accord duty-free treatment to primary products imported from the specified territories without regard to the rates of duty on like products imported from any other contracting party, so long as the primary products were not subject to Australian concessions under the General Agreement.

^{1/} See Operation of the Trade Agreements Program, 7th report, pp. 32-34.

At the 10th Session of the Contracting Parties Australia requested and was granted a supplementary waiver which permitted it to accord duty-free treatment to imports of certain forest products from Papua and New Guinea, whether or not these products were subject to Australian tariff concessions under the General Agreement. At the 11th Session the original waiver was expanded to include not only primary products but also products which are substantially derived from primary products. 1/

Australia's fourth annual report on the waiver, submitted early in the 12th Session, stated that the country had taken no new actions under the waiver during the preceding year. Before the close of the 12th Session, however, Australia notified the Contracting Parties that it intended, under the terms of the waiver, to grant duty-free treatment to imports of passion-fruit juice produced in the territories of Papua and New Guinea and to increase the rate of duty on passion-fruit juice imported from other countries. Australia also announced that, as a result of this proposed action, it was prepared to consult, as required by the terms of the waiver, with any contracting party which considered that these tariff changes threatened substantial injury to its trade with Australia. Australia also notified the Contracting Parties that it intended, under the provisions of article XXVIII, to withdraw the existing concession with respect to passion-fruit pulp.

1/ See Operation of the Trade Agreements Program, 10th report, pp. 22-23.

Between the 12th and 13th Sessions Australia notified the Contracting Parties that, under the provisions of the waiver, it intended to increase its import duties on unshelled peanuts, peanut kernels, and veneers.

In its fifth annual report, submitted at the 13th Session in 1958, Australia notified the Contracting Parties of the actions it had taken under the waiver since submission of its fourth annual report. These actions consisted of increases in the most-favored-nation rates of duty for the products mentioned above (passion-fruit juice, passion-fruit pulp, unshelled peanuts, peanut kernels, and veneers). On the last day of the 13th Session Australia requested of the Contracting Parties permission to increase its import duty on unshelled almonds; permission was granted on the same day.

To clarify their original intention and to prevent misinterpretation, the Contracting Parties, at their 14th Session, further amended the terms of the waiver they had granted to Australia by agreeing that the waiver does not preclude increases in most-favored-nation rates where only the primage duty is bound in the Australian schedule. 1/

Belgian quantitative restrictions on imports
(third annual report) (art. XI)

On May 16, 1955, Belgium requested that, for a period of 7 years, the Contracting Parties waive its commitments under article XI of the General Agreement to permit the retention of a number of quantitative restrictions that it had imposed on agricultural products when it was

1/ As employed by Australia, "primage" means a basic, or primary, ad valorem revenue duty.

free to resort to such restrictions for balance-of-payments reasons. Article XI requires the general elimination of quantitative restrictions on imports from or exports to other contracting parties. Belgium's request for the waiver pointed out that because of conditions prevailing in Belgium's agricultural system--primarily the high cost of agricultural production--removal of the restrictions would subject Belgian agriculture to damaging competition from the Netherlands.

Rather than grant Belgium a waiver for a 7-year period under the provisions of article XXV, the Contracting Parties granted a waiver for a 5-year period under the terms of the so-called hard-core decision of 1955. 1/ Because of the exceptional circumstances surrounding the harmonization of the agricultural policies of the Benelux countries, the Contracting Parties--pursuant to the provisions of article XXV--extended until December 31, 1962, their concurrence with respect to those restrictions that Belgium would not be able to eliminate under the terms of the hard-core decision.

At the 13th Session of the Contracting Parties, Belgium submitted a third annual report on its quantitative restrictions. 2/ The report, which listed the products for which Belgium had either eliminated or

1/ See Operation of the Trade Agreements Program, 8th report, p. 47. This decision recognizes that for some countries persistent balance-of-payments difficulties make quantitative restrictions necessary over a period of years, and that the sudden elimination of such restrictions would make adjustments difficult. The decision, therefore, provides for a temporary waiver of the obligation to eliminate quantitative restrictions where their immediate removal would result in serious injury to a domestic industry or a branch of agriculture. The decision provides, however, that no such waiver shall be granted for a period of more than 5 years.

2/ For a discussion of Belgium's first and second annual reports, see Operation of the Trade Agreements Program: 10th report, pp. 23-24; and 11th report, pp. 34-35.

relaxed restrictions since submission of its second annual report, stated that, as requested by the Contracting Parties, Belgium had examined the possibility of establishing a schedule to gradually eliminate its quantitative restrictions. Belgium had concluded, however, that it could not establish such a schedule because of the problems that had arisen since the entry into force of the Common Market Treaty. The report emphasized, however, that Belgium was applying its quantitative restrictions to imports from other contracting parties in a nondiscriminatory manner.

The Contracting Parties referred Belgium's third annual report to a working party for examination. In its report the working party again found that Belgium's progress toward eliminating its quantitative restrictions was disappointing and that in many instances Belgium had not offered satisfactory reasons for maintaining such restrictions on specific products. The working party also expressed concern because the report did not include a detailed program for progressively eliminating the restrictions, and stated that it could not accept Belgium's contention that establishment of the European Economic Community had lessened that country's responsibilities under the hard-core waiver. In conclusion, the working party stated that there was not adequate information in Belgium's annual report to enable the working party to determine whether Belgium had complied fully with the conditions of the waiver. The working party therefore recommended that the Contracting Parties again request Belgium to present evidence that it was complying with the terms of the waiver. The Contracting Parties adopted the working party's report.

Central American free-trade area (art. I)

In August 1952 the Central American Committee on Economic Cooperation, under the guidance of the United Nations Economic Commission for Latin America (ECLA), commenced work on a program for a gradual and limited integration of the economies of five Central American countries. In March 1956, by utilizing the services of an ad hoc commission, the Committee completed a draft treaty for a multilateral free-trade area and for economic integration of the five countries. Included in the arrangements are Nicaragua--a contracting party to the General Agreement--and four countries that are not contracting parties--El Salvador, Costa Rica, Guatemala, and Honduras.

When it submitted its annual report on its free-trade-area treaty with El Salvador to the Contracting Parties at their 11th Session, Nicaragua also submitted for approval a draft Multilateral Central American Free Trade and Economic Integration Treaty and a draft Regulation for the Integration of Central American Industries. The draft treaty for the Central American free-trade area--the first step toward formation of a customs union--provided for a list of articles that would be exempt from any intra-area customs duties, restrictions, or control measures, and for the harmonization of customs duties imposed on imports into the area of those items and the raw materials employed in their manufacture.

Under the provisions of the draft treaty, a commission on Central American trade would--among its other functions--recommend additions to the list of free-trade products and take steps toward the unification of the customs regulations of the participating countries. Both the

expansion of the list of free-trade products and the equalization of duties would be studied by the commission with respect to their effect on the products of the industries selected to come under the industrial-integration regulations. Under the provisions of the regulation for industrial integration, the new "integrated" industries would be accorded financial assistance, tax exemptions, and other forms of assistance. The products of these new industries would then automatically be added to the list of free-trade commodities.

When Nicaragua submitted the five-nation free-trade-area treaty to the Contracting Parties for approval, it requested that they make a decision similar to that of October 25, 1951, which recognized Nicaragua's right to the benefits of article XXIV with respect to its free-trade-area treaty with El Salvador. ^{1/} Nicaragua stated that such a decision would release it from its obligation to extend to other contracting parties the same treatment it proposed to grant to the other four Central American countries concerned. The Contracting Parties unanimously approved these arrangements and requested that Nicaragua undertake to complete the formation of the five-nation free-trade area within 10 years from the date the treaty enters into force.

At the 13th Session of the Contracting Parties in November 1958, Nicaragua reported that the Multilateral Central American Free Trade and Economic Integration Treaty and the agreement concerning the Regulation for the Integration of Central American Industries had been signed by the five interested countries on June 10, 1958, but that

^{1/} For a discussion of the waiver relating to the Nicaragua-El Salvador free-trade area, see the section of this chapter on the Nicaragua-El Salvador free-trade area.

the instruments had not yet entered into force. Nicaragua reported that the treaty differed in certain respects from the draft submitted to the Contracting Parties at their 11th Session. The changes related to various suggestions offered by the Contracting Parties when they had originally discussed the draft treaty. The treaty included a more precise definition of the operation of the transitional period, as well as minor changes in the list of commodities for which it provides free movement. Nicaragua reported that the treaty would enter into force when ratified by three of the interested countries and that Nicaragua would thereafter provide the Contracting Parties with an annual report on progress under the treaty. The treaty became effective for El Salvador, Nicaragua, and Guatemala on June 2, 1959, shortly after the close of the 14th Session. At the close of the period covered by this report Costa Rica and Honduras had not ratified it.

European Coal and Steel Community (sixth annual report)
(arts. I and XIII)

On April 18, 1951, six contracting parties to the General Agreement--Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands--concluded a treaty constituting the European Coal and Steel Community (ECSC), as well as a convention providing for certain transitional arrangements connected with its establishment.^{1/} The six participating countries then requested the Contracting Parties to waive their most-favored-nation commitments under article I of the General Agreement and their commitments regarding the nondiscriminatory application of quantitative import restrictions under article XIII. At

^{1/} For the texts of the treaty and the convention, see European Coal and Steel Community, Treaty Constituting the European Coal and Steel Community and Convention Containing the Transitional Provisions, 1951.

their Seventh Session in 1952 the Contracting Parties granted such a waiver. In effect, the waiver permitted the member countries to form a limited customs union for the purpose of establishing a common market within the Community for coal, iron ore, scrap iron, and steel products. The waiver also required the Community to submit reports to the Contracting Parties on progress made in implementing the treaty. 1/ These reports were to be submitted annually until the termination of the Community's transitional period on February 10, 1958.

In April 1958 the European Coal and Steel Community submitted to the Intersessional Committee the sixth and final report on its waiver; the report covered the period from September 1, 1957, to February 10, 1958. 2/ The report pointed out that the harmonization of external duties had resulted in a lower average tariff for the Community than there would have been had the members of the Community acted individually within the framework of the General Agreement. The sixth annual report--like those previously submitted--included statements on production, trade, and prices. The Intersessional Committee took note of the Community's final report and submitted it to the Contracting Parties--together with the Committee's own comments--for their consideration at the 13th Session.

1/ For the text of the waiver and the report of the working party that considered the problem, see Contracting Parties to GATT, Basic Instruments . . ., 1st supp., Sales No.:GATT/1953-1, Geneva, 1953, pp. 17-22 and 85-93.

2/ For a discussion of the Community's previous reports, see Operation of the Trade Agreements Program: 7th report, pp. 65-69; 8th report, pp. 64-67; 9th report, pp. 23-25; 10th report, pp. 25-27; and 11th report, pp. 37-38.

At their 13th Session the Contracting Parties adopted the report of the Intersessional Committee and expressed their appreciation to the member states of the Coal and Steel Community for their cooperation during the Community's transitional period. They also expressed the hope that the Community's High Authority would continue to send observers to the sessions of the Contracting Parties.

Franco-German treaty on the Saar (first annual reports) (art. I)

On October 27, 1956, representatives of France and West Germany (the Federal Republic of Germany) signed a treaty applying to the Saar the basic law of the Federal Republic, and providing for special treatment of the trade between the Saar and France and between the Saar and West Germany. The treaty entered into force on January 1, 1957. Because some of the provisions of the treaty conflict with the provisions of article I of the General Agreement, France and West Germany on May 24, 1957, requested that, as provided in article XXV:5(a) of the General Agreement, the Contracting Parties waive the obligations of the two countries under the provisions of article I, insofar as is necessary for them to implement the provisions of the treaty.

The Saar treaty provides for a transitional period which will end not later than December 31, 1959. During this period the monetary and customs union that existed between France and the Saar before 1957 will continue in effect. The treaty also provides, during the transitional period, for special treatment by West Germany of products originating in the Saar, and for duty-free importation into the Saar of capital equipment originating in West Germany. A waiver by the Contracting Parties of the provisions of article I is necessary because these

provisions of the Saar treaty involve discrimination against imports from third countries. Waiver of the provisions of article I is also necessary for administration of the Saar's definitive economic system. This necessity results from the treaty provision that after the transitional period there is to be duty-free importation into the Saar of products originating in the franc area, and duty-free entry into France of products originating in the Saar. The volume of trade is to be limited in both directions by quotas based on trade between France and the Saar in 1955.

After examining the matter at their 12th Session, the Contracting Parties granted France and West Germany a waiver of their obligations under article I of the General Agreement. The waiver provides that France and West Germany shall each submit an annual report on their actions under the terms of the waiver and that they shall consult with the Contracting Parties when requested to do so.

At the 13th Session of the Contracting Parties in 1958, France and West Germany submitted their first annual reports under the waiver. West Germany reported that, except for products over which the European Coal and Steel Community has jurisdiction and for certain items specified in an annex to the Community's first annual report, products originating in the Saar were being admitted free of duty into West Germany. In addition, certain commodities were being admitted duty-free, but subject to quota. In its annual report, France stated that it had issued import permits for the duty-free importation into the Saar of certain capital equipment originating in West Germany. France also reported that lists of annual tariff quotas between the Saar and the French franc area had been drawn up for use upon the expiration of

the transitional period. The Contracting Parties took note of the two reports.

Italy's preferential customs treatment of Libyan products
(sixth annual reports) (art. 1)

At their Sixth Session in 1951 the Contracting Parties granted Italy a waiver of its most-favored-nation obligations under article I of the General Agreement. The waiver, which permitted Italy to accord duty-free entry to a specified list of products of which Libya is Italy's principal foreign supplier, was intended to facilitate the development of Libya's economy during its transition to an independent status. At their Seventh Session in 1952 the Contracting Parties requested Italy to submit an annual report on the development of Italian-Libyan trade, and requested Libya to submit an annual report on Libyan economic development. ^{1/} The waiver, originally granted for a period of 1 year, was extended at the 7th Session; at the 10th Session in 1955 it was further extended to December 31, 1958.

The sixth annual reports of Italy and Libya, submitted to the Contracting Parties at their 13th Session in 1958, indicated increased Italian imports of Libyan products since 1954, and a substantial development of the Libyan economy. Italian imports from Libya in 1957 were nearly double those of 1956, and the prospects for increased trade between the two countries in 1958-59 were encouraging. At their 13th Session the Contracting Parties also considered Italy's request for

^{1/} See Operation of the Trade Agreements Program: 7th report, pp. 31-32; 8th report, pp. 33-34; 9th report, p. 25; 10th report, pp. 27-28; and 11th report, pp. 38-39.

extension of the waiver, which was to expire on December 31, 1958. The sixth annual reports and the Italian request were referred to a working party for further study.

The Contracting Parties considered the report of the working party on the Italian waiver late in the 13th Session. They adopted the report of the working party and, in accordance with that group's recommendation, extended the waiver to December 31, 1961, subject to certain changes in the schedule of products covered by it.

Luxembourg's quantitative restrictions on imports
(third annual report) (art. XI)

On May 17, 1955, Luxembourg requested the Contracting Parties to grant it a waiver of its obligations under article XI of the General Agreement (requiring the general elimination of quantitative restrictions on imports) to permit it to maintain certain restrictions on imports of agricultural products. Luxembourg's economic structure, the request pointed out, is based primarily on the steel industry and agriculture, agriculture being a vital branch of the national economy. However, Luxembourg's agriculture is in a precarious position and can be maintained in a satisfactory position only with the support of the state. Consequently, Luxembourg desired permission to maintain quantitative restrictions on imports of certain agricultural products of which Belgium and the Netherlands are the principal suppliers. At a meeting of an intersessional working party, the representative of Luxembourg made it clear that his country's need for agricultural protection was structural in nature, and could not be regarded as transitional or temporary.

For this reason Luxembourg requested the waiver pursuant to article XXV, rather than under the hard-core decision of March 5, 1955. 1/

At their 10th Session the Contracting Parties granted Luxembourg a waiver permitting it to continue its existing restrictions, with the understanding that it would actively pursue the harmonizing of its agricultural policy with the policies of Belgium and the Netherlands, would adopt all measures necessary to make its agriculture more competitive, and would relax, as far as practicable, the restrictions then in force. The waiver has no time limit.

In its first and second annual reports, submitted to the Contracting Parties in 1956 and 1957, Luxembourg reported that its agricultural position, and therefore its need for the waiver, had not changed substantially. In its third annual report, submitted to the Contracting Parties before their 13th Session in 1958, Luxembourg reported that the difficulties with which its agriculture was faced had become more pronounced. The report stated that these adverse conditions were in part caused by the increasing disparity between income in agriculture and that in other sectors of the economy. Luxembourg reported that it intended to relax its quantitative restrictions gradually as conditions become more favorable. The Contracting Parties did not review Luxembourg's second and third annual reports during its plenary sessions.

1/ For a discussion of the relationship between Luxembourg's request for a waiver and the trade restrictions of Belgium and the Benelux Union, see Operation of the Trade Agreements Program, 10th report, pp. 28-29.

Nicaragua-El Salvador free-trade area (seventh annual report) (arts. I and XIII)

At their Sixth Session in 1951 the Contracting Parties approved a waiver relating to the Nicaragua-El Salvador free-trade area. The waiver freed Nicaragua from its most-favored-nation obligations with respect to the products covered in its treaty with El Salvador, which became effective August 21, 1951. Under the terms of the treaty, each country agreed to accord reciprocal duty-free treatment to specified products originating in the other country.

In its seventh annual report to the Contracting Parties, which it submitted at the 13th Session, ^{1/} Nicaragua noted that--as in previous years--both Nicaragua and El Salvador were satisfied with the development of trade under the free-trade treaty. The report noted that the decline in trade which had occurred during the years 1955 and 1956 had been reversed and that both imports and exports had increased substantially in 1957.

United Kingdom obligations with respect to products entered free of duty from Commonwealth countries (fifth annual report) (art. I)

At their Eighth Session in 1953 the Contracting Parties granted the United Kingdom a waiver of its obligations under the provisions of article I of the General Agreement, which forbid increases in margins of preference. The waiver permitted the United Kingdom to alter margins

^{1/} Inasmuch as El Salvador is not a contracting party to the General Agreement, only Nicaragua is obliged to report to the Contracting Parties on developments under the waiver. For the origin of the waiver, see Operation of the Trade Agreements Program, 6th report, p. 50.

of preference accorded to Commonwealth countries by increasing rates of duty on imports of unbound items from non-Commonwealth countries without imposing comparable duties on those items when imported from Commonwealth countries. The waiver applied only to items on which no concessions were in effect under the General Agreement at the time it was granted.

At the Ninth Session of the Contracting Parties in 1954-55 the United Kingdom requested, and was granted, an amendment to the waiver permitting it to increase margins of preference on items on which concessions were in effect under the General Agreement at the time the waiver was approved, but which had subsequently been removed or modified in a manner consistent with the agreement. In requesting an amendment to the waiver, the United Kingdom stated--as it had in requesting the original waiver--that it desired to accord itself greater protection only in a limited number of instances where the need for tariff protection had been demonstrated, and that it did not intend to use the waiver to divert trade to the Commonwealth. 1/

In submitting its fifth annual report under the margin-of-preference waiver at the 13th Session, the United Kingdom noted that since the 12th Session in 1957 it had invoked the waiver with respect to the most-favored-nation rates of duty on antimony metal and oxides. The United Kingdom had notified the Contracting Parties of these proposed changes in January 1958, and the new rates of duty became effective on March 21, 1958.

1/ See Operation of the Trade Agreements Program: 7th report, pp. 27-30; 8th report, pp. 30-32.

During the interval between the 13th and 14th Sessions the United Kingdom notified the Contracting Parties that, pursuant to the terms of the waiver, it proposed to increase the rates of duty on certain cut flowers. The Netherlands, as the United Kingdom's principal supplier of these products, suggested that the two countries enter into consultations. The United Kingdom declined to do so and, on March 17, 1959, made effective the increased rates of duty.

During the 14th Session of the Contracting Parties the United Kingdom stated that it declined to consult on the matter because there was little likelihood that the increased duties would result in a substantial diversion of trade. The Netherlands questioned the United Kingdom's right to make such a decision unilaterally and stated that it should be made by the Contracting Parties. Both contracting parties agreed to consult on the matter, and the Netherlands stated that if no satisfactory solution was reached it would again refer the matter to the Contracting Parties.

Special problems of the dependent overseas territories of the United Kingdom (fourth annual report) (art. I)

During the Ninth Session in 1954-55 the United Kingdom submitted to the Contracting Parties a proposed amendment to the General Agreement that would broaden the scope of action by a contracting party in assisting the economic development of its dependent territories. The United Kingdom desired such an amendment because it believed its social and political responsibilities to dependent territories could not otherwise be fulfilled under the provisions of the General Agreement. Because of the broad scope of the proposed amendment, however, and because its adoption would be tantamount to recognizing as permanent a problem

they regarded as transitional, the Contracting Parties did not favor the proposed amendment. They decided, instead, to waive certain of the United Kingdom's obligations under the agreement, in order to permit the United Kingdom to accord to its dependent overseas territories treatment commensurate with its responsibilities as it recognized them. 1/

In submitting its fourth annual report under the dependent overseas territories waiver at the 13th Session, the United Kingdom stated it had taken no action under the terms of the waiver since submission of its third report at the 12th Session.

U.S. restrictions on imports of agricultural products
(fourth annual report) (arts. II and XI)

Article XI of the General Agreement forbids a contracting party to impose nontariff restrictions on its imports from other contracting parties. Article II forbids imposition of an import fee in excess of the rate of duty set forth in the appropriate schedule of concessions. These articles have been particularly significant to the United States because it maintains governmental programs with respect to several agricultural products and, on various occasions, has found it necessary to restrict imports of such products and to apply increased rates of duty on them to effectively carry out its domestic programs. Use of the agricultural exception by the United States has been of considerable concern to those countries that export agricultural products to the

1/ For a more detailed discussion of the United Kingdom's dependent overseas territories waiver, see Operation of the Trade Agreements Program, 8th report, pp. 76-78. For the text of the waiver, see Contracting Parties to GATT, Basic Instruments . . . , 3d supp., Decisions, Resolutions, Reports, etc., of the Ninth Session, Sales No.: GATT/1955-2, Geneva, 1955, pp. 21-25.

United States, and to those that have granted tariff concessions to the United States in return for concessions granted to them on agricultural products.

U.S. programs for agricultural products have taken various forms. Some of the programs have been designed to control production; some, to assist in the orderly marketing of agricultural commodities for domestic consumption and export; some, to provide for the disposal of surplus commodities; and some, to establish quality and grading standards. The principal objective of such programs has been to stabilize prices at levels that would provide a fair return to producers, consistent with the interests of consumers.

To the extent that these programs have had the effect of maintaining domestic price levels for agricultural products above the duty-paid, laid-down prices of comparable imports, they have tended to stimulate a greater quantity of imports than would have prevailed had there been no domestic programs. Such stimulation of imports tends to increase the cost of relevant programs and to interfere with the realization of their objectives. To provide for such contingencies, section 22 of the U.S. Agricultural Adjustment Act, as amended, authorizes the President to restrict the importation of commodities by imposing either fees or quotas (within specified limits) if such importation tends to render ineffective or materially interfere with the agricultural commodity programs of the U.S. Department of Agriculture. Section 22, as amended by the Trade Agreements Extension Act of 1951, specifically provides that no trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of section 22.

To resolve the differences between its domestic legislation and the provisions of the General Agreement, the United States--at the Ninth Session of the Contracting Parties in 1954-55--requested a waiver of its commitments under articles II and XI of the General Agreement, insofar as such commitments might be regarded as inconsistent with action it is required to take under section 22. 1/ Besides establishing certain rules of procedure and certain conditions as to consultation, the waiver, which the Contracting Parties granted to the United States at the Ninth Session, requires the United States to report annually on the actions it takes thereunder.

At the 13th Session of the Contracting Parties, held during October and November 1958, the United States submitted its fourth annual report under the waiver. The report, which covered the period 1957-58, presented an explanation of U.S. action with respect to each of the commodities that were under restrictive import controls during that period. The report noted that since the preparation of the third annual report, actions taken under the provisions of section 22 had included the termination of one import control (that on short harsh cotton), the modification of two other import controls (those on long-staple cotton and tung oil), and the establishment of two new import controls (those on tung oil and almonds). According to the United States, import controls under section 22 were then in effect for eight products or groups of products. 2/

1/ See Operation of the Trade Agreements Program, 8th report, pp. 43-47.

2/ Import restrictions on almonds terminated on Sept. 30, 1958, thus reducing to seven the number of products or groups of products under control.

The report also described positive steps that the United States had taken to reduce surpluses of certain agricultural commodities. These actions included reductions in price-support levels, continuation of the acreage-reserve programs for cotton and wheat, continuation of the soil-bank program, continuation of acreage allotments and marketing quotas at the lowest permissible levels, and administration of programs to expand domestic and foreign consumption.

After discussing the U.S. report, the Contracting Parties referred it to the working party on agricultural waivers for further examination. The working party noted the reduction in the price levels for most commodities still subject to control, but expressed concern that such controls had not been relaxed and that a better balance between supply and demand had not been achieved for the products involved. The working party placed special emphasis on the role of price policies in the agricultural adjustment programs and expressed its belief that--because of their effect on production and consumption--high support prices were the primary cause of the continued imbalance between the supply of and demand for agricultural products.

The Contracting Parties adopted the report of the working party and approved its recommendation that the Netherlands be permitted to continue to limit to 60,000 metric tons its imports of wheat flour from the United States during 1959. 1/

1/ See the discussion in this chapter on U.S. restrictions on imports of dairy products.

Releases From Obligations

Article XVIII of the General Agreement brings together those provisions of the General Agreement that are most directly related to the problems of underdeveloped countries and the special procedures available to such countries for promoting the establishment of new industries and protecting their external financial positions.

To promote the establishment of a new industry, and thus raise standards of living, section A of article XVIII permits a contracting party to withdraw or modify a concession in its schedule of the General Agreement after negotiating with contracting parties that have a substantial interest therein. Section B of article XVIII authorizes underdeveloped countries to employ import restrictions for balance-of-payments reasons, provided such restrictions do not exceed the restrictions necessary to protect their monetary reserves. The provisions for the use of such restrictions require all underdeveloped countries that apply new restrictions or intensify existing restrictions to consult with the Contracting Parties. 1/

Section C of article XVIII provides that, if a contracting party finds that governmental assistance is necessary to establish a particular industry but that no measure consistent with the other provisions of the General Agreement is practicable to attain that objective, it must notify the Contracting Parties of the measure it proposes to take.

1/ Import restrictions imposed for balance-of-payments purposes under art. XVIII are discussed in the section of this chapter on examination of quantitative restrictions imposed for balance-of-payments reasons.

The Contracting Parties may then request the contracting party to consult with them concerning its proposed actions. Section D of article XVIII provides that should the Contracting Parties concur in the proposed measure, the contracting party shall be released from its obligations under the relevant provisions of the other articles of the General Agreement to the extent necessary to permit it to apply the proposed measure. If, after consultation, the Contracting Parties do not concur in the proposed measure, a contracting party shall nevertheless be free to deviate from the relevant provisions of the General Agreement 90 days after it has notified the Contracting Parties of its proposed actions.

First annual review of actions under article XVIII

Paragraph 6 of article XVIII provides that the Contracting Parties shall review annually all actions taken under sections C and D of that article.

During the first half of 1958 Ceylon became the first country to obtain a release under the provisions of the revised article XVIII. ^{1/} The release that the Contracting Parties granted to Ceylon permitted that country to take action with respect to imports of cotton textiles, crown corks, and bicycle tires and tubes. Ceylon's release also permitted it to increase the coverage of a previously granted release on sarongs and sarong cloth, and extended the time limit for the previously granted releases on tea chests and other chests, including fittings and shooks.

At the 13th Session, in accordance with the procedures established by the Contracting Parties, Ceylon submitted a report of the action it had

^{1/} Ceylon, Cuba, Haiti, and India previously had been granted releases under the original art. XVIII.

taken under the releases it had been granted at the 12th Session. Ceylon reported that, in most instances, insufficient time had elapsed since the releases had been granted to properly assess the benefits derived from them. Ceylon's report was referred to a panel established to review the releases granted under article XVIII:C and D. In its report to the Contracting Parties the panel stated that the annual review of releases served a useful purpose and provided an opportunity for the Contracting Parties to review actions taken under the releases, once they had been granted. The Contracting Parties approved the panel's report on the first annual review under article XVIII.

Releases from obligations considered at the 13th Session

In October 1958 Ceylon notified the Contracting Parties that it proposed to take additional actions under section C of article XVIII as an aid in establishing domestic industries. The proposed actions would affect the importation of toothbrushes, electric light bulbs, and saris made of cotton mixed with other materials. The last-named item was covered by the extension of a release that the Contracting Parties had granted to Ceylon at their 11th Session.

At their 13th Session the Contracting Parties referred this matter to a panel on article XVIII. 1/ The panel recommended that with respect to the specified commodities that were not the subject of a concession to any of the contracting parties, the Contracting Parties release Ceylon from its obligations under the relevant provisions of the General Agreement. The panel further recommended that the Contracting Parties authorize the Intersessional Committee to grant Ceylon a release for the

1/ This same panel participated in the first annual review under art. XVIII discussed above.

remaining commodities after it had consulted with contracting parties having a substantial interest therein. The Contracting Parties adopted the panel's report and approved its recommendations.

Examination of Quantitative Import Restrictions Imposed for
Balance-of-Payments Reasons (Arts. XI-XV, XVIII)

Articles XI through XV and section B of article XVIII of the General Agreement deal with the problem of the use of quantitative restrictions on imports in trade between contracting parties. Article XI prohibits a contracting party from imposing nontariff restrictions--such as quotas, licensing systems, or other quantitative control measures--on its imports from other contracting parties. Article XII, however, permits certain exceptions to this general rule for those contracting parties that are faced with balance-of-payments difficulties. Article XVIII:B contains similar provisions for underdeveloped countries. Article XIII sets forth the general rule that any quantitative restriction applied pursuant to the provisions of the agreement must be nondiscriminatory in nature, but article XIV permits certain exceptions to this rule for countries faced with balance-of-payments difficulties that are regarded as transitional in character. Article XV recognizes the interrelationship--in balance-of-payments problems--of quantitative restrictions on imports that are within the jurisdiction of the Contracting Parties and of exchange problems that are within the jurisdiction of the International Monetary Fund. It does this by providing for consultation between the two organizations and by delineating the sphere of action of each in balance-of-payments problems.

In essence, these six articles of the General Agreement impose on contracting parties an obligation to forego the use of quantitative re-

strictions on imports except in the most compelling circumstances.

Although articles XII, XIV, and XVIII:B make it clear that balance-of-payments difficulties may justify the resort to quantitative restrictions, these articles also provide that a contracting party that resorts to such restrictions must consult, in certain instances, with the Contracting Parties regarding the nature and extent of the restrictions and their justification. Furthermore, article XIV requires the Contracting Parties to prepare an annual report on the discriminatory application of the quantitative restrictions permitted by the provisions of that article.

Contracting parties wishing to apply discriminatory import restrictions may do so under the provisions of paragraph 1(b) of article XIV of the General Agreement. Under the provisions of this paragraph, deviation from the provisions of article XIII is permitted to the same extent that it is permitted under article XIV of the Articles of Agreement of the International Monetary Fund or under paragraph 6 of article XV of the General Agreement, both of which provide for special exchange agreements. If, on March 1, 1948, a contracting party was applying--for balance-of-payments reasons--import restrictions that were not in accord with rules of nondiscrimination as set forth in article XIII, but which deviations would not have been permitted in their entirety under paragraph 1(b) of article XIV, it could nevertheless elect to continue to apply such restrictions under paragraph 1(c) of that article, and could adapt such deviations to changing circumstances. If a contracting party did not wish to be bound by the provisions of paragraphs 1(b) and 1(c) of article XIV of the General Agreement, and had signed the Protocol of Provisional Application before July 1, 1948, it could elect to be governed

by the provisions of annex J to the General Agreement.

By electing to be bound by the aforementioned provisions of annex J, a contracting party has the advantage of being permitted to apply restrictions that are not permitted to members of the International Monetary Fund under paragraph 1(b) of article XIV of the General Agreement. In return, it must consult annually with the Contracting Parties on these discriminatory restrictions, and must adhere to the limiting requirements of annex J. By deciding to apply certain of its restrictions under the provisions of paragraph 1(c), a contracting party has the advantage of being permitted to do so, when it is not permitted to do so under paragraph 1(b) as a member of the International Monetary Fund. In return it must consult annually with the Contracting Parties on those restrictions that exceed the limits set forth in paragraph 1(b). This latter alternative is useful to those contracting parties that wish to distinguish between the discriminatory restrictions they apply for balance-of-payments reasons under the International Monetary Fund Agreement--on which they may not wish to consult with the Contracting Parties--and those they apply for other reasons. These contracting parties, therefore, have an advantage in that only the discriminatory restrictions they apply under paragraph 1(c) of article XIV of the General Agreement become the subject of the required consultations. 1/

General review of restrictions under articles XII and XVIII:B

Articles XII and XVIII:B of the General Agreement permit, for balance-of-payments reasons, certain exceptions to the general rule that prohibits

1/ For a further discussion of these options (the so-called Havana and Geneva options), see Operation of the Trade Agreements Program, 2d report, pp. 22-23.

a contracting party from imposing quantitative restrictions on imports. These articles also provide that, on a date to be determined by the Contracting Parties, they shall review all restrictions maintained under these articles.

At the 12th Session of the Contracting Parties in 1957 a working party on balance-of-payments questions recommended that the review of all balance-of-payments restrictions maintained under articles XII and XVIII:B begin on January 2, 1958, and be completed at the 13th Session. The working party also recommended that a report on this review be submitted to the Contracting Parties at their 13th Session. The purpose of the review was to provide a factual study of the scope of the quantitative restrictions applied by the contracting parties as a whole, as well as the level, method, and effect of the restrictions applied by them individually. Although several contracting parties had not yet accepted the protocol amending article XII, and were therefore not required to participate in the review, the working party felt that the review would be of such general interest that they probably would wish to associate themselves with it. The Contracting Parties accepted the report of the working party on balance of payments and approved its recommendations.

The working party on balance of payments began the general review of all restrictions maintained under articles XII and XVIII:B during the first part of 1958. The results of this review were incorporated in a draft report prepared by the Secretariat of the Contracting Parties; the draft report was then submitted to the working party on balance of payments for their examination. The report covered changes in the world balance-of-payments situation, the use of import restrictions, methods and procedures

employed, and the particular restrictions maintained by 26 individual countries.

At their 13th Session the working party on balance of payments notified the Contracting Parties that because of the comprehensive coverage of the draft report more time would be necessary to examine it. The working party on balance of payments submitted a final draft of the general review of all restrictions maintained under articles XII and XVIII:B to the Contracting Parties at their 14th Session in 1959. The review noted the improvement that had taken place in the international payments situation since 1948, but emphasized that the improvement had generally been limited to industrialized countries. Although there had been a gradual but continuous relaxation of import restrictions, such relaxation was more noticeable in industrialized countries; little progress had been achieved by countries producing primary materials. The Contracting Parties approved the working party's report. A separate part of the working party's report which reviewed the particular quantitative restrictions being maintained by 25 individual contracting parties was also examined by the Contracting Parties during their 14th Session.

Consultations under articles XII and XVIII:B

Besides the general review discussed above, articles XII and XVIII:B of the General Agreement provide for consultations under varying circumstances with respect to quantitative restrictions that are applied for balance-of-payments purposes under these articles. Two major circumstances may give rise to such consultations. First, a contracting party is required to consult with the Contracting Parties when it applies

new restrictions or intensifies existing restrictions. Second, all contracting parties that apply import restrictions under article XII must consult annually with the Contracting Parties; if the restrictions are being applied under article XVIII:B, the contracting parties applying them must consult every 2 years. In either instance the consultations are to cover the nature of the individual country's balance-of-payments difficulties, possible alternative corrective measures, and the effect of the particular country's restrictions on the economies of other contracting parties.

Annual consultations under article XII are to begin 1 year after the general review of quantitative restrictions mentioned above. Biannual consultations for those contracting parties that are in the underdeveloped-country category and that elect to apply their quantitative restrictions under article XVIII:B are to begin 2 years after the general review. Inasmuch as the general review of quantitative restrictions began in 1958, the first annual consultations under article XII began in 1959 and the first biannual consultations under article XVIII:B will be held in 1960.

In October 1958, during the 13th Session of the Contracting Parties, a working party on balance-of-payments import restrictions was established to suggest arrangements and procedures for carrying out the annual and biannual consultations. In its report to the Contracting Parties the working party noted that 26 contracting parties will be required to consult-- 14 countries under the provisions of article XII and 12 countries under the

provisions of article XVIII:B. 1/ The working party recommended that the Contracting Parties appoint a committee on balance-of-payments restrictions to conduct the consultations during 1959. The working party also recommended that the consultations not be held with all 14 countries simultaneously, but that the consultations be held in three rounds, during each of which several contracting parties would consult. The working party further recommended that the consultations be completed in time for discussion of them by the Contracting Parties at their 15th Session in the fall of 1959.

The Contracting Parties adopted the working party's report on arrangements and procedures and appointed a committee on balance-of-payments restrictions. The committee held the first round of consultations--those with France, New Zealand, the Union of South Africa, and the United Kingdom--during the 14th Session of the Contracting Parties in May 1959. Consultations were not held with the Netherlands, as originally planned, because of that country's announcement in February 1959 that its external financial position no longer justified maintenance of quantitative restrictions for balance-of-payments reasons.

1/ The 13 countries required to consult annually under art. XII are Australia, Austria, Denmark, Finland, France, Italy, Japan, New Zealand, Norway, the Federation of Rhodesia and Nyasaland, Sweden, the Union of South Africa, and the United Kingdom. The 14th country--the Netherlands--eliminated all quantitative restrictions maintained for balance-of-payments purposes in February 1959 and so notified the Contracting Parties, thereby obviating the need for consultation.

The 12 countries that fulfill the requirements of par. 4(a) of art. XVIII and are required to report biannually under art. XVIII:B are Burma, Brazil, Ceylon, Chile, Ghana, Greece, India, Indonesia, the Federation of Malaya, Pakistan, Turkey, and Uruguay. This list of contracting parties resorting to art. XVIII:B was approved by the Contracting Parties on Nov. 22, 1958.

Discussed by the Contracting Parties, but not incorporated in the report because the consultations had already been completed, was the significant relaxation of import restrictions announced by the United Kingdom on May 29, 1959. The Contracting Parties approved the working party's reports on the consultations with the four countries mentioned above.

Consultations under article XIV

Article XIV of the General Agreement provides for exceptions to the rule of nondiscrimination in the imposition and administration of quantitative restrictions. Paragraph 1(g) of that article requires contracting parties that maintain such discriminatory quantitative restrictions to consult annually with the Contracting Parties if the restrictions are being applied pursuant to the provisions of paragraph 1(c) of article XIV or pursuant to the provisions of annex J. Such consultations concentrate on the technical details of the restrictions, such as their discriminatory effects.

In 1958 seven contracting parties initiated consultations under paragraph 1(g) of article XIV. These countries were Australia, Ceylon, Ghana, Malaya, New Zealand, the Federation of Rhodesia and Nyasaland, and the United Kingdom. When the Contracting Parties convened for their 13th Session, the consultations with New Zealand had already taken place. As for the consultations with the United Kingdom, the Contracting Parties approved the Intersessional Committee's suggestion that substantive discussions with that country begin early in 1959. The Contracting Parties agreed to establish a working party on balance-of-payments restrictions to conduct the five remaining consultations during the 13th Session.

Late in the 13th Session the working party reported the results of to consultations to the Contracting Parties. The chairman of the working party stated that there had been a full exchange of views on the restrictions currently maintained by the countries concerned. He also stated that shortly after the consultations with Ceylon were completed, that country had notified the working party that it had eliminated its remaining discriminatory restrictions on imports from the dollar area. The chairman of the working party declared that six countries would now be obliged to consult during 1959 under paragraph 1(g) of article XIV and that these consultations would take place at three times during that year. The Contracting Parties adopted the working party's report on the consultations and its report on procedures for the 1959 consultations. They also approved the terms of reference for the committee on balance-of-payments restrictions which was to conduct the 1959 consultations under article XIV:1(g).

During the 14th Session in 1959 the committee on balance-of-payments restrictions consulted with New Zealand and the United Kingdom on the discriminatory aspects of their restrictions. The committee noted that, despite New Zealand's balance-of-payments difficulties, that country's import program for 1959 was less discriminatory than the program for 1958. The committee also discussed with the United Kingdom that country's discriminatory import restrictions against the dollar area.

Ninth annual report on discriminatory application of quantitative
import restrictions (art. XIV)

Paragraph 1(g) of article XIV requires contracting parties that are applying discriminatory quantitative restrictions under paragraph 1(c) of article XIV or under annex J to enter into annual consultations with the Contracting Parties. Besides these consultations, which must be initiated by the contracting parties, paragraph 1(g) of article XIV requires the Contracting Parties to report annually on these same discriminatory quantitative restrictions and, in addition, on those being applied pursuant to the provisions of paragraph 1(b) of article XIV.

At their 13th Session the Contracting Parties decided that the general review of quantitative restrictions under articles XII and XVIII:B would also include an examination of the discriminatory aspects of such restrictions. 1/ In the course of their general review, the Contracting Parties noted that there had been a significant reduction in discrimination, compared with the earlier postwar years, and that, generally speaking, there was less discrimination in the application of quantitative restrictions than at any time since 1946. The Contracting Parties approved the general review, which incorporated the ninth annual report on discriminatory application of quantitative import restrictions.

West German import restrictions

After completing the article XII consultations that took place before the opening of the 12th Session and after considering the findings of the International Monetary Fund, the working party on balance of payments agreed that West Germany was no longer entitled to impose quantitative

1/ See the section of this chapter on general review of restrictions under arts. XII and XVIII:B.

restrictions for balance-of-payments reasons. To comply with this decision and with the requirements of article XI, the West German delegate presented his country's program for liberalizing such restrictions. Many of the delegates at the 12th Session felt that the proposed program did not adequately satisfy West Germany's obligations under the General Agreement, and the West German delegate therefore agreed to transmit their opinions to his Government. After discussing the proposed West German program, the Contracting Parties postponed consideration of it until the April 1958 meeting of the Intersessional Committee.

At the Intersessional Committee meeting in April 1958 the West German delegate stated that certain of West Germany's remaining import restrictions were required by his country's marketing laws and, moreover, were consistent with West Germany's reservation to the Torquay Protocol and the March 7, 1955, decision of the Contracting Parties. As for the remaining restrictions that are not required by the marketing laws, West Germany did not wish to apply for a waiver because the current conditions that require such restrictions might prove to be permanent in nature. The West German representative stated that his country was prepared to enter into consultations with contracting parties which felt that continued application of the West German restrictions had impaired benefits to them under the General Agreement.

The Intersessional Committee expressed disappointment that West Germany had confirmed its intention to maintain the import restrictions in question, since they are no longer authorized under article XII of the General Agreement. The Committee felt that the issue involved a fundamental principle, disregard of which would undermine the very structure of the General

Agreement and threaten the multilateral trading system that the Contracting Parties had endeavored to establish. The Committee felt, therefore, that should West Germany find that immediate removal of the remaining import restrictions presents insurmountable difficulties it should apply for a hard-core waiver or for a waiver under article XXV.

In an effort to resolve the problem, the Intersessional Committee reactivated the working party on West German import restrictions that had functioned during the 12th Session, and directed it to determine whether the continued application of import restrictions by West Germany was contrary to the terms of the General Agreement. The majority of the working party considered unacceptable West Germany's contention that the restrictions in question were consistent with West Germany's reservation to the Torquay Protocol. After the working party had reported, the U.S. representative stated that there was no justification under the General Agreement for continued application by West Germany of its remaining import restrictions, and that its contention concerning its reservation to the Torquay Protocol could not be accepted by most of the contracting parties. He further urged that West Germany utilize agreed procedures to reconcile its position with the provisions of the General Agreement. He also stated that the Contracting Parties would be warranted in finding at their 13th Session that further delay by West Germany in removing its remaining import restrictions, or in reconciling its position with the provisions of the General Agreement, would constitute a circumstance

serious enough to justify the application of the provisions of article XXIII:2. 1/

The Intersessional Committee adopted the report of the working party on West German import restrictions and, by a rollcall vote, approved the U.S. recommendation. 2/ The Committee also recommended that West Germany reconsider its position and notify the Contracting Parties at the 13th Session of the action it had taken to eliminate the remaining restrictions.

At the 13th Session the West German representative informed the Contracting Parties of West Germany's impending action with respect to the elimination of certain import restrictions. He stated that his country soon would liberalize its import restrictions on certain industrial products and, after January 1, 1960, would maintain only a relatively small number of such restrictions. Existing import controls on certain agricultural commodities and processed foods would also soon be liberalized. For some of the remaining restrictions on industrial commodities, he stated, West Germany intended to apply for a hard-core waiver. Because of his country's marketing laws, he stated, restrictions on certain other commodities would be maintained for some time.

1/ Par. 2 of art. XXIII provides that, under certain circumstances, the Contracting Parties may authorize a contracting party that is adversely affected by the actions of another contracting party to suspend the application of its concessions to the trade of that contracting party. The Contracting Parties may authorize such action when a contracting party nullifies or impairs any benefit accruing to another contracting party, or when the attainment of any objective of the agreement is being impeded and no adjustment between the interested contracting parties can be effected. Should a contracting party so suspend its concessions, the other affected contracting party is then free to withdraw from the General Agreement.

2/ Twenty-one countries voted in favor of the U.S. recommendation, six abstained, and six others (the members of the European Economic Community) voted against it.

The U.S. delegate expressed regret that the proposed West German actions were so limited in scope and that so much discrimination would still remain. The Indian delegate stated that certain of West Germany's restrictions struck at the very basis of the obligations that contracting parties had assumed under the General Agreement. The Norwegian delegate stated that other countries employed protective devices but that their actions, unlike West Germany's, had been authorized by the Contracting Parties. Several contracting parties expressed the opinion that West Germany should remove all of its remaining quantitative restrictions as promptly as possible or apply for a hard-core waiver or for a waiver under article XXV.

The West German representative expressed his country's desire to resolve its problem of quantitative restrictions within the framework of the General Agreement. To that end the Chairman of the Contracting Parties proposed that interested contracting parties enter into consultations with West Germany, as provided for by article XXII. The Contracting Parties approved this procedure. Referring to his country's previous request for a waiver for certain nonagricultural products under the hard-core decision of March 5, 1955, the West German representative suggested that, in view of the impending consultations, action on the request be deferred until the 14th Session.

At their 14th Session the Contracting Parties noted that West Germany had consulted with 12 other contracting parties, but that no agreement had been reached on the presentation of the results of such consultations to the Contracting Parties. The Contracting Parties therefore established a working party to consider the problems and to make recommendations.

When it submitted its report to the Contracting Parties the working party also submitted a draft decision for their consideration. The draft decision specifically referred to groups of commodities listed in five annexes (annexes A through E) to the West German program for liberalizing import restrictions. The working party noted West Germany's intent to undertake additional liberalization with respect to commodities listed in annex A, to eliminate--within a period of 5 years--restrictions on commodities listed in annex C (as well as to submit annual reports on its progress in eliminating those restrictions), and to insure that actions taken under the country's marketing laws are consistent with the provisions of the General Agreement. The draft decision also specified that restrictions maintained on commodities listed in annex D be administered without restriction as to quantity and source of supply, that restrictions on commodities listed in annex E be kept under review in order to liberalize as many of the products as possible, and that restrictions on items listed in annex B be eliminated as soon as possible. Besides the above-mentioned provisions, the draft decision provided that West Germany consult annually with the Contracting Parties on its application of the decision and the progress achieved in eliminating the restrictions on the commodities listed in annexes A through E. The first such consultation was scheduled to begin at the 15th Session.

In discussing the draft decision in a plenary session of the Contracting Parties, several contracting parties expressed disappointment that the decision did not specify more definite requirements to eliminate import restrictions. New Zealand stated that the proposed waiver would permit West Germany to retain restrictions on a wide range of commodities for

3 years and that there was little assurance that the country's policies would be less restrictive at the end of that period. Australia, Brazil, Denmark, and other contracting parties expressed varying degrees of dissatisfaction with the draft decision. However, because the decision reflected an attempt to make West Germany's position more acceptable to the Contracting Parties, a majority of the contracting parties stated that they would vote in favor of the draft decision. The United States also pointed out imperfections in the draft decision, but stated that it too would vote in favor of approval. The Contracting Parties approved the draft decision 1/ for a period of 3 years and declared that interested contracting parties still had recourse to article XXIII.

Extension of the hard-core decision of March 5, 1955

In their so-called hard-core decision of March 5, 1955, the Contracting Parties decided that when a contracting party was no longer entitled to maintain quantitative import restrictions to safeguard its balance-of-payments position it could request the Contracting Parties to release it from its obligation to immediately eliminate such restrictions. The decision provided that the Contracting Parties might approve a contracting party's continuation of such restrictions to the extent necessary to overcome the transitional problems involved in eliminating them. Under the decision, application of such restrictions could be continued for a maximum of 5 years. However, the decision stipulated that requests for continued application of restrictions must be submitted to the Contracting Parties

1/ The draft decision was approved by a vote of 30 to 0. Approval of the decision provides West Germany with a hard-core waiver of its obligations under art. XI for a period of 3 years for those items listed in annexes B, D, and E, but does not affect the application of provisions relating to non-discrimination under art. XIII.

not later than December 31, 1957.

At the 12th Session in 1957 Austria proposed that the deadline for applications under the provisions of the hard-core decision be extended. According to the representatives of Austria and other contracting parties, some of the contracting parties were still applying restrictions for balance-of-payments reasons and would not be obligated to eliminate them for some time after the deadline provided in the hard-core decision. If the deadline in the hard-core decision were not extended, these countries would not be able to avail themselves of the transitional provision for continued application of restrictions.

After discussing the problem, the Contracting Parties decided to extend until December 31, 1958, the deadline for requests for the continued application of restrictions for transitional reasons. At their 13th Session in 1958 the Contracting Parties extended the deadline an additional year--until December 31, 1959--and agreed to review the problem again during 1959.

TARIFFS AND TARIFF NEGOTIATIONS

Plans for Future Tariff Reductions

At the beginning of their 13th Session, held at Geneva from October 16 to November 22, 1958, the Contracting Parties held a series of ministerial meetings, at which the United States was represented by Mr. C. Douglas Dillon, Under Secretary of State for Economic Affairs. At these meetings the United States proposed that arrangements be made to hold a fifth general round of tariff negotiations beginning in mid-1960. ^{1/} The United States also suggested that such negotiations be completed before January 1, 1962, the date when the treaty for the European Economic Community requires member states to take the first step in adjusting their national external tariffs to the Community's common external tariff. At the conclusion of the ministerial meetings, the ministers agreed that it would be desirable to hold a fifth general round of tariff negotiations and recommended that the Contracting Parties consider the matter.

During their plenary session the Contracting Parties discussed the proposal for a new round of tariff negotiations. The U.S. delegate stated that such negotiations would be timely, inasmuch as negotiations with the European Economic Community, as well as certain other negotiations, were already contemplated. General tariff negotiations beginning in 1960 could therefore be combined with a variety of negotiations that otherwise would have to be conducted separately. The Norwegian delegate stated that inasmuch as many contracting parties had not found acceptable proposals

^{1/} The four previous general rounds of tariff negotiations were held at Geneva in 1947, at Annecy in 1949, at Torquay in 1950-51, and at Geneva in 1956.

for automaticity in tariff reductions, his country appreciated the U.S. proposal for a further round of tariff negotiations on a product-by-product basis. 1/ Since the U.S. proposal had the general approval of the contracting parties, the Contracting Parties appointed a committee to examine it and to suggest rules and conditions, as well as a time and place, for the proposed negotiations.

On the basis of the committee's recommendation, the Contracting Parties decided at their 14th Session in May 1959 to hold a general tariff conference beginning in September 1960. The conference will embrace four types of negotiations: (1) Negotiations by contracting parties for new or additional concessions; (2) renegotiations with the member states of the European Economic Community pursuant to article XXIV:6; (3) renegotiations of concessions in existing schedules pursuant to article XXVIII:1; and (4) negotiations with countries that desire to accede to the General Agreement. The tariff conference will consist of two phases. The first phase, from September 1960 to the end of that year, will be concerned with renegotiations (items 2 and 3 above); the second phase, beginning in January 1961, will be concerned with negotiations with contracting parties for new or additional concessions and negotiations with countries that desire to accede to the General Agreement (items 1 and 4 above).

1/ For a discussion of the proposals for automaticity in tariff reductions, see Operation of the Trade Agreements Program, 11th report, p. 54.

European Economic Community

In June 1955, with a view to more closely integrating their economies, the six members of the European Coal and Steel Community--Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands--agreed to study the possibility of creating a customs union, to be known as the European Common Market, as well as a European community for the exploitation of atomic energy (Euratom). The efforts of these countries culminated in the signing of treaties for the Common Market and Euratom in Rome on March 25, 1957. 1/

In November 1956, at their 11th Session, the Contracting Parties discussed the problems associated with the creation of the Common Market and the proposed European free-trade area. At that time some of the contracting parties expressed concern that, without proper regulation, the common external tariff of the Common Market might become more protective than were the former tariffs of its individual members. The Contracting Parties noted that the six contracting parties concerned were prepared to submit the Common Market Treaty to them for consideration before its ratification, in accordance with the procedures set forth in article XXIV of the General Agreement. The Contracting Parties directed the Intersessional Committee to follow the developments with respect to the Common Market and to report on them at the 12th Session.

Because of the rapid progress that the six countries made in drafting and signing the Common Market Treaty, the Intersessional Committee met in April 1957 to discuss preparations for consideration of the treaty

1/ The Netherlands, the last member country to ratify the treaty for the European Economic Community, did so on Dec. 5, 1957. The treaty entered into force on Jan. 1, 1958.

by the Contracting Parties. Several members of the Committee expressed the opinion that if the Contracting Parties did not definitively consider the treaty at an early date there might not be an opportunity for such consideration before its ratification. The Committee established a procedure whereby individual contracting parties might submit questions concerning the treaty to the members of the Common Market; the members were to submit their answers to the Intersessional Committee at its meeting in September 1957. The Committee also decided that after it had considered these answers it would recommend procedures for definitive consideration of the Common Market Treaty by the Contracting Parties--either at a special session or at their 12th Session. As a result of these questions and answers, the Intersessional Committee submitted a report to the Contracting Parties on some of the issues involved and made some procedural suggestions for further examination of the treaty.

Early in the 12th Session the Contracting Parties extended the authority of the Intersessional Committee to examine the Common Market Treaty, so that the Committee might determine what additional factual material was necessary for its examination; they also instructed the Committee to report its findings to the Contracting Parties before the ministerial meetings scheduled during that session.

During the ministerial meetings at the 12th Session the ministerial representatives gave preliminary consideration to the relationship of the European Economic Community to the General Agreement on Tariffs and Trade. Following this consideration the Contracting Parties established a committee--composed of representatives of the contracting parties--to examine this relationship and to determine the most effective means of

implementing the interrelated obligations that participating countries have assumed in the two agreements. To examine the problem in greater detail, the committee established four subcommittees to consider the following subjects relating to the Common Market Treaty: (1) Tariffs and plan and schedule; (2) quantitative restrictions; (3) trade in agricultural products; and (4) the association of overseas territories.

Because of the lack of time at the 12th Session, the subcommittees reached no definite conclusions on the treaty. For this and other reasons, the main committee recommended to the Contracting Parties that the treaty be further considered by the Intersessional Committee. It also recommended that, for the purpose of examining the treaty between the 12th and 13th Sessions, the Intersessional Committee be composed of representatives from all the contracting parties. At their 12th Session the Contracting Parties adopted the recommendations of the committee and also briefly discussed the trade aspects of the European Atomic Energy Community Treaty.

At its meeting in April 1958 the Intersessional Committee continued its examination of the provisions of the Common Market Treaty. So that it might consider the proposed procedures for the European Economic Community's tariff negotiations with other contracting parties, provided for under article XXIV:6 of the General Agreement, the Committee asked the Community to provide it--before July 1, 1959--with a copy of its common external tariff and certain other related information. After discussing matters such as the common external tariff, quantitative restrictions, the agricultural provisions, and the association of overseas territories, the Committee concluded that it was more important to give immediate attention to the specific and practical problems involved in the creation of the

Common Market than to questions concerning the compatibility of the Common Market Treaty with article XXIV of the General Agreement. The Committee also concluded that the procedures set forth in article XXII, which provide for joint consultations by contracting parties, were appropriate for dealing with questions concerning the association of overseas territories with the Common Market. The Committee noted the statement of the European Economic Community that formation of its agricultural policy would require several years, and suggested that the Community continue to keep the Contracting Parties informed of its progress in developing such a policy.

At the 13th Session of the Contracting Parties in 1958 the contracting parties generally agreed with the Intersessional Committee's conclusion that it would be preferable to defer judgment on the compatibility of the Common Market Treaty with article XXIV of the General Agreement and that specific problems should be dealt with under the consultation provisions of article XXII as they might arise. To that end, the Contracting Parties approved the Intersessional Committee's recommendation on procedures for consultations under article XXII. ^{1/} Pursuant to these procedures the Contracting Parties held consultations during the 13th and 14th Sessions on the effect of association of overseas territories with the European Economic Community on the trade in bananas, cocoa, coffee, sugar, tea, and tobacco. During the 14th Session, Australia advised the Contracting Parties that it had requested the member states of the Community to consult with respect to the trade in lead, zinc, and aluminum.

^{1/} See Contracting Parties to GATT, Basic Instruments . . ., 7th supp., Sales No.: GATT/1959-1, Geneva, 1959, p. 24.

Proposed European Free-Trade Area

By June 1956 a movement was under way within the Organization for European Economic Cooperation (OEEC) to form an association embracing not only the members of the European Common Market, but also members of OEEC who were not included in the Common Market. The OEEC decided that such an association should take the form of a European free-trade area, within which the six-member Common Market would function as a single member.

At its April 1957 meeting the Deputy Secretary General of OEEC informed the Intersessional Committee that on February 13, 1957, the Council of Ministers of OEEC had decided to begin negotiations to establish a free-trade area. At their 12th Session the Contracting Parties directed the Intersessional Committee (1) to keep informed on the free-trade area negotiations; (2) to act on behalf of the Contracting Parties at such negotiations; and (3) to report to the Contracting Parties at their 13th Session in October 1958.

At its April 1958 meeting the Intersessional Committee was informed that negotiations for the proposed free-trade area were being conducted at the ministerial level by an intergovernmental committee, which had been established by an OEEC resolution of October 17, 1957. Since the negotiations for the proposed free-trade area were far from complete, the Intersessional Committee could not be supplied at that time with any definitive information. The Contracting Parties were similarly informed at their 13th Session in October 1958. They were informed, however, that OEEC would report to them any future developments concerning the negotiations for a free-trade area.

At the end of the period covered by this report the movement toward a 17-nation European free-trade area, as originally envisioned, had virtually been replaced by a movement toward a more limited free-trade area (referred to as the "Outer Seven"), the member countries of which would be Austria, Denmark, Norway, Portugal, Switzerland, Sweden, and the United Kingdom.

Franco-Tunisian Customs Union

At the Ninth Session of the Contracting Parties in 1954-55, France announced that--under the appropriate provisions of the General Agreement--France and Tunisia intended to join in a customs union. The proposed customs union was established on June 3, 1955, under the provisions of article II of the Economic and Financial Convention signed by the two countries in Paris. By January 1, 1956, the date on which the convention entered into force, the Franco-Tunisian Customs Union was substantially complete. Most of the quotas that applied to trade between the two countries had been abolished, and, with certain exceptions, Tunisia was applying the French customs tariff to imports of goods from third countries. 1/

At their 11th Session, France notified the Contracting Parties that the formation of the Franco-Tunisian Customs Union had been completed. Accordingly, the Contracting Parties could take no action on it at that time under article XXIV of the General Agreement, which provides for reports and recommendations by the Contracting Parties relating to a "proposed" customs union. It was therefore suggested that examination

1/ For further details of the Franco-Tunisian Customs Union, see Operation of the Trade Agreements Program, 10th report, pp. 43-44.

of the treaty constituting the Customs Union take place under the provisions of article XXV, and that it involve examination of the treaty and supporting information in the light of the provisions of article XXIV. The Contracting Parties directed the Intersessional Committee to examine the treaty and report to them at their 12th Session in 1957. Because the proposed Common Market Treaty provided for the association of Tunisia with the Common Market, the Intersessional Committee--at its April 1957 meeting--agreed to defer its examination of the treaty until the 12th Session of the Contracting Parties. At their 12th Session the Contracting Parties postponed examination of the treaty until the 13th Session, at which time they dropped the item from their agenda.

Latin American Economic Integration

The Latin American countries have long desired to accelerate their economic development by progressively integrating their economies. To assist them in achieving this objective the United Nations Economic Commission for Latin America (ECLA) has made a number of studies and has proposed a number of measures that those countries might adopt. As a result of these proposals, of cooperation by Latin American countries, and of encouragement by the Organization of American States and the Organization of Central American States, some progress has been made toward the goal of economic integration in Latin America.

At their 13th Session in 1958 the Contracting Parties were informed that on October 31, 1958, a majority of the Latin American countries had signed a joint declaration (the so-called Rio Declaration). The declaration states the intention of Latin American countries to

promote trade expansion within the area, to cooperate more closely in economic matters, and ultimately to join in a regional market. Brazil and Chile informed the Contracting Parties that they intended to conclude arrangements with Argentina ^{1/} looking toward the integration of the economies of the three countries, and that other Latin American countries could adhere to these arrangements when they were in a position to do so. Brazil and Chile undertook to notify the Contracting Parties of further developments with respect to the proposed arrangements. The Contracting Parties noted the statements made by Brazil and Chile and reminded them that the proposed arrangements should be compatible with the spirit and objectives of the General Agreement.

At the 14th Session, Brazil, Chile, and Uruguay informed the Contracting Parties that, together with Argentina, they had examined several alternative solutions to the trade problems that face them and had prepared a draft of a free-trade-area arrangement. They stated that the draft arrangement had been examined by other interested Latin American countries and that when a final draft had been agreed upon it would be opened for signature by Latin American countries and then submitted to the Contracting Parties for their consideration. ^{2/}

Application of the General Agreement to
New Countries (Art. XXVI:5(c))

Under the provisions of paragraph 5(c) of article XXVI of the General Agreement, a country that acquires full autonomy in the conduct of its commercial relations and other matters, and to which the provisions of the General Agreement have applied before its independence, may be

^{1/} Argentina is not a contracting party to the General Agreement.

^{2/} For a detailed discussion of developments with respect to the Latin American regional market, see ch. 4 of this report.

sponsored as a contracting party by the country that grants it independence. Three countries have become contracting parties to the General Agreement under this provision--Indonesia in 1950 ^{1/} and Ghana and Malaya in 1957. Questions have arisen, however, concerning the application of the General Agreement to certain other countries that have recently attained their independence. For example, because of the lapse of time since several customs territories became independent from France, some contracting parties have questioned whether those territories could become contracting parties in their own right through the sponsorship provision of article XXVI and, therefore, whether the Contracting Parties should continue to apply the provisions of the General Agreement to the trade of those territories.

To eliminate this uncertainty about the application of the provisions of the General Agreement, the Contracting Parties at their 12th Session revised the sponsorship procedure. They agreed to establish a specific time limit for sponsorship of each newly independent country at the first regular session following notification that the particular customs territory had acquired commercial autonomy. Until the specified time limit expires, contracting parties will be obligated to apply the General Agreement to the trade of that territory, provided the territory continues to apply the General Agreement to the contracting parties.

As a result of this revision of the sponsorship provision, the Contracting Parties agreed at their 12th Session that the time limit

^{1/} Indonesia became a contracting party under the provisions of the original art. XXVI:4(c), which are identical with those of the revised art. XXVI:5(c).

for sponsorship of Laos and Cambodia would end 2 weeks after the beginning of the 13th Session in 1958, and for that of Tunisia, 2 weeks after the beginning of the 14th Session in 1959. 1/

At their 13th Session the Contracting Parties noted that Laos was no longer applying the General Agreement to contracting parties and that contracting parties therefore were no longer obliged to apply the General Agreement de facto with respect to Laos. The observer from Cambodia stated that his Government had decided to accede to the General Agreement, but that it would do so under the provisions of article XXXIII rather than under those of article XXVI. Accession under the latter article would have required Cambodia to assume certain obligations that had originally been negotiated on its behalf by France and that would now be difficult for Cambodia to assume. Cambodia stated that it desired to enter into negotiations with the Contracting Parties, with a view to accession to the General Agreement, as soon as its new customs tariff was introduced in its National Assembly. Inasmuch as Cambodia desired to continue to apply the provisions of the General Agreement, it requested the Contracting Parties to continue to recognize the de facto application of the General Agreement between contracting parties and itself. On November 17, 1958, the Contracting Parties agreed to the Cambodian request and invited Cambodia to take part in the work of the Contracting Parties--subject to the restriction that Cambodia would not possess full voting rights until such time as it acceded to the General Agreement under the provisions of article XXXIII.

1/ France proposed the accession of Laos and Tunisia shortly before the 11th Session of the Contracting Parties, but withdrew the proposal from the agenda before the Contracting Parties acted on it. See Operation of the Trade Agreements Program, 10th report, p. 44.

During the 14th Session, Tunisia asked the Contracting Parties to extend the period during which they had previously recommended that contracting parties continue to apply the General Agreement de facto to Tunisia. Tunisia stated that it was considering the question of accession to the General Agreement and that it would clarify its position on the matter at the 15th Session. The Contracting Parties agreed to the Tunisian request and extended the time limit to 2 weeks after the beginning of the 15th Session.

Proposed Accession of Israel

On March 26, 1959, Israel formally requested permission to accede to the General Agreement under the provisions of article XXXIII. At the 14th Session of the Contracting Parties there was almost unanimous endorsement of Israel's request for accession. The Contracting Parties therefore established a working party to determine the conditions under which Israel might accede to the agreement.

In its report, which it submitted to the Contracting Parties late in the 14th Session, the working party stated that, before agreeing on the terms for Israel's accession, it would be desirable to await the outcome of tariff negotiations between contracting parties and Israel, which would be held during the general multilateral negotiations scheduled for 1960-61. Because it would be some time before Israel could complete these negotiations and accede definitively to the General Agreement pursuant to article XXXIII, the working party submitted a draft declaration on Israel's provisional accession. The declaration, which the Contracting Parties approved on May 29, 1959, was then opened for acceptance by the contracting parties. Under the terms of the

declaration, commercial relations between the signatory governments and Israel shall, with certain exceptions, be based on the provisions of the General Agreement. The declaration will become effective with respect to Israel and each signatory contracting party 30 days after it is accepted by Israel and the particular contracting party. At the time they approved the declaration, the Contracting Parties also approved a decision inviting Israel to participate in the work of the Contracting Parties. The decision will continue in effect until Israel accedes to the agreement pursuant to article XXXIII after tariff negotiations scheduled for 1960-61 or until December 31, 1961, whichever occurs first.

Proposed Accession of Poland

On March 31, 1959, Poland formally expressed its desire to accede to the General Agreement in accordance with the provisions of article XXXIII. At the 14th Session of the Contracting Parties the Polish observer requested that, should the fact that Poland's economy is based on principles different from those of most contracting parties preclude its becoming a full member, Poland be permitted to accede as an "associate member. Several contracting parties called attention to the desirability of closer cooperation between Poland and contracting parties to the General Agreement. The Contracting Parties, therefore, established a working party to consider arrangements for such a relationship, and directed it to submit its recommendation to the Contracting Parties at the 15th Session in the autumn of 1959.

Proposed Accession of Switzerland

On September 15, 1956, Switzerland asked the Contracting Parties to consider--at their 11th Session--its provisional accession to the General Agreement. Switzerland recognized the existence of certain

special problems in connection with its accession, but preferred to defer their solution until after it had acceded by making several reservations to the general provisions of the agreement. The Swiss Government pointed out that tariff negotiations, which are usually prerequisite to accession, would be possible after the Swiss Federal Council and the Swiss Parliament had approved a revision of the Swiss customs tariff. The Contracting Parties approved Switzerland's request that it be permitted to undertake tariff negotiations with a view to provisional accession to the General Agreement, and directed the Intersessional Committee to arrange for them. They also directed the Intersessional Committee to establish a negotiations committee to draft the declaration relating to Switzerland's provisional accession.

At the 13th Session of the Contracting Parties in 1958, Switzerland reported that it had concluded negotiations with a number of contracting parties. On November 22, 1958, therefore, the Contracting Parties opened for signature a Declaration on the Provisional Accession of the Swiss Confederation to the General Agreement on Tariffs and Trade. ^{1/} This declaration, to be signed by Switzerland and those contracting parties that wish to do so, provides that trade between the signatories and Switzerland will be governed by the terms of the declaration. The declaration also provides for entry into force of the tariff concessions that result from the negotiations mentioned above. The terms of the declaration include all the provisions of the General Agreement, but are subject to certain reservations by Switzerland and to such reserva-

^{1/} For the full text of the declaration, see Contracting Parties to GATT, Basic Instruments . . ., 7th supp., Sales No.: GATT/1959-1, Geneva, 1959, pp. 19-21. By decision of the Contracting Parties at their 14th Session, the declaration is to be open for signature by Switzerland and contracting parties until the end of the 15th Session.

tions as may be made by other contracting parties that sign the declaration. ^{1/} The Contracting Parties decided that the provisions of the declaration will be effective until December 31, 1961--subject to the possibility of extension by mutual consent of the parties to the declaration--or until such time as Switzerland accedes to the General Agreement, whichever occurs first. On November 22, 1958, the Contracting Parties also adopted a resolution inviting Switzerland to participate in the work of the Contracting Parties. The resolution will remain in effect until Switzerland accedes to the General Agreement under article XXXIII or until December 31, 1961, whichever occurs first--subject to the possibility of extension by the Contracting Parties. Switzerland accepted the invitation and began to participate in the work of the Contracting Parties at the end of the 13th Session in 1958.

Proposed Accession of Yugoslavia

At their 13th Session the Contracting Parties considered Yugoslavia's application for "associate" membership in the General Agreement. Yugoslavia declared that in due course it intended to become a full member, but stated that its present position precluded assumption of all the obligations of the agreement. It was therefore requesting that it be considered for "associate" membership, and that the terms of such membership be agreed upon by itself and the Contracting Parties. The Contracting Parties appointed a working party to consider the terms on which Yugoslavia might be brought into association with the Contracting Parties.

^{1/} For the Swiss reservations, see *ibid.*, 7th supp., pp. 19-20; 5th supp., Sales No.: GATT/1957-1, Geneva, 1957, pp. 40-46; and Operation of the Trade Agreements Program, 10th report, pp. 44-46.

At the 11th Session in the spring of 1959, the working party submitted a draft declaration on relations between Yugoslavia and contracting parties to the General Agreement. The draft declaration provided that contracting parties signing it would accord Yugoslavia the treatment provided for in the General Agreement to the same extent that Yugoslavia accorded such treatment to contracting parties. On May 25, 1959, by a vote of 32-0, the Contracting Parties approved the declaration. The declaration will enter into force when it has been accepted by Yugoslavia and two-thirds of the contracting parties. On May 25, 1959, the Contracting Parties also decided that, when the declaration enters into force, they will invite Yugoslavia to participate in the sessions of the Contracting Parties.

Brazilian Tariff Negotiations

At the 10th Session in 1955 Brazil advised the Contracting Parties that it intended to submit a draft of a new customs tariff to the Brazilian Congress; the draft tariff was submitted to the Congress in 1956. According to Brazil, its old tariff did not provide sufficient revenue or protection, and the nomenclature was confusing and obsolete. For these and other reasons, Brazil had been forced to impose quantitative restrictions on imports and to adopt exchange controls.

At the 11th Session of the Contracting Parties, Brazil requested and was granted, under the provisions of article XXV, a waiver from the provisions of paragraph 1 of article II so that it might place its new tariff in effect. Under the terms of the waiver, Brazil was relieved of the obligation to renegotiate existing tariff concessions before it made effective the somewhat higher rates of its new tariff. However, Brazil was directed to conduct such renegotiations within 1 year from the time its new tariff entered into force. The Contracting Parties also established a tariff renegotiations committee to arrange for the renegotiations and to consider questions of general concern to them.

Shortly before the 12th Session, Brazil notified the Intersessional Committee that its new tariff had entered into force on August 14, 1957. Because the tariff renegotiations would not begin for several months, it appeared that the Brazilian tariff concessions resulting from the renegotiations might not become effective before August 14, 1958, as provided in the waiver. Inasmuch as the Contracting Parties would not be in session at that time, the Tariff Negotiations Committee requested the Intersessional Committee to extend the deadline if so requested, and the Contracting Parties authorized the latter to do so. On July 10, 1958, the Intersessional Committee extended the time limit to July 31, 1959; at their 14th Session in 1959 the Contracting Parties further extended the time limit to the close of the 15th Session.

At the 13th Session of the Contracting Parties the Tariff Negotiations Committee submitted to the Contracting Parties a draft protocol relating to the negotiations for establishing a new Brazilian schedule to the General Agreement. The Committee proposed that the protocol, as well as the schedules to be annexed thereto, be opened for signature on December 31, 1958. Negotiations completed after the protocol had been opened for signature were to be annexed to it by means of procès-verbaux. The Contracting Parties approved the protocol and agreed that it would be opened for signature on December 31, 1958.

In May 1959, during the 14th Session of the Contracting Parties, the chairman of the Tariff Negotiations Committee reported that Brazil's bilateral negotiations with 17 interested contracting parties had been concluded.

Revision of New Zealand's Tariff

Since 1955 New Zealand has been engaged in revising its customs tariff. At the 12th Session of the Contracting Parties in 1957 the New Zealand delegate stated that while New Zealand could comply with all the other provisions of article XXVIII of the General Agreement, because of the legal procedures that his country must follow in revising its tariff it could not comply with the provisions related to timing. The procedure under article XXVIII of the General Agreement contemplates that negotiations with interested parties be conducted before a revised tariff becomes effective. ^{1/} In New Zealand, a new tariff is placed in effect--without prior announcement or publication--by a resolution of the parliamentary Committee on Ways and Means at the same time that a bill ratifying the resolution is introduced and considered at a parliamentary session. Under New Zealand law, therefore, negotiations with interested contracting parties cannot be conducted, as required by article XXVIII, before the tariff becomes effective. The New Zealand delegate stated that as soon as the new tariff becomes effective his Government will enter into negotiations with affected contracting parties and, if need be, offer them compensatory concessions.

At their 12th Session the Contracting Parties authorized New Zealand to place the revised tariff in effect at the same time that it was submitted to the New Zealand Parliament. They decided, however, that before the new tariff entered into force, New Zealand should advise interested contracting parties of the modified or withdrawn items and of the compensatory concessions it proposed. They also decided that New

^{1/} See the section of this chapter on continued application of schedules.

Zealand should promptly thereafter enter into negotiations with interested contracting parties and complete such negotiations before the beginning of the 13th Session.

At the 13th Session of the Contracting Parties, New Zealand reported that unforeseen circumstances had prevented the application of its revised tariff and that, consequently, the required negotiations had not taken place. New Zealand therefore requested the Contracting Parties to extend the time limit for completing the negotiations until the end of the 15th Session in 1959. The Contracting Parties approved New Zealand's request.

Tariff of the Federation of Rhodesia and Nyasaland

On December 3, 1955, the Contracting Parties authorized Australia and the Federation of Rhodesia and Nyasaland to complete, by July 1, 1958, the adjustment of the tariff preferences provided for in the trade agreement that the two countries had concluded on June 30, 1955. 1/

At their 13th Session in 1958 the Contracting Parties, in response to a request by Rhodesia and Nyasaland, extended to July 1, 1959, the time limit for completing these adjustments. At their 14th Session the Contracting Parties further extended the time limit to the end of the 15th Session. 2/ At their 13th Session the Contracting Parties also authorized Rhodesia and Nyasaland to complete, before July 1, 1959, the adjustment necessary in its tariff because of its negotiations with Portugal with respect to special treatment of a number of commodities

1/ See Operation of the Trade Agreements Program, 9th report, pp. 36-38.

2/ In a communication dated May 28, 1959, Australia informed the Contracting Parties that it had completed the process of adjusting the preferences relating to imports from Rhodesia and Nyasaland.

originating in Mozambique. 1/

Cuban Tariff Reform

At the Ninth Session in 1954-55, Cuba notified the Contracting Parties that it was completely revising its obsolete and inadequate customs tariff. According to Cuba, changes in its tariff were necessary to bring the tariff up to date technically, to more adequately safeguard the position of Cuban exports in world markets, and to stimulate the country's economic development. The text of the new Cuban customs tariff entered into force on February 24, 1958, and the new rates of duty became effective on March 17, 1958, but only for imports from those countries not covered by conventions. For those countries with which it had contracted tariff or trade obligations, Cuba suspended application of the new tariff until such time as it could conclude negotiations with them. At their 12th Session the Contracting Parties had agreed that, where applicable, Cuba might undertake its negotiations as an underdeveloped country under the provisions of article XVIII. As such, it would not be bound by the limiting provisions of article XXVIII. 2/ The remaining negotiations were to be carried out under the provisions of article XXVIII.

At the 13th Session of the Contracting Parties the Cuban representative proposed that a tariff negotiations committee be established to arrange for the negotiations and that formal negotiations under article XXVIII begin after January 1, 1959. The Chairman of the Contracting Parties proposed that contracting parties interested in negotiating

1/ For the complete text of this decision, see Contracting Parties to GATT, Basic Instruments . . ., 7th supp., Sales No.: GATT/1959-1, Geneva, 1959, pp. 40-41.

2/ For a discussion of the time limit placed on art. XXVIII negotiations, see the section of this chapter on the continued application of schedules, and art. XXVIII negotiations.

with Cuba inform the Executive Secretary of the Contracting Parties of their intention. He also suggested that such contracting parties comprise the Tariff Negotiations Committee, which would deal with problems that might arise in planning and conducting the negotiations.

OTHER DEVELOPMENTS RELATING TO THE AGREEMENT

Application of Article XXXV in the Accession of Japan

At their Eighth Session in 1953 the Contracting Parties approved Japan's provisional participation in the General Agreement. Negotiations for Japan's definitive accession to the agreement began in February 1955 and were concluded in June of that year; Japan became a contracting party to the agreement on September 10, 1955. ^{1/} Although the Contracting Parties unanimously approved the terms of Japan's accession, 14 contracting parties believed it would not be to their advantage to apply the provisions of the General Agreement to that country. Those countries, therefore, did not negotiate tariff concessions with Japan. Instead, they invoked the provisions of article XXXV of the agreement, which permit a contracting party to refrain from applying the agreement to an acceding country with which it has not negotiated tariff concessions. Such widespread invocation of article XXXV was of serious concern to Japan, and it therefore requested that the matter be placed on the agenda for the 10th Session of the Contracting Parties.

At their 10th Session in 1955, and at each succeeding session, the Contracting Parties have discussed the application to Japan of the provisions of article XXXV of the agreement. On August 14, 1957,

^{1/} For a detailed discussion of Japan's accession to the General Agreement, see Operation of the Trade Agreements Program: 6th report, pp. 51-54; 7th report, pp. 75-79; and 8th report, pp. 71-72.

Brazil withdrew its invocation of article XXXV with respect to Japan, and on October 16, 1958, India did likewise; Haiti has expressed its intention of doing so in the near future. Because of the accession of additional countries to the General Agreement, however, the number of contracting parties that invoked the provisions of article XXXV with respect to Japan still remained at 14 at the close of the period covered by this report. 1/

Limitation and Elimination of Subsidies

Under the provisions of article XVI and the related note in annex I of the General Agreement, contracting parties were obligated to abolish by January 1, 1958, all remaining direct or indirect subsidies on products other than primary products 2/ when the exportation of these products resulted in their sale at prices lower than those for like products being sold in the domestic market. If such subsidies were not abolished by January 1, 1958, the contracting parties were obligated not to extend their scope beyond that existing on January 1, 1958, and were to continue them only until such time as they could agree to abolish them.

Because article XVI stipulates no deadline after January 1, 1958, for abolishing the subsidies mentioned above, the Contracting Parties at their 12th Session prepared a declaration for the signatures of the

1/ The 14 countries that were applying art. XXXV with respect to Japan at the close of the period covered by this report are Australia, Austria, Belgium, Cuba, France, Ghana, Haiti, Luxembourg, the Federation of Malaya, Netherlands, New Zealand, the Federation of Rhodesia and Nyasaland, the Union of South Africa, and the United Kingdom.

2/ A primary product, for this purpose, is defined as "any product of farm, forest or fishery, or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade."

contracting parties that continue to apply such subsidies. The declaration states that the signatory contracting parties will not until December 31, 1958, extend the scope of their subsidies on products other than primary products beyond that existing on January 1, 1955. The declaration was to enter into force when signed by Belgium, West Germany, Japan, the United Kingdom, the United States, Canada, France, Italy, and the Netherlands. By the end of the 13th Session all but the last four of these countries had signed the declaration.

At the 13th Session in 1958 the Contracting Parties noted that should the declaration receive the necessary signatures and enter into force, it would remain in force for only 1 or 2 months--until December 31, 1958. Shortly before the close of the session, therefore, they opened for signature a procès-verbal extending the validity of the declaration until December 31, 1959. At the 14th Session the Contracting Parties noted that both the declaration and the procès-verbal had entered into force.

Notification of State Trading Activities

Article XVII requires contracting parties that establish or maintain state trading enterprises, or that grant exclusive or special privileges to any such enterprises, to notify the Contracting Parties of the commodities imported into and exported from their territories by such enterprises. At their 12th Session in 1957 the Contracting Parties decided that contracting parties which maintain state trading enterprises should submit their first reports by February 1, 1958, and annually thereafter.

At their 13th Session in 1958, several contracting parties stated that the information contained in the first reports indicated that state

trading had become important in a number of countries, and that the annual reports would facilitate any inquiry by the Contracting Parties as to whether state trading was being conducted in a manner consistent with the general principles of nondiscrimination. The Contracting Parties therefore appointed a panel to consider the first reports and to make suggestions for improving future reports.

The panel's report, submitted to the Contracting Parties at their 14th Session, noted that the panel had examined statements by 21 contracting parties, but that the information in the statements was not detailed enough to permit the panel to submit concrete findings to the Contracting Parties. The panel therefore recommended that all contracting parties be asked to reply to a revised questionnaire which the panel would submit to them, and that contracting parties which do not maintain state trading enterprises so indicate. The Contracting Parties approved the panel's recommendation.

Disposal of Surplus Agricultural Products

To prevent the disposal of surplus agricultural products from unduly disturbing world markets, and to insure orderly marketing of those products, the Contracting Parties--at their Ninth Session in 1954-55--adopted a resolution urging contracting parties that are planning to dispose of such surplus stocks to consult with the principal suppliers of the commodities involved, and with any other interested parties.

At their 11th and 12th Sessions the Contracting Parties discussed the experience of certain contracting parties with the disposal of surpluses by other governments, as well as the results of the consultations on the problem. At their 13th Session the Contracting Parties expressed

concern about the effects of the U.S. surplus-disposal program. Several contracting parties stated that the U.S. surplus-disposal program had seriously affected their markets and that continuation by the United States of high price supports would merely lead to a perpetuation of the surplus-disposal problem. Because of the continuing nature of the problem, the matter was placed on the agenda for discussion at a later session.

Nomination of Officers of the Interim Coordinating Committee
for International Commodity Arrangements

The Interim Coordinating Committee for International Commodity Arrangements (ICCICA) was established in 1947, pursuant to a resolution of the United Nations Economic and Social Council. Its activities consist principally of preparing yearly statements about intergovernmental collaboration in the field of commodity problems. In some instances, however, the Committee advises the Secretary-General of the United Nations on specific problems in the field of intergovernmental commodity collaboration. The Committee consists of a chairman, nominated by the Contracting Parties to the General Agreement; a representative of the Food and Agriculture Organization; and two other members. The term of office of the chairman is determined by the Contracting Parties; the term of office of each of the other three members is indefinite.

At their 11th Session the Contracting Parties unanimously nominated Sir Edwin McCarthy, Deputy High Commissioner for Australia in London, to be chairman of the Committee for a period of 1 year. The Contracting Parties also agreed that the chairman of ICCICA should submit to them each year a review of the annual report prepared by ICCICA. In the

interest of maintaining continuity of approach by the Committee, the Contracting Parties at their 12th Session, and again at their 13th Session, renominated Sir Edwin as chairman for the following year.

Problems Related to Trade in Primary Commodities

At their Ninth Session in 1954-55 the Contracting Parties established a working party to consider and report on proposals for intergovernmental action designed to settle problems that arise with respect to international trade in primary commodities. ^{1/} When the working party submitted its report to the Contracting Parties, it also submitted a draft of an agreement designed to facilitate the preparation and conclusion of intergovernmental commodity agreements. The Contracting Parties discussed the report and the draft agreement and, as a result of their discussion, revised the latter.

At their 10th Session the Contracting Parties discussed at length the revised draft agreement on commodity arrangements. Since they continued to disagree on the provisions of the agreement, the Contracting Parties authorized the Intersessional Committee--should it appear that agreement could be reached--to establish a subcommittee to prepare a final draft agreement for consideration at the 11th Session.

As no agreement was reached before the 11th Session, the Contracting Parties at that session reconstituted the working party on commodity problems and directed it to consider alternative approaches to the problems. On the recommendation of the working party, the Contracting

^{1/} The United States did not accept membership on the working party. At the 10th and 11th Sessions the United States took the position that an additional agreement in this field was neither necessary nor desirable, and that the United States did not intend to participate in a convention on commodity arrangements should such a convention be concluded.

Parties adopted a resolution that provided for consideration of problems related to international trade in primary commodities. Under the terms of the resolution, which recognized the competence of other international organizations in the field of primary commodities, the Contracting Parties decided to discuss at future sessions the trends and developments in international trade in primary commodities, as outlined by the chairman of ICCICA in his annual report and as indicated by consultations held under the various provisions of the General Agreement.

The report of the chairman of ICCICA at the 12th Session devoted special attention to the need for action with respect to the wide fluctuations in the prices of primary commodities. The review of the report by the Contracting Parties at a plenary session centered on (1) expansion of the trade of less developed countries at a slower rate than that of industrialized countries; (2) the effect of violent short-run fluctuations in the prices of primary products on the expansion of international trade; and (3) the widespread protection of agricultural products in international trade. As a result of the discussion the Contracting Parties appointed a panel of experts to examine international trade trends and their implications, with special reference to the three topics mentioned above. The panel was asked to submit a report at the 13th Session on its findings.

The report of the chairman of ICCICA at the 13th Session was similar in scope to that presented at the 12th Session. The ensuing discussion by the Contracting Parties concerned both the report of the chairman of ICCICA and the report by the panel of experts. The report by the panel of experts examined both short-term fluctuations and long-

term changes in volume, prices, and structure of world trade and their impact on both industrial and nonindustrial countries. 1/

Expansion of International Trade

At the 13th Session in 1958 many contracting parties agreed on the importance of attempting to overcome the obstacles to the expansion of international trade. They agreed that these obstacles were in part a result of national agricultural policies, and some contracting parties expressed concern over obstacles to the expansion of the export trade of the less developed countries. To examine these problems more closely and to contribute to the attainment of the objectives of the General Agreement, the Contracting Parties appointed three committees to study the entire problem of the expansion of international trade. Committee I was assigned the task of preparing for a future round of tariff negotiations; 2/ committee II was directed to study the problems arising out of the widespread use of nontariff measures to protect agriculture, and the resultant effects on international trade; and committee III was authorized to consider other obstacles to the expansion of trade, with special reference to the problems of the less developed countries.

At their 14th Session the Contracting Parties approved arrangements for committee II to consult with all contracting parties regarding their use of nontariff measures to protect agriculture or to support the incomes of agricultural producers, as well as regarding the effects of such measures on international trade. Committee II is expected to present its first report on the consultations at the 16th Session in 1960. The Contracting

1/ See Contracting Parties to GATT, Trends in International Trade; A Report by a Panel of Experts, Sales No.: GATT/1958-3, Geneva, 1958.

2/ See the section of this chapter on tariffs and tariff negotiations.

Parties directed committee III to examine various proposals put forward by less developed countries to study important commodities in which such countries are interested.

Restrictive Business Practices

In 1953 the United Nations Economic and Social Council recognized the detrimental effects of restrictive business practices in international trade on economic development, employment, and international trade, and adopted a resolution stating that both national action and international cooperation are necessary to deal with such practices. At the Ninth Session of the Contracting Parties in 1954-55 the delegations of Denmark, Norway, and Sweden--in response to this resolution--proposed that the Contracting Parties revise the General Agreement to provide for the control of restrictive business practices in international trade. However, because of a procedural misunderstanding between the Contracting Parties and the United Nations Economic and Social Council, the Contracting Parties postponed consideration of the proposal.

At the 11th Session of the Contracting Parties in 1956, Norway and West Germany made individual proposals with respect to the control of restrictive business practices that affect international trade. West Germany proposed that the Contracting Parties recognize that such practices may have adverse effects on trade between various contracting parties, and that contracting parties engaged in them be required to consult with other interested contracting parties and to take appropriate legal action to eliminate them. The Norwegian delegate likewise proposed that the Contracting Parties recognize the adverse effects of restrictive business practices. He suggested that the Contracting Parties establish

a working party to consider whether they should undertake to control such practices. Should the working party so recommend, he suggested that it also recommend at the 12th Session the appropriate provisions that should be added to the General Agreement, or included in a supplemental agreement, to establish controls over restrictive business practices. After discussion the Contracting Parties referred the West German and Norwegian proposals to the Intersessional Committee, with instructions that it submit a report and recommendations to them at their 12th Session.

The members of the Intersessional Committee were unable to agree on whether they should recommend the establishment of such a working party, and so informed the Contracting Parties at their 12th Session. Since there appeared to be no consensus on this question, the Contracting Parties again referred the problem to the Intersessional Committee, with instructions that it decide whether a working party or a panel of experts should be established, or whether the problem should again be referred to the Contracting Parties at their 13th Session. The Intersessional Committee again referred the matter to the Contracting Parties.

At the 13th Session the Contracting Parties adopted a resolution recognizing that the expansion of world trade may be hampered by the activities of international cartels and trusts. The Contracting Parties also directed their Executive Secretary to appoint a group of experts to study the problem and recommend whether the Contracting Parties should endeavor to deal with restrictive business practices in international trade. Should the group of experts decide in the affirmative, it would be requested to determine how the Contracting Parties might best deal with

the problem. The group of experts was requested to submit its report for consideration by the Contracting Parties at one of their sessions in 1960.

Norwegian Proposal for Study of Legislation on
Antidumping and Countervailing Duties

At the Ninth Session of the Contracting Parties in 1954-55, Norway proposed that the General Agreement be amended to direct the Organization for Trade Cooperation to work toward the standardization of rules governing the imposition of antidumping and countervailing duties. Since that time the Contracting Parties have been engaged in a study of such duties as they are applied by individual contracting parties. 1/

At their 11th Session the Contracting Parties directed their Secretariat--with the assistance of experts from the governments concerned--to analyze the information that had been made available by contracting parties, and to submit a report on antidumping legislation to the Inter-sessional Committee or to the Contracting Parties at their 12th Session. At the beginning of the 12th Session the Secretariat submitted a comprehensive report on the subject to the Contracting Parties. After discussing the report the various contracting parties agreed to submit to the Secretariat their individual views on what further action should be taken with respect to antidumping and countervailing duties. The Contracting Parties instructed the Secretariat to analyze these views and to submit a summary of them at the 13th Session.

Eight countries submitted to the Secretariat their views and their suggestions for further study of the problem of antidumping and counter-

1/ For the earlier history of the Norwegian proposal, see Operation of the Trade Agreements Program, 10th report, pp. 48-49.

vailing duties. The views included a suggestion that all changes in national legislation with respect to antidumping and countervailing be reported to the Secretariat, a proposal that the Contracting Parties endeavor to agree on an interpretation of the provisions of article VI, ^{1/} and a proposal for procedures that contracting parties be required to follow before imposing antidumping and countervailing duties. The Secretariat submitted a summary of these proposals to the Contracting Parties at their 13th Session. At that session the Norwegian and Swedish delegates proposed that a group of governmental experts be convened before the opening of the 14th Session to exchange information on existing legislation relating to antidumping and countervailing duties. The Contracting Parties approved the proposal and authorized the Executive Secretary to convene a group of experts.

The group of experts, which met in Geneva in April 1959, submitted its report to the Contracting Parties at the 14th Session. In its report the group noted that, because of the vastness of the subject, it had devoted its entire attention to antidumping duties and had deferred until a later date its study of countervailing duties. The group of experts reached an understanding on various problems relating to the definition of terms used in article VI--for example, the use of the term "industry" in relation to "injury"; the definition of "material injury" and of "export price"; and the determination of "normal value." The

^{1/} Art. VI of the General Agreement condemns dumping if it causes or threatens material injury to an established industry, or materially retards the establishment of an industry, in the territory of another contracting party. Art. VI also provides that a country so injured may protect itself against dumping or injurious subsidization by imposing antidumping or countervailing duties, but prohibits the excessive or unwarranted use of such duties.

Contracting Parties approved the group's report and adopted its recommendation for subjects to be discussed at a later date. The Contracting Parties also directed the Secretariat to collect detailed information on current practices in antidumping cases and requested that this information, together with the additional subjects, be discussed at a later date.

Discrimination in Transport Insurance

In 1951, at the suggestion of the International Chamber of Commerce, the United Nations Transport and Communications Commission agreed to consider the problems arising from the application of national laws that restrict the freedom of importers and exporters to purchase cargo insurance in the countries of their choice. The Commission requested the Secretary-General of the United Nations to make a study of such restrictive national legislation. In his report the Secretary-General recommended that the matter be studied by the Contracting Parties to the General Agreement on Tariffs and Trade.

At their Eighth Session in 1953 the Contracting Parties noted the problem of discrimination in transport insurance, and directed their Executive Secretary to prepare a report on the issues involved. ^{1/} The Contracting Parties considered the report at their Ninth Session in 1954, and retained the subject on the agenda for further consideration at the next regular session.

At the 10th Session the United States proposed that the Contracting Parties adopt a resolution recommending that contracting parties refrain

^{1/} For a more detailed discussion of this problem, see Operation of the Trade Agreements Program, 7th report, pp. 95-96.

from interfering with the freedom of buyers or sellers of transport insurance to determine for themselves in which market they would obtain such insurance. The Contracting Parties referred the resolution to a working party for study. The working party proposed that the Contracting Parties adopt a resolution calling on contracting parties to avoid the enactment of measures relating to transport insurance that would have a more restrictive effect on international trade than those that now apply, and to eliminate--as rapidly as circumstances permit--any restrictive measures currently in force. The Contracting Parties agreed to consider the recommendation at their 11th Session.

At the 11th Session a divergence of opinion among the contracting parties indicated that further discussion of the proposed resolution would be necessary before the matter could be taken up at a plenary meeting of the Contracting Parties. Accordingly, the Contracting Parties decided to defer consideration of the working party's recommendation until their 12th Session in 1957. At their 12th Session the Contracting Parties again delayed consideration of the recommendation until their 13th Session.

At the 13th Session in 1958 the Norwegian delegate offered a draft recommendation similar in part to the recommendation that had been submitted by the working party at the 11th Session. The Norwegian proposal recognized, in its preamble, the right of countries that have an insufficiently developed national insurance business to resort to measures necessary to foster that business. Unlike the proposal of the working party, however, the Norwegian proposal did not require that existing restrictive measures be eliminated as rapidly as possible. The

Contracting Parties agreed to consider both recommendations at their 14th Session. At the 14th Session they approved the Norwegian proposal.

Trade and Customs Regulations

Between June 1951 and May 1955 the International Chamber of Commerce adopted and submitted to the Contracting Parties a number of resolutions relating to the reduction of trade barriers. The resolutions dealt with customs treatment of commercial samples and advertising materials, documentary requirements for the importation of goods, consular formalities, valuation of goods for customs purposes, the nationality of imported goods, formalities connected with the administration of quantitative restrictions on imports, and the adoption of a set of guiding principles for an international agreement designed to prevent the misuse of marks of origin. 1/

As a result of a working party's consideration of these resolutions the Contracting Parties adopted a draft convention on the importation of samples and advertising material, a code of standard practices relating to documentary requirements for the importation of goods, a code of standard practices relating to consular formalities, and a resolution regarding the application of import- and export-licensing restrictions to existing contracts. The Contracting Parties also recommended that individual contracting parties abolish their requirements for consular invoices and consular visas by December 31, 1956, and requested that they report each year on the progress they had made in doing so. 2/

1/ For a detailed discussion of the resolutions adopted by the International Chamber of Commerce in June 1951, see Operation of the Trade Agreements Program, 6th report, pp. 61-64.

2/ See Operation of the Trade Agreements Program, 7th report, pp. 89-94.

Consular formalities

From the 8th through the 10th Sessions the Contracting Parties continued their discussions relating to consular formalities. At the 11th Session it was apparent that individual contracting parties would not be able to abolish their consular formalities completely by the final date agreed upon at the 10th Session. The Contracting Parties therefore decided not to establish any new deadline for abolishing such formalities, but reaffirmed their previous recommendation that contracting parties continue to eliminate the consular formalities they still maintained. At their 12th Session the Contracting Parties adopted a recommendation that, as a minimum, contracting parties follow certain suggested practices that would simplify consular procedures and insure fairness in administration.

At the 13th Session the Chairman of the Contracting Parties announced that Turkey had declared that it would abolish consular fees in the near future. The Contracting Parties instructed their Executive Secretary to follow the progress made by other contracting parties in eliminating their consular formalities.

Marks of origin

At their 10th Session the Contracting Parties considered a resolution submitted by the International Chamber of Commerce, relating to adoption of a set of guiding principles for an international arrangement designed to prevent the misuse of marks of origin. The Contracting Parties did not study the resolution in detail at their 10th Session, but agreed to do so at a later session.

At their 13th Session the Contracting Parties established a working party to examine a draft recommendation on marks of origin that had been prepared by the Secretariat, primarily on the basis of the recommendations submitted by the International Chamber of Commerce. Shortly before the end of the 13th Session the working party submitted its report and a draft recommendation to the Contracting Parties. The recommendation consisted of 16 rules designed to reduce the difficulties and inconveniences which result from marking regulations. The Contracting Parties adopted the working party's report and approved its recommendation. In order to comply with U.S. law, the U.S. delegate made several reservations when he approved the recommendation on behalf of his country.

Nationality of imported goods

At their 8th, 9th, and 10th Sessions the Contracting Parties continued their discussions on the nationality of imported goods. At their 11th Session the Contracting Parties agreed to alter the rules they had recommended with respect to proof of origin, as proposed to them by the International Chamber of Commerce at the 10th Session, but postponed until the 12th Session their decision on whether to establish a common definition of the nationality of imported goods. At their 12th and 13th Sessions the Contracting Parties postponed further consideration of the matter until a later date.

Facilities for temporary admission of professional
equipment and packing materials

At their 13th Session the Contracting Parties considered a proposal, submitted by the International Chamber of Commerce, that the Contracting Parties adopt an international convention relating to temporary and duty-free admission of professional equipment and packing materials. The convention had already entered into force for several countries. Because of the pressure of other business the Contracting Parties deferred discussion of the proposal until their 14th Session. At the 14th Session they agreed to postpone further consideration of the proposal pending receipt of draft conventions relating to certain professional equipment and packing materials which were being drawn up by the Customs Cooperation Council.

STATUS AND ADMINISTRATION OF THE GENERAL AGREEMENT

Definitive Application

Article XXVI of the General Agreement provides that the agreement shall enter into force when it has been accepted by contracting parties that account for 85 percent of the total foreign trade of all contracting parties. The General Agreement, however, has never definitively entered into force under the provisions of article XXVI. It has been accepted pursuant to a protocol of provisional application, which requires that the signatories apply parts I and III of the agreement fully, and part II (which contains most of the trade rules) to the fullest extent not inconsistent with domestic legislation in effect on a specified date. Originally, if contracting parties desired to accept the agreement definitively pursuant to article XXVI, they were required to immediately modify

domestic legislation that was inconsistent with the provisions of the agreement.

Although the Contracting Parties have desired definitive acceptance of the General Agreement at as early a date as possible, they have recognized that it would not be practicable for certain contracting parties to bring their domestic legislation into conformity with part II of the agreement immediately after such an acceptance. To surmount this obstacle, the Contracting Parties--at their Ninth Session in 1954-55--prepared a resolution which provided that an acceptance of the agreement pursuant to article XXVI would be valid even if accompanied by a reservation that legislation presently acceptable under the provisional application of the agreement would remain acceptable under the definitive application of the agreement. The resolution provided, however, that the Contracting Parties would periodically review the progress that contracting parties had made in bringing such "excepted" legislation into conformity with the General Agreement. During the 11th Session the resolution was accepted by all the contracting parties.

At their 13th Session, the Contracting Parties noted that only Haiti had adopted the resolution and was applying the General Agreement pursuant to the provisions of article XXVI.

Protocols of Amendment, and Agreement on the
Organization for Trade Cooperation

At their Ninth Session in 1954-55 the Contracting Parties conducted a review of the General Agreement to determine to what extent it should be modified in order to attain its objectives more effectively. As a

result of the review the Contracting Parties proposed a series of amendments to the agreement, and negotiated an Agreement on the Organization for Trade Cooperation (OTC). 1/ The proposed amendments (which were incorporated in three protocols), as well as the Agreement on the Organization for Trade Cooperation, were then submitted to the contracting parties for acceptance. The amending protocols are of three types: (1) Technical changes in certain of the general provisions; (2) minor technical changes in the general provisions designed to bring the General Agreement into conformity with the proposed OTC; 2/ and (3) substantive changes in the preamble and parts II and III of the General Agreement. On October 7, 1957, shortly before the beginning of the 12th Session, the third protocol, amending the preamble and parts II and III, entered into force for two-thirds of the contracting parties. By June 30, 1959, the close of the period covered by this report, it was in effect for 33 contracting parties.

Since several contracting parties had not accepted the protocol amending the preamble and parts II and III of the General Agreement, the Contracting Parties at their 13th Session extended the deadline for signing the protocol until 2 weeks after the opening of the 15th Session in 1959.

By June 30, 1959, the close of the period covered by this report, only 20 contracting parties had signed the Agreement on the Organization for Trade Cooperation. The agreement, as well as the first and second protocols of amendment, had not become effective by that date. 3/

1/ See Operation of the Trade Agreements Program, 8th report, pp. 9-26.

2/ Protocol of organizational amendments.

3/ The first protocol requires acceptance by all the contracting parties; the second will come into force concurrently with the Agreement on the Organization for Trade Cooperation.

Rectification, Modification, and
Consolidation of Schedules

Tariff concessions negotiated under the General Agreement are incorporated into the agreement by means of the schedules of tariff concessions. A schedule is a list of all the concessions negotiated--pursuant to the provisions of the General Agreement--by one particular contracting party with other contracting parties. Each such country schedule contains, for each product on which the contracting party has granted a concession, the number under which the product is classified in the tariff of the particular contracting party, a description of the product, and the rate of duty applicable to it. Article II of the General Agreement makes each schedule of concessions an integral part of the agreement.

From time to time the Contracting Parties find that the texts of the schedules should be modified formally to take into account changes that have, in fact, become effective by action of the Contracting Parties or in accordance with procedures established by the Contracting Parties. 1/ Accordingly, they prepare protocols of rectifications and modifications, which list the changes necessary to bring the schedules up to date. The protocols, which are then submitted to the individual contracting parties for acceptance, formally enter into force when they have been accepted by all the contracting parties. However, since the modifications or rectifications contained in the protocols have already

1/ Changes in the schedules may be substantive or nonsubstantive. An example of a substantive change is the modification of a rate of duty pursuant to art. XXVIII of the General Agreement; an example of a non-substantive change is the correction of a textual spelling error.

been placed in effect by action of the Contracting Parties, there is slight incentive for individual contracting parties to accept them formally.

On June 30, 1959, the Fifth, Sixth, and Seventh Protocols of Rectifications and Modifications, prepared by the Contracting Parties and submitted to the contracting parties during the period 1955-57, had not yet entered into force, but the concessions listed in them had been placed in effect by the contracting parties concerned.

At their 13th Session the Contracting Parties adopted a working party recommendation that an Eighth Protocol of Rectifications and Modifications be opened for signature after the 13th Session and that a Ninth Protocol be opened for signature on the first day of the 14th Session in 1959. At the 14th Session the opening date for signature of the Ninth Protocol was postponed until July 15, 1959.

At their 10th Session in 1955 several of the contracting parties expressed serious concern over the complexity of the schedules of concessions in the General Agreement. They pointed out that the original concessions and the subsequent rectifications and modifications were scattered among more than 20 legal instruments and several GATT documents. The Contracting Parties, therefore, explored the possibility of preparing a set of up-to-date, consolidated schedules. Toward the close of the 10th Session they adopted a tentative plan to prepare such consolidated schedules. Because so many contracting parties were engaged in tariff revisions, however, no definite plan had been formulated by the close of the 13th Session in 1958. At that session the Contracting Parties agreed not to establish a time limit for submission of draft consolidated schedules by contracting parties that had not yet done so.

Intersessional Administration of
the General Agreement

The General Agreement does not specifically provide for any organization for its administration. Article XXV provides that the contracting parties shall meet from time to time to consider matters arising out of the application of the agreement, but does not provide any mechanism for administering the agreement during the period when the Contracting Parties are not in session. As a result of discussions at their Sixth Session in 1951, the Contracting Parties established--on an experimental basis--an ad hoc Committee for Agenda and Intersessional Business to deal with matters that might require immediate action during the period between the sessions of the Contracting Parties. This arrangement for intersessional administration of the agreement was modified at the Ninth Session in 1954-55 and the ad hoc committee was renamed the Intersessional Committee.

When the Contracting Parties created the Intersessional Committee it was their intention to make it an effective body for assisting the Contracting Parties in obtaining the objectives of the General Agreement. However, except on matters of secondary importance, the Contracting Parties have not delegated powers of decision to the Intersessional Committee. This fact, together with the increasing workload of the Contracting Parties, prompted them to decide--at their 13th Session in 1958--to hold a spring and an autumn session of the Contracting Parties each year and to alter the functions of the Intersessional Committee.

At their 13th Session the Contracting Parties adopted a working party recommendation delineating the functions of the Intersessional Committee. This recommendation permits the Intersessional Committee to

deal with matters that have been specifically referred to it by the Contracting Parties, matters arising under paragraph 4 of article XXVIII and under sections A, C, and D of article XVIII, and urgent matters that may arise during intersessional periods and that have not been foreseen by the Contracting Parties. The Contracting Parties decided that the Intersessional Committee will be composed of 17 members elected at the last session in each calendar year. Their election is to be effected in such a manner as to insure that the Committee will be representative of the broad geographical areas to which the contracting parties belong and of the different degrees of economic development and divergent economic interests that are to be found among them. The Intersessional Committee is to meet in Geneva on the call of the Executive Secretary. 1/ The Contracting Parties proceeded, forthwith, to elect an Intersessional Committee.

Continued Application of Schedules, and
Article XXVIII Negotiations

Since the signing of the General Agreement in 1947 and the negotiation of the first schedules of concessions, the Contracting Parties have agreed for successive periods of time not to modify, under the provisions of article XXVIII, the concessions that individual contracting parties have granted in their respective schedules. At the end of each of these periods the Contracting Parties have made specific arrangements to permit contracting parties to modify their schedules. 2/

1/ For intersessional procedures, as amended, see Contracting Parties to GATT, Basic Instruments . . . , 7th supp., Sales No.: GATT/1959-1, Geneva, 1959, pp. 7-11.

2/ For further discussion of these arrangements, see Operation of the Trade Agreements Program: 7th report, pp. 80-83; 8th report, pp. 73-74.

The last of such periods was to terminate on December 31, 1957. ^{1/} In anticipation of the ending of this period, the Contracting Parties on November 28, 1957--at their 12th Session--adopted another Declaration on the Continued Application of Schedules. This declaration applied to those countries for whom the revised article XXVIII has not become effective. Those countries for whom the revised article XXVIII is effective are subject to the provisions of that article. The deadline for modification of schedules under both the declaration and the revised article XXVIII was extended from December 31, 1957, to March 31, 1958, for those contracting parties that notified the Contracting Parties by December 31, 1957, of their intention to enter into negotiations for modification of concessions under the revised article XXVIII in the last declaration. At its April 28, 1958, meeting the Intersessional Committee extended the terminal date for completion of authorized negotiations to the end of the 13th Session, and the Contracting Parties subsequently extended this date to the close of the 15th Session in 1959. Under the revised article XXVIII, the new period for the continued application of schedules will terminate on December 31, 1960.

Ministerial Meetings at Sessions of the
Contracting Parties

During their 11th Session the Contracting Parties agreed that meetings of foreign ministers of the contracting parties, held in the early stages of succeeding sessions, would contribute to more effective operation of the General Agreement. Such meetings at the ministerial level took place at the 12th Session, from October 28 to 30, 1957.

^{1/} This date was specified in the Contracting Parties' Declaration of Mar. 10, 1955.

During the first days of the 13th Session--October 16 and 17, 1958--the foreign ministers and ministerial representatives of the contracting parties took part in the meetings of the Contracting Parties. Their discussions at these meetings related chiefly to trends in, and expansion of, international trade and methods of promoting the effectiveness of the General Agreement.

Election of Chairman and Vice Chairmen of the
Contracting Parties

At their 13th Session the Contracting Parties amended their rules of procedure with respect to the time of election and the term of office of the Chairman and Vice Chairmen of the Contracting Parties. At previous sessions these officers had been elected during the first 7 days of a plenary session and had immediately assumed office, which they retained until their successors were elected. The amended rules provide that the Chairman and Vice Chairmen shall be elected during the last session of the Contracting Parties in each calendar year, and that they shall hold office from the end of that session to the end of the last session in the following calendar year. 1/

As a result of these changes the Chairman and Vice Chairmen for the 12th Session retained their office during the 13th Session. 2/
During the 13th Session the Contracting Parties elected Mr. F. Garcia Oldini, of Chile, as Chairman, and Mr. J. G. Crawford, of Australia, and

1/ The Contracting Parties decided, at their 13th Session, to hold two plenary sessions yearly. See the section of this chapter on intersessional administration of the General Agreement.

2/ For the 12th and 13th Sessions, Mr. L. K. Jha, of India, served as Chairman; and Mr. Fernando Garcia Oldini, of Chile, and Dr. Heinz Standenat, of Austria, served as Vice Chairmen.

Mr. G. Ferlesch, of Italy, as Vice Chairmen. Their terms of office began at the close of the 13th Session on November 22, 1958, and will terminate at the end of the 15th Session in November 1959.

Training Program for Government Officials of
Contracting Parties to the General Agreement

At their 10th Session in 1955 the Contracting Parties tentatively approved a training program to familiarize young government officials of the contracting parties with the problems dealt with by the GATT Secretariat in administering the agreement, and authorized the Executive Secretary to place it in effect on an experimental basis. 1/ At the 11th Session the Intersessional Committee, the Secretariat, and the contracting parties concerned reported their satisfaction with the program that had been conducted in the interim between the 10th and 11th Sessions. As a result of these reports, the Contracting Parties unanimously endorsed the training program as one of the positive achievements of the General Agreement, and extended it into 1957. Because of the success of the program, the Contracting Parties increased the number of trainees from 6 to 10, effective for the second half of 1957. Financing of the increased number of trainees was made possible by the United Nations Technical Assistance Administration, which granted additional fellowships.

At their 12th Session the Contracting Parties authorized the Executive Secretary to accept trainees from countries that are not contracting parties to the General Agreement. At both their 12th and

1/ See Operation of the Trade Agreements Program, 10th report, pp. 53-54.

13th Sessions the Contracting Parties extended the training program for an additional year.

Financial and Budgetary Matters

At their 13th Session the Contracting Parties approved the audit of the 1957 accounts and the report by a working party--based on the Executive Secretary's report--on the financing of the 1958 budget. They also adopted an estimated budget of \$607,910 for 1959, the U.S. contribution to which is \$102,280. As has been true for the past 6 years, the budget estimate for the year 1959 was higher than that for the preceding year. These successive budgetary increases are in large part a result of the increasing workload of the GATT Secretariat.

Chapter 3

Actions of the United States Relating to Its Trade Agreements Program

U.S. TRADE-AGREEMENT OBLIGATIONS

On June 30, 1959, the United States was a party to trade agreements with 43 countries, the agreements having been negotiated under the authority of the Trade Agreements Act, as amended and extended. 1/ These countries may be considered in two groups.

1. The first group consists of 35 countries that were contracting parties to the General Agreement on Tariffs and Trade on the aforementioned date. 2/ These countries, together with the dates on which the United States gave effect to the tariff concessions that it had initially negotiated with them, are listed below:

1/ For more detailed data on the trade agreements that the United States has concluded with foreign countries, see U.S. Tariff Commission, Trade Agreements Manual: A Summary of Selected Data Relating to Trade Agreements Negotiated by the United States Since 1934, 3d ed., misc. ser., 1959.

2/ Four countries withdrew from the General Agreement between Oct. 30, 1947, and June 30, 1959--the Republic of China, Lebanon, Liberia, and Syria. On June 30, 1959, a total of 37 countries, including the United States, were contracting parties to the General Agreement. Although Czechoslovakia was a contracting party to the agreement on that date, neither Czechoslovakia nor the United States had any obligations to the other under the agreement. On Sept. 29, 1951, the United States, with the permission of the Contracting Parties, suspended all its obligations to Czechoslovakia under the General Agreement. Subsequently, effective Nov. 2, 1951, the United States suspended the application of trade-agreement concessions to imports from Czechoslovakia.

<u>Country</u>	<u>Date</u>	<u>Country</u>	<u>Date</u>
Australia-----	Jan. 1, 1948	: Indonesia <u>3/</u> -----	Mar. 11, 1948
Austria-----	Oct. 19, 1951	: Italy-----	May 30, 1950
Belgium <u>1/</u> -----	Jan. 1, 1948	: Japan-----	Sept. 10, 1955
Brazil <u>1/</u> -----	July 31, 1948	: Luxembourg-----	Jan. 1, 1948
Burma-----	July 30, 1948	: Malaya <u>4/</u> -----	Do.
Canada <u>1/</u> -----	Jan. 1, 1948	: Netherlands <u>1/</u> -----	Do.
Ceylon-----	July 30, 1948	: New Zealand-----	July 31, 1948
Chile-----	Mar. 16, 1949	: Nicaragua-----	May 28, 1950
Cuba <u>1/</u> -----	Jan. 1, 1948	: Norway-----	July 11, 1948
Denmark-----	May 28, 1950	: Pakistan-----	July 31, 1948
Dominican Republic--	May 19, 1950	: Peru-----	Oct. 7, 1951
Finland <u>1/</u> -----	May 25, 1950	: Rhodesia and	
France <u>1/</u> -----	Jan. 1, 1948	: Nyasaland <u>5/</u> -----	July 12, 1948
Germany (Federal		: Sweden <u>1/</u> -----	Apr. 30, 1950
Republic)-----	Oct. 1, 1951	: Turkey <u>1/</u> -----	Oct. 17, 1951
Ghana <u>2/</u> -----	Jan. 1, 1948	: Union of South	
Greece-----	Mar. 9, 1950	: Africa-----	June 14, 1948
Haiti <u>1/</u> -----	Jan. 1, 1950	: United Kingdom <u>1/</u> ---	Jan. 1, 1948
India-----	July 9, 1948	: Uruguay <u>1/</u> -----	Dec. 16, 1953

1/ The bilateral trade agreements that the United States had previously concluded with these countries have been either suspended or terminated.

2/ Ghana (formerly the British territories of the Gold Coast and Togoland) attained independence and became a member of the British Commonwealth of Nations on Mar. 6, 1957. On Oct. 17, 1957, it became a contracting party to the General Agreement in its own right. The agreement had previously applied to the Gold Coast as an area for which the United Kingdom had international responsibility.

3/ The Netherlands negotiated concessions on behalf of the Netherlands Indies at Geneva in 1947. On Feb. 24, 1950, the Contracting Parties recognized the United States of Indonesia (now the Republic of Indonesia) as a contracting party to the General Agreement in its own right.

4/ The Federation of Malaya attained independence and became a member of the British Commonwealth of Nations on Aug. 31, 1957. On Oct. 24, 1957, it became a contracting party to the General Agreement in its own right. The agreement had previously applied to Malaya as an area for which the United Kingdom had international responsibility.

5/ The Federation of Rhodesia and Nyasaland, composed of Southern Rhodesia, Northern Rhodesia, and Nyasaland, formally came into existence on Sept. 3, 1953. On Oct. 30, 1953, it succeeded to the status of Southern Rhodesia as a contracting party to the General Agreement, and to the interests of Northern Rhodesia and Nyasaland, to which the agreement had previously applied as areas for which the United Kingdom had international responsibility.

2. The second group consists of those eight countries that had trade agreements with the United States but were not contracting parties to the General Agreement. These countries, together with the effective dates of the respective bilateral trade agreements, are as follows:

<u>Country</u>	<u>Date</u>	<u>Country</u>	<u>Date</u>
Argentina-----	Nov. 15, 1941	:	Iran-----June 28, 1944
El Salvador-----	May 31, 1937	:	Paraguay-----Apr. 9, 1947
Honduras-----	Mar. 2, 1936	:	Switzerland <u>1/</u> -----Feb. 15, 1936
Iceland-----	Nov. 19, 1943	:	Venezuela <u>2/</u> -----Dec. 16, 1939

1/ A supplementary trade agreement between the United States and Switzerland became effective July 11, 1955.

2/ A supplementary trade agreement between the United States and Venezuela became effective Oct. 11, 1952.

During the period covered by this report the United States continued--as required by section 5 of the Trade Agreements Extension Act of 1951--to suspend the application to imports from Communist-controlled countries or areas, of reduced rates of duty and import taxes established pursuant to any trade agreement. The United States also continued--pursuant to section 11 of the extension act of 1951--to prohibit the entry, or withdrawal from warehouse, for consumption, of specified furs that are the product of the Soviet Union or of Communist China. 1/

1/ For details of U.S. action under secs. 5 and 11 of the Trade Agreements Extension Act of 1951, see Operation of the Trade Agreements Program, 6th report, pp. 77-78.

TRADE-AGREEMENT NEGOTIATIONS DURING 1958-59

During the period covered by this report, the United States participated in trade-agreement negotiations with Brazil, under the provisions of the waiver that the Contracting Parties granted to that country from the provisions of paragraph 1 of article II of the General Agreement; with Australia and New Zealand, under the so-called special circumstances provisions of the 1955 Declaration on the Continued Application of Schedules; and with Austria, Finland, and the Netherlands (for Surinam), under the provisions of revised article XXVIII of the General Agreement. The United States carried out its tariff negotiations with these countries under the procedures specified in the Trade Agreements Act, as amended and extended, and in Executive Order 10082 of October 5, 1949.

Tariff Renegotiations With Brazil

On February 12, 1959, the Department of State announced that the United States had concluded tariff negotiations with Brazil which were part of a general renegotiation to establish a new Brazilian schedule of concessions in the General Agreement on Tariffs and Trade. ^{1/} The negotiations between Brazil and the United States began at Geneva in February 1958 and were concluded on February 10, 1959, with the signature by the two countries of a protocol to the General Agreement and of documents embodying the results of the renegotiations.

^{1/} Department of State Bulletin, vol. XL, Mar. 2, 1959, p. 305.

History of the renegotiations

On October 31, 1957, the interdepartmental Committee for Reciprocity Information announced that it would hold a public hearing on December 5, 1957, to obtain views and information on the proposed U.S. participation in tariff negotiations with Brazil. Such negotiations were provided for in a waiver of certain Brazilian obligations under the General Agreement granted to Brazil by the Contracting Parties on November 16, 1956.

At the 10th Session of the Contracting Parties in 1955 Brazil advised the Contracting Parties that it intended to submit a draft of a new customs tariff to the Brazilian Congress; the draft tariff was submitted to the Congress in 1956. According to Brazil its old tariff did not provide sufficient revenue or protection and its nomenclature was confusing and obsolete. For these and other reasons, Brazil stated, it had been forced to impose quantitative restrictions on imports and to adopt exchange controls.

At their 11th Session in 1956 the Contracting Parties discussed the effect of the proposed new tariff on Brazil's obligations under article II of the General Agreement. The Brazilian representative states that although exchange controls would still be necessary to maintain currency stability and to assist in his country's economic development, the new tariff would result in no change in the volume or composition of imports. According to him, the new tariff would merely entail the obtaining from import duties of revenue currently obtained under the auction system of exchange control. Because of the urgency and exceptional nature of the circumstances that it felt applied to its case, Brazil requested the Contracting Parties to grant it a waiver under the

provisions of article XXV rather than under the provisions of article XXVIII, which are applicable to a complete tariff revision.

Under the general waiver power provided for in paragraph 5 of article XXV, the Contracting Parties granted Brazil a waiver from the provisions of paragraph 1 of article II. ^{1/} Under the terms of the waiver, Brazil was relieved of the obligation to renegotiate existing tariff concessions before making effective the higher rates of its new tariff. Inasmuch as the decision of the Contracting Parties permitted Brazil to suspend its tariff concessions to the other contracting parties when its new tariff became effective, the decision included certain terms and conditions designed to protect the other contracting parties. Included were a provision that any contracting party would be free to unilaterally suspend its concessions to Brazil; a requirement that Brazil negotiate to establish a new schedule to the General Agreement as soon as possible after its new tariff was enacted; and a provision that permitted termination of all GATT obligations between Brazil and any other contracting party if the situation resulting from the negotiations was not satisfactory to both.

The new Brazilian tariff, which became effective on August 14, 1957, not only involved changes in nomenclature but also substituted a new schedule of ad valorem rates of duty for the former specific rates. The

^{1/} For the text of the waiver and the report of the working party, see Contracting Parties to the General Agreement on Tariffs and Trade, Basic Instruments and Selected Documents: 5th supp., Decisions, Reports, etc. of the Eleventh Session, Procedures and Index, Sales No.: GATT/1957-1, Geneva, 1957, pp. 36-38, 122-125.

new rates of duty, many of which are substantially higher than the old ones, also reflect incorporation into the customs tariff of part of the burden on imports represented by the former foreign-exchange premiums (agios), as well as other taxes on imports. The rates of duty in the new tariff have the effect of substantially modifying the concessions that Brazil had granted in the General Agreement, including those it had granted to the United States. The tariff negotiations between Brazil and other contracting parties to the General Agreement were designed to provide compensatory adjustments for the increases in the import duties on commodities listed in Brazil's schedule of the General Agreement.

To establish its new schedule of tariff concessions under the General Agreement, Brazil conducted two kinds of negotiations:

(1) Those with 14 contracting parties with which Brazil had previously negotiated under the General Agreement; and (2) those with 2 other contracting parties--Denmark and Japan--with which Brazil had not previously negotiated. The individual negotiations between Brazil and certain of these contracting parties subsequently were incorporated in a single multilateral agreement designed to become effective when agreed to by all the contracting parties to the General Agreement. ^{1/} The protocol adopted embodies the results of Brazil's negotiations with a number of contracting parties that were completed on the scheduled date for its opening. The protocol provides, however, that the results of negotiations

^{1/} For the text of the agreement, see Contracting Parties to GATT, Protocol Relating to Negotiations for the Establishment of New Schedule III--Brazil--to the General Agreement on Tariffs and Trade, Geneva, 1958.

completed after its opening are to become a part of the original instrument through signature of procès-verbaux which will be published as the individual negotiations are concluded.

Renegotiations between Brazil and the United States began at Geneva in February 1958, and were concluded on February 10, 1959, with the signature by the two countries of a procès-verbal embodying the results of the renegotiations. The concessions that Brazil granted to the United States and the status of U.S. concessions to Brazil under the General Agreement are summarized below. ^{1/} By the close of the period covered in this report the Brazilian Congress had not ratified the results of the renegotiations and therefore neither the concessions that Brazil granted to the United States nor the changes negotiated in the status of U.S. concessions to Brazil had become effective.

^{1/} For a detailed analysis of the concessions that Brazil granted to the United States, as well as the complete schedule of concessions, see U.S. Department of State, General Agreement on Tariffs and Trade: Analysis of the 1958 Brazilian Tariff Renegotiation With the United States, Pub. 6775 (Comm. Pol. Ser. 170), March 1959. Brazil's new tariff, which is based on the Brussels Nomenclature, is much more detailed than the old tariff; the 1,300 items in the old tariff nomenclature on which Brazil had granted concessions in its former schedule of the General Agreement correspond to more than 4,000 items in the new tariff. For this reason it is impossible to determine accurately the value of Brazilian imports from the United States of many of the commodities now specifically provided for in the new tariff but formerly included in more general categories. For the same reason it is difficult--for purposes of assessing the degree of change in rates from the old tariff to the new--to determine the ad valorem equivalents of the former specific duties. The trade statistics in the Department of State analysis, therefore, are in some instances based on estimates; for many commodities the data are not available.

Concessions granted to the United States by Brazil

In the 1958-59 tariff renegotiations, Brazil granted the United States concessions on commodities the imports of which from the United States were valued at about \$129 million in 1956, 1/ or somewhat more than one-third of total Brazilian imports from the United States in that year. The trade coverage of the Brazilian concessions included (1) about \$57 million accounted for by concessions previously negotiated with the United States; (2) about \$61 million accounted for by concessions formerly negotiated with other contracting parties to the General Agreement, but now granted to the United States because of its new, and more important, supplier position; and (3) about \$11 million accounted for by concessions on commodities not previously included in the Brazilian schedule.

Brazil's total imports of merchandise from the United States in 1956 were valued at \$365 million. Imports of commodities amounting to \$107 million of this total were formerly subject to concessions that Brazil had granted to the United States under the General Agreement on Tariffs and Trade. In the 1958-59 renegotiations Brazil granted the United States concessions on slightly more than half (\$57 million) of the commodities which accounted for the \$107 million mentioned above. About 80 percent of these new concessions involve rates of duty at or below the average ad valorem equivalent of the specific duty formerly negotiated with the United States on the product concerned. The principal commodities in this group are aircraft, aircraft engines and structural

1/ The last full year during which Brazil's former schedule of concessions was in effect.

parts, tractors, heavy construction and agricultural machinery, and tetraethyl lead. The remaining 20 percent of the concessions in this category involve higher rates of duty than formerly applied. Included in this group of commodities are fresh and dried fruits, motion-picture film, special purpose vehicles (such as fire engines), and certain electrical and other equipment (such as adding and calculating machines and air and gas compressors).

In the renegotiations Brazil did not grant concessions to the United States on commodities that accounted for about \$50 million of the \$107 million formerly covered by concessions negotiated with the United States. These commodities are principally those produced by industries that Brazil is developing or that it hopes to develop in the near future, such as the automotive, electrical equipment, light machinery, and chemical industries.

Brazil also granted the United States in its own right a number of concessions on products which Brazil had originally negotiated with other contracting parties, but for which the United States has since become an important supplier. These concessions apply to products the Brazilian imports of which from the United States in 1956 were valued at \$61 million. The principal commodities in this group are wheat, unmixed fertilizers, insecticides and fungicides, certain chemicals, newsprint, diesel locomotives, and breeding cattle. In addition, Brazil granted the United States concessions on some commodities that were not included in Brazil's former schedule of the General Agreement. Brazil's imports of these commodities were valued at approximately \$11 million in 1956. The group includes a number of products in which there now is little trade,

but which may be important in the future.

Brazil's former schedule of the General Agreement included concessions that Brazil had negotiated with other contracting parties, but not with the United States. In 1956, imports into Brazil of such concession products from the United States were valued at \$108 million. In the 1958-59 tariff renegotiations, Brazil granted the United States concessions on a number of these products for which the United States had become an important supplier. However, for an additional number of these products Brazil did not renegotiate concessions with any contracting party, nor did it negotiate compensatory concessions to offset those withdrawn from its schedule. As a result, the new Brazilian schedule reduces materially the level of the indirect benefits that the United States will receive from concessions granted by Brazil to third countries.

Status of U.S. concessions to Brazil

The 1958-59 tariff renegotiations by the United States and Brazil did not involve the granting of any new concessions to Brazil by the United States. They did, however, result in considerable change in the status of most of the 51 concessions that the United States had previously negotiated with Brazil under the General Agreement. In broad outline, the renegotiations involved (1) retention, with Brazil as the country of negotiation, of 9 concessions that the United States had previously negotiated with Brazil; (2) complete withdrawal from the U.S. schedule of 12 concessions initially negotiated with Brazil; and (3) termination of Brazil's status as country of negotiation for

30 concessions that the United States will maintain in its schedule.

Total U.S. imports of merchandise from Brazil in 1956 were valued at \$745.5 million. Commodities accounting for \$694 million, or 93 percent of the total, were the subject of concessions that the United States had previously negotiated with Brazil under the General Agreement. As a result of the 1958-59 tariff renegotiations, the United States agreed to maintain in its schedule nine of the concessions it had previously negotiated with Brazil. Imports of the commodities to which these concessions apply were valued at \$673 million in 1956, or 90 percent of total U.S. imports from Brazil in that year. In the order of their importance, imports of these commodities, together with their value in 1956, are coffee (\$605.1 million); cacao beans (\$37.5 million); carnauba wax (\$11.4 million); brazil nuts (\$7.7 million); castor oil (\$3.2 million); tapioca, tapioca flour, and cassava (\$3.0 million); natural menthol (\$2.2 million); unmanufactured mica, valued at more than 15 cents per pound (\$2.0 million); and cacao butter (\$1.5 million). Coffee, cacao beans, carnauba wax, and tapioca, tapioca flour, and cassava are on the free list; the other five commodities are dutiable.

In the 1958-59 renegotiations Brazil and the United States agreed to terminate Brazil's status as country of negotiation with respect to 42 other concessions--with a total trade value of about \$20 million in 1956--that the United States had previously negotiated with Brazil. Of these 42 concessions, the United States will withdraw 12 from its schedule of the General Agreement. These 12 concessions relate to commodities that the United States imports almost exclusively from Brazil. Imports of such commodities have declined sharply since

the concessions on them were originally negotiated; in 1956 there were no imports of 6 of the commodities. The withdrawals will result in increases in the rates of duty on 5 of the 8 commodities that are dutiable. In 1956, total U.S. imports of the commodities on which the duties will be increased were valued at \$37,000.

The remaining 30 concessions--for which the United States and Brazil agreed to terminate Brazil's status as country of negotiation--will be maintained by the United States in its schedule of the General Agreement. Imports of these commodities from Brazil in 1956 were valued at \$18 million; total U.S. imports of them in that year were valued at \$125 million. Retention by the United States of these concessions in its schedule assures countries that have become important suppliers of these commodities that they will continue to enjoy the benefits to which they are entitled under the general provisions of the General Agreement. Brazil would normally retain certain rights to these concessions that could form the basis for a future claim for compensation should the United States subsequently modify or withdraw any of them. In a bilateral exchange of letters, therefore, Brazil agreed that it would not, under the provisions of the General Agreement, make any claim based on its trade interest in any of these concessions. 1/

1/ For detailed lists of the U.S. import commodities involved in the 1958-59 tariff renegotiations with Brazil, see *ibid.*, pp. 14-50.

Renegotiations of Certain Concessions by Australia, Austria,
Finland, the Netherlands (for Surinam), and New Zealand

On July 8, 1958, the Department of State announced that Australia, Austria, Finland, the Netherlands (for Surinam), and New Zealand had concluded negotiations with the United States for the modification or withdrawal of certain tariff concessions that they had previously granted under the General Agreement on Tariffs and Trade. Some of these countries conducted similar negotiations with other contracting parties to the General Agreement.

The renegotiations by Australia and New Zealand took place under the so-called special circumstances provisions of the 1955 Declaration on Continued Application of Schedules. The renegotiations by Austria, Finland, and the Netherlands (for Surinam) took place under the provisions of the revised article XXVIII of the General Agreement.

The countries that modified or withdrew concessions in the renegotiations mentioned above granted compensatory concessions to the countries with which they had negotiated the original concessions, as well as to other countries that had a substantial trade interest in such concessions. In some instances during the course of the renegotiations, the United States was able to persuade countries to withdraw certain modifications proposed in their schedules. The renegotiations did not involve any change in U.S. import duties.

Because negotiations by a particular country under the provisions of revised article XXVIII or the 1955 Declaration on the Continued Application of Schedules frequently involve not only the country with

which the concession in question was initially negotiated, but also such other contracting parties as have a substantial interest in the concession, the negotiations often are extremely complex. In the following discussion only the main outlines of the renegotiations can be summarized. Further details of the renegotiations and the schedules of specific commodities involved are set forth in the report issued by the Department of State. ^{1/}

Australia

In 1956, under the provisions of the 1955 Declaration on the Continued Application of Schedules, Australia negotiated for the withdrawal from its schedule of a part of the concession on adding and computing machines and all attachments, originally granted to the United States at Geneva in 1947. The rate of duty negotiated at Geneva was 10 percent ad valorem. The withdrawal was limited to taximeters; Australia's commitment to the United States on the rest of the concession item remains in force.

As compensation for the withdrawal of the concession on taximeters, Australia bound its existing rate of 12-1/2 percent ad valorem on measuring machines--an item contained in its tariff classification of metalworking machinery. Subsequently, Australia unilaterally reduced this rate of duty to 7-1/2 percent ad valorem without commitment on its part.

^{1/} U.S. Department of State, General Agreement on Tariffs and Trade: Analysis of Renegotiation of Certain Tariff Concessions--Australia, New Zealand, Austria, Finland, and Surinam and Netherlands, Pub. 6667 (Comm. Pol. Ser. 169), July 1958.

Imports into Australia of taximeters from all sources during the period July to November 1956 were valued at \$21,000. ^{1/} Imports of measuring machines into Australia from the United States were valued at about \$15,000 in 1955.

Austria

Under the provisions of revised article XXVIII of the General Agreement, Austria negotiated with other contracting parties for the modification or withdrawal of concessions on 23 tariff items in its schedule. Four of the items that Austria withdrew--white oils, transformer oils, iron refrigerating machinery weighing less than 200 kilograms each, and aromatic essences not containing alcohol or ether--were of direct interest to the United States. Austria originally negotiated the concessions on the two types of oils with the United States; the concessions on refrigerating machinery and aromatic essences were initially negotiated jointly with the United States and another country.

As compensation to the United States for the withdrawals, Austria reduced the duty on bookkeeping and calculating machines from a rate equivalent to an average of 8 percent ad valorem to a rate of 5 percent ad valorem; on electric typewriters, from 15 percent ad valorem to 5 percent ad valorem; and on records and rolls for phonographs, from 20 percent ad valorem to 18 percent ad valorem.

Imports into Austria from the United States of the products involved in the Austrian withdrawals were valued at about \$49,000 in 1956. The

^{1/} Based on the Australian Government's examination of customs entries.

compensatory concessions that Austria granted to the United States applied to products the imports of which from the United States amounted to \$545,000 in 1956.

Finland

Under the procedures established by revised article XXVIII of the General Agreement, Finland negotiated with other contracting parties for the modification or withdrawal of concessions on 60 tariff items in its schedule. Eight of these concessions were of interest to the United States, and those on soya beans, lard, assembled switchboards, fresh apples, and stockings, socks, and gloves of artificial silk had been initially negotiated with the United States.

In the negotiations, Finland withdrew the concessions on soya beans, lard, and assembled switchboards, and modified the concessions on the other tariff classifications. The United States considered the modification of the concession on fresh apples, which consisted of changing the seasonal period during which such apples are admitted at the rate of 15 percent ad valorem, as an improvement in customs treatment; the United States therefore considered this a compensatory concession as well as a modification. The modification of the concession on stockings, socks, and gloves of artificial silk consisted of the application of specific minimum rates of duty to the existing 35 percent ad valorem rate of duty.

As compensation to the United States for these withdrawals and modifications, Finland reduced the rates of duty on fresh oranges, certain dried fruits (apples, pears, apricots, peaches, and mixed fruits),

spark plugs, and certain vacuum tubes.

Imports into Finland from the United States of the products involved in the withdrawals and modifications, which were valued at about \$386,000 in 1956, consisted entirely of soya beans. Finland's imports from the United States in 1956 of products covered by withdrawn concessions which are of interest to the United States, but the concessions on which were initially negotiated with Sweden (telegraph and telephone apparatus and parts), were valued at about \$1,000. Imports into Finland of the products on which Finland granted compensatory concessions to the United States were valued at \$86,000 in 1956; of this amount, \$69,400 was accounted for by spark plugs, \$12,500 by vacuum tubes, and \$4,100 by dried apricots.

Netherlands (for Surinam)

On behalf of Surinam, the Netherlands negotiated with other contracting parties, under the provisions of revised article XXVIII of the General Agreement, for the modification of 12 tariff concessions contained in Surinam's section of the Benelux schedule. The United States negotiated with Surinam and the Netherlands with respect to 6 of these items, on all except 1 of which concessions had originally been negotiated with the United States. During the negotiations Surinam and the Netherlands agreed not to increase the rates of duty on certain prepared or preserved fish, certain explosives, and automobiles. With respect to the remaining 3 tariff classifications, Surinam and the Netherlands increased the rates of duty. The rate of duty on unprinted paper bags was increased from 20 to 25 percent ad valorem; and that

on clothing for men and boys, women and girls was increased from 20 to 25 percent ad valorem on items comprising chiefly cotton knit goods, and from 20 to 40 percent ad valorem on most of the other items. Certain mining machinery, which had been on the free list, was transferred to the dutiable list with a duty of 3 percent ad valorem.

As compensation for these modifications, Surinam and the Netherlands agreed to reduce the Surinam duty on cereal flours from an ad valorem equivalent of 12.9 percent to 10 percent ad valorem and, on bulk detergents for industrial use, from 20 percent ad valorem to 5 percent ad valorem. In addition they agreed to bind at the existing levels the rates of duty on medicaments (20 percent ad valorem), detergents for retail sale (20 percent), certain disinfectants and insecticides (10 percent, with a residual classification bound on the free list), certain refrigerating equipment (25 percent), and special-purpose motor vehicles (20 percent).

Average annual imports into Surinam from the United States of the three tariff classifications involved in the Surinam and Netherlands modifications were valued at \$1.1 million during the period 1954-56. Average annual imports into Surinam of the commodities on which Surinam and the Netherlands granted compensatory concessions to the United States were valued at \$1.2 million during the same period.

New Zealand

During 1956, under the provisions of the 1955 Declaration on the Continued Application of Schedules, New Zealand negotiated for the withdrawal from its schedule of the General Agreement of the concession it had granted on certain types of leather, and for the modification

of its concession on certain electric lamps. New Zealand initially negotiated both of these concessions with the United States.

Several of the products included in the leather classification that was withdrawn from the New Zealand schedule were transferred to other tariff categories, and the rate of duty on the residual item was increased. The electric-lamp classification was modified to remove certain products from it for transfer to a new tariff category. The rate of duty on the residual item was increased from 25 to 40 percent ad valorem and bound at that level.

As compensation for these actions, New Zealand agreed to eliminate the existing 3-percent rate of duty and to bind on the free list the rates of duty on patent leather and on the leathers placed in other tariff categories. New Zealand also agreed to reduce from 25 to 15 percent ad valorem the rate of duty on the electric lamps placed in a new tariff category and to reduce from 50 to 45 percent ad valorem the rate of duty on fieldglasses, including binoculars. 1/

1/ For such statistics as are available on New Zealand's imports from the United States of the items withdrawn or modified, and of the items on which New Zealand granted compensatory concessions, see U.S. Department of State, General Agreement on Tariffs and Trade: Analysis of Renegotiation of certain Tariff Concessions--Australia, New Zealand, Austria, Finland, and Surinam and Netherlands, Pub. 6667 (Comm. Pol. Ser. 169), July 1958.

ACTIONS RELATING TO TRADE-AGREEMENT CONCESSIONS

Entry Into Force of Trade-Agreement Concessions

Concessions granted to Uruguay on certain meat products

By Proclamation 3278 of February 27, 1959, effective the next day, the President placed in effect the concessions on certain meat products that the United States initially negotiated with Uruguay at Annecy in 1949.

Uruguay negotiated for accession to the General Agreement at Annecy in 1949, and also negotiated at Torquay in 1950-51, but did not sign the Annecy and Torquay Protocols to the General Agreement until November 16, 1953. ^{1/} Most of the concessions that the United States initially negotiated with Uruguay at Annecy became effective on December 16, 1953. ^{2/} Because of the serious plight of the domestic cattle and beef industry, however, the United States did not at that time make effective the tariff concessions that it had granted to Uruguay on meat extract, canned beef, and pickled or cured beef and veal.

^{1/} Although Uruguay was not a contracting party during the negotiations at Torquay, the Contracting Parties made special provision to permit Uruguay to negotiate there, and to permit it to sign the Torquay Protocol on condition that it first complete its own accession to the General Agreement by signing the Annecy Protocol.

^{2/} The 1943 bilateral trade agreement between the United States and Uruguay continued in effect until Dec. 28, 1953, on which date it was terminated.

In his proclamation of February 27, 1959, which supplemented Proclamation 3040 of December 24, 1953, the President determined that the circumstances which in 1953 had made inappropriate the application of reduced rates of duty on meat extract, canned beef, and pickled or cured beef and veal no longer existed. By the terms of the proclamation, the import duty on meat extract, including fluid meat extract, was reduced from 7-1/2 to 3-3/4 cents per pound. The duty on canned beef, including corned beef, which was formerly 3 cents per pound but not less than 20 percent ad valorem, was changed to 3 cents per pound but not less than 15 percent ad valorem. The rate of duty on pickled or cured beef and veal, which was formerly 3 cents per pound but not less than 20 percent ad valorem, was changed to 3 cents per pound but not less than 10 percent ad valorem.

The proclamation also re-bound in Uruguay's name, at the rate of 3 cents per pound but not less than 10 percent ad valorem, a concession that the United States had granted earlier in the General Agreement to other countries on certain other canned and preserved meats.

Concessions granted to Korea at Torquay in 1951

On June 30, 1959, the close of the period covered by this report, one country with which the United States concluded negotiations for tariff concessions under the General Agreement at Torquay--Korea--had not yet signed the Torquay Protocol. The United States, therefore, had not placed in effect the concessions that it initially negotiated with that country.

Withdrawal or Modification of Trade-Agreement Concessions

Lead and zinc

By Proclamation 3257 ^{1/} of September 22, 1958, effective October 1, 1958, the President modified the concessions that the United States granted on unmanufactured lead and zinc in the General Agreement on Tariffs and Trade. The concession was modified under the provisions of article XIX of the General Agreement, after an escape-clause investigation by the U.S. Tariff Commission pursuant to section 7 of the Trade Agreements Extension Act of 1951, as amended. By his proclamation, the President limited imports of unmanufactured lead and zinc to 80 percent of the average annual commercial imports during the 5-year period 1953-57. The quota is allocated among exporting countries and is subdivided by calendar quarters and by tariff schedule classifications.

Crude oil, unfinished oils, and finished products

By Proclamation 3279 of March 10, 1959, ^{2/} the President established quotas for imports of crude oil, unfinished oils, and finished

^{1/} 23 F.R. 7475.

^{2/} 24 F.R. 1781.

products, effective, for crude oil or unfinished oils, on and after March 11, 1959, and for finished products, on and after April 1, 1959.

Although the U.S. action in imposing quotas on imports of crude petroleum, unfinished oils, and finished products did not involve any changes in the import taxes on such products, it did constitute a modification of the concessions that the United States granted to the Benelux countries and the United Kingdom under the General Agreement at Geneva in 1947 and to Venezuela in the supplementary bilateral agreement with that country, which became effective on October 11, 1952.

In the supplementary bilateral agreement with Venezuela, which supplemented and amended the original bilateral agreement that became effective on December 16, 1939, the United States, among other concessions, granted concessions to Venezuela on crude petroleum, topped crude petroleum, and fuel oil derived from petroleum. These products are free of duty under the Tariff Act of 1930, but are subject to import taxes under section 4521 of the Internal Revenue Code. The supplementary agreement provided for an import tax of 1/8 cent per gallon on imports of the three products testing under 25 degrees API ^{1/} or more. The original 1939 trade agreement with Venezuela had provided for an annual tariff quota for crude petroleum,

^{1/} American Petroleum Institute scale.

topped crude petroleum, and fuel oil derived from petroleum. During the period January 30, 1943, to January 1, 1951, the import tax applicable to these products was $1/4$ cent per gallon (without quota restriction), pursuant to the provisions of the bilateral trade agreement with Mexico. The 1952 supplementary agreement with Venezuela contained no provision for a tariff quota on crude petroleum, topped crude petroleum, and fuel oil derived from petroleum.

The United States granted concessions on petroleum products at Geneva in 1947. To the Benelux Customs Union the United States granted concessions on gasoline or other motor fuel (binding of duty-free status and reduction of the import tax from $2-1/2$ to $1-1/4$ cents per gallon); on liquid derivatives of crude petroleum not elsewhere specified (binding of duty-free status and reduction of the import tax from $1/2$ to $1/4$ cent per gallon); on fuel oil derived from petroleum (including fuel oil known as gas oil) and on topped crude petroleum (binding of duty-free status); on mineral oil of medicinal grade, derived from petroleum (binding of duty-free status and binding of the import tax at $1/2$ cent per gallon); and on paraffin and other petroleum wax products (binding of duty-free status and reduction of the import tax from 1 to $1/2$ cent per pound). To the United Kingdom the United States granted a concession on lubricating oil (binding of duty-free status and reduction of the import tax from 4 to 2 cents per gallon).

Geneva wool-fabric quota

In a note attached to item 1108 of part I of the U.S. schedule of concessions in the General Agreement on Tariffs and Trade, the United States reserved the right to increase to 45 percent the ad valorem parts of the compound rates of duty applicable to any of the fabrics provided for in items 1108 or 1109(a), on any of such fabrics that are entered in any calendar year in excess of an aggregate quantity (by weight) of 5 percent of the average annual production of similar fabrics in the United States during the three immediately preceding calendar years.

By Proclamation 3160 of September 28, 1956, the President invoked this so-called Geneva wool-fabric reservation and established, effective October 1, 1956, a tariff quota on imports of certain woolen and worsted fabrics. Under the proclamation it is necessary for the President to inform the Secretary of the Treasury of the size of the quota for each year. ^{1/} Before the United States invoked the Geneva wool-fabric reservation, the rates of duty on the woolen and worsted fabrics covered by the reservation were 30 or 37-1/2 cents per pound, depending on the nature of the fabric, plus 20 or 25 percent ad valorem, again depending on the nature of the fabric. After the United States invoked the reservation, the rates of duty on imports of the specified woolen and worsted fabrics remained the same for a quantity up to that determined each year by the President. Imports in excess of the tariff

^{1/} For a discussion of the quotas for the last 3 months of 1956, for 1957, and for 1958, see Operation of the Trade Agreements Program, 11th report, pp. 83-84.

quota became subject to an ad valorem duty of 45 percent; the specific parts of the compound duties were not changed.

On April 21, 1959, the President informed the Secretary of the Treasury that, for the calendar year 1959, the tariff quota on imports of woolen and worsted fabrics--exclusive of certain high-priced, high-quality goods--would be 13.5 million pounds. On the same day, the President further amended Proclamation 3160 by establishing an over-quota rate of duty of 30 percent ad valorem for a maximum of 350,000 pounds of overquota imports of certain high-priced, high-quality fabrics. In the press release announcing the wool-fabric quota for 1959 the President noted that, in considering the matter of the wool-fabric quota, he had had the advice of the Trade Policy Committee and of other executive departments and agencies. He further noted that, although the Trade Policy Committee's special review of the many problems relating to the application of the wool-fabric quota had not yet resulted in a permanent solution for them, the search for better ways of meeting those problems would continue.

U.S. Restrictions on Imports of Agricultural Products

To resolve the difference between its domestic legislation and the provisions of the General Agreement, the United States--at the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade in 1954-55--requested a waiver of its commitments under articles II and XI of the General Agreement, insofar as such commitments might be regarded as inconsistent with action it is required to take under section 22 of the U.S. Agricultural Adjustment Act. Besides establishing certain rules of procedure and certain conditions as to consultation, the waiver, which the Contracting Parties granted to the United States at the Ninth Session, requires the United States to report annually on its actions under the waiver. 1/

During all or part of the period July 1, 1958, to June 30, 1959, the United States applied quantitative restrictions (quotas 2/ or embargoes) on the importation of certain cotton and cotton waste; wheat and wheat flour; certain dairy products; butter substitutes containing 45 percent or more of butterfat; almonds; peanuts; peanut oil; tung oil and tung nuts; certain articles containing butterfat; and rye, rye flour, and rye meal--under the provisions of section 22 of the Agri-

1/ For the fourth annual report of the United States on its actions under the waiver, see the section of ch. 2 on U.S. restrictions on imports of agricultural products (fourth annual report) (arts. II and XI).

2/ This discussion relates only to quotas that limit the total quantity of imports. Such "absolute" quotas are to be distinguished from "tariff" quotas established for a number of individual articles in various trade agreements. Under tariff quotas, specified quantities of the articles may enter the United States at the ordinary rates of duty; imports in excess of the quota are subject to higher rates of duty but may be entered in unlimited quantities.

cultural Adjustment Act, as amended. 1/ During this period the United States also charged, under the provisions of section 22, fees on the importation of flaxseed, linseed oil, and peanut oil; these fees were in addition to the regular import duties levied on those products.

Section 22 of the Agricultural Adjustment Act, as amended, authorizes the President to restrict imports of any commodity, by imposing fees or quotas (within specified limits), whenever such imports render or tend to render ineffective, or materially interfere with, programs of the U.S. Department of Agriculture relating to agricultural commodities or products thereof. Section 22 requires the Tariff Commission, when so directed by the President, to conduct an investigation of the specified commodity, including a public hearing, and to make a report and appropriate recommendation to him. Under subsection (f) of section 22, as amended by section 8(b) of the Trade Agreements Extension Act of 1951, no trade agreement or other international agreement entered into at any time by the United States may be applied in a manner inconsistent with the requirements of section 22.

Section 8(a) of the Trade Agreements Extension Act of 1951, as amended, establishes special procedures for invoking section 22 in emergency conditions due to the perishability of any agricultural commodity. When the Secretary of Agriculture reports to the President and to the Tariff Commission that such emergency conditions exist, the Commission must make an immediate investigation under section 22 and

1/ 7 U.S.C. 624.

make appropriate recommendations to the President. The Commission's report to the President and the President's decision must be made not more than 25 calendar days after the case is submitted to the Commission. Should the President deem it necessary, however, he may take action without awaiting the Commission's recommendation.

An amendment to section 22 of the Agricultural Adjustment Act by section 104 of the Trade Agreements Extension Act of 1953 ^{1/} provides that the President may take immediate action under section 22 without awaiting the Tariff Commission's recommendations whenever the Secretary of Agriculture determines and reports to him, with regard to any article or articles, that a condition exists requiring emergency treatment. Such action by the President may continue in effect pending his receipt of, and his action on, the report and recommendations of the Commission after an investigation under section 22. Under section 8(a) of the Trade Agreements Extension Act of 1951, as amended, the President's authority to act before he had received a report from the Commission was limited to perishable agricultural products. During the period covered by this report no action was taken under either subsection (f) of section 22 or section 8(a) of the Trade Agreements Extension Act of 1951, as amended.

During the period covered by this report, the President modified the quota on long-staple cotton, as recommended by the Tariff Commission. ^{2/} During the same period, the Tariff Commission instituted

^{1/} 67 Stat. 472.

^{2/} See U.S. Tariff Commission, Long-Staple Cotton: Report to the President on Investigation Supplemental to Investigation No. 1 Under Section 22 . . ., 1958 (processed).

two investigations under the provisions of section 22--a supplemental investigation of long-staple cotton and an investigation of rye, rye flour, and rye meal. These actions of the United States are discussed in detail below.

Presidential action on long-staple cotton quota (1958)

During the period covered by this report the President acted on the Tariff Commission's recommendation of June 20, 1958, with respect to modification of the import quota on long-staple cotton. ^{1/} On July 7, 1958, he announced that he had adopted the Commission's recommendation. By Proclamation 3251 ^{2/} of the same date, he subdivided the import quota on long-staple cotton for future quota years on the basis of staple length. The new proclamation stipulated that--"of the total quantity of 45,656,420 pounds of cotton having a staple of 1-1/8 inches or more in length which may be entered, or withdrawn from warehouse, for consumption during the year beginning August 1, 1958, and in any subsequent year beginning August 1, not more than 39,590,778 pounds shall consist of cotton having a staple of 1-3/8 inches or more in length, and not more than 6,065,642 pounds shall consist of cotton having a staple of 1-1/8 inches or more but less than 1-3/8 inches in length: Provided, that of such 6,065,642 pounds, not more than 1,500,000 pounds shall consist of harsh or rough cotton (except cotton of perished staple, grabbots, and cotton pickings), white in color and having a staple of 1-5/32 inches or more in length, and not more than 4,565,642 pounds shall consist of other cotton."

^{1/} See Operation of the Trade Agreements Program, 11th report, pp. 105-107.

^{2/} 23 F.R. 5233.

Supplemental investigation of long-staple cotton (1959)

On March 25, 1959, the Tariff Commission upon its own motion instituted, under the provisions of section 22(d), a supplemental investigation of cotton having a staple of 1-1/8 inches or more in length. Annual absolute quotas on imports of such cotton were originally made effective on September 20, 1939, by Presidential Proclamation 2351 of September 5, 1939, 1/ after an investigation under section 22 by the Tariff Commission. When the Commission instituted the supplemental investigation in March 1959, the quota was 45,656,420 pounds for each 12-month period beginning August 1, and was subdivided into two separate quotas, one for cotton having a staple of 1-3/8 inches or more in length (39,590,778 pounds) and the other for cotton having a staple of 1-1/8 inches or more but less than 1-3/8 inches in length (6,065,642 pounds). The Commission held a public hearing on April 28 and 29, 1959. On June 30, 1959, the close of the period covered by this report, the supplemental investigation of long-staple cotton was in process.

Investigation of rye, rye flour, and rye meal (1959)

On June 24, 1959, at the direction of the President, the Tariff Commission instituted an investigation of rye, rye flour, and rye meal, under the provisions of section 22. A public hearing was scheduled for July 13, 1959. On June 30, 1959, the close of the period covered by this report, the investigation was in process.

1/ 4 F.R. 3822.

Consultations on Import Restrictions

On January 30, 1959, the interdepartmental Committee for Reciprocity Information (CRI) invited interested parties to submit views in connection with consultations scheduled during 1959 by the Contracting Parties to the General Agreement on Tariffs and Trade. 1/ The consultations relate to the application by certain contracting parties of quantitative import restrictions imposed for balance-of-payments reasons under articles XII and XIV of the agreement. Plans call for separate consultations with each consulting country by a panel of 13 countries, including the United States. The proposed schedule for the consultations, and the consulting countries, are as follows:

May 1959--France, the Netherlands, New Zealand, the United Kingdom, and the Union of South Africa; July 1959--Austria, Denmark, Finland, Ghana, and Malaya; October 1959--Australia, Italy, Japan, Norway, the Federation of Rhodesia and Nyasaland, and Sweden.

Each consultation is designed to afford the Contracting Parties the opportunity (1) to review the particular country's financial and economic position and (2) to discuss the possibilities for further relaxing the level of its import restrictions, for lessening the discriminatory application of such restrictions, and for moderating particular policies and practices that are especially burdensome to exporters in

1/ U.S. Department of State press release No. 82, Jan. 30, 1959.

other countries that are contracting parties to the General Agreement.

The CRI suggested that interested U.S. exporters, business firms, labor organizations, and other individuals or associations might, as a result of their own experience, wish to submit certain types of information that would be useful to the U.S. Government during the course of the consultations.

ACTIVITIES UNDER THE PERIL-POINT PROVISION

Sections 3 and 4 of the Trade Agreements Extension Act of 1951 1/ set forth the statutory requirements for so-called peril-point determinations in connection with proposed trade-agreement negotiations. The peril-point provisions of the 1951 act require the President, before entering into any trade-agreement negotiation, to transmit to the Tariff Commission a list of the commodities that are to be considered for concessions. The Commission is then required to conduct an investigation, including a public hearing, and to report its findings to the President on (1) the maximum decrease in duty, if any, that can be made on each listed commodity without causing or threatening serious injury to the domestic industry producing like or directly competitive products, or (2) the minimum increase in duty or additional import restrictions that may be necessary on any of the listed products in order to avoid serious injury or the threat of serious injury to such domestic industry. The Commission is to make its report to the President not later than 6 months after it receives the list of commodities from the President.

The President may not enter into a trade agreement until the Commission has made its report to him, or until the expiration of the 6-month period mentioned above. If the President concludes a trade agreement that provides for greater reductions in duty than the Commis-

1/ 65 Stat. 72.

sion specified in its report, or that fails to provide for the additional import restrictions specified, he must transmit to the Congress a copy of the trade agreement in question, identifying the articles concerned and stating his reasons for not carrying out the Commission's recommendations. Promptly thereafter, the Commission must deposit with the Senate Committee on Finance and the House Committee on Ways and Means a copy of the portions of its report to the President that deal with the articles with respect to which the President did not follow the Commission's recommendations.

During 1958-59 the Tariff Commission conducted no peril-point investigations under the provisions of section 3 of the Trade Agreements Extension Act of 1951, as amended. The trade-agreement negotiations that the United States engaged in during the period covered by this report consisted entirely of negotiations with countries that desired to modify or withdraw concessions in their own schedules of the General Agreement. Since the negotiations did not involve the granting of any concessions by the United States, there was no occasion for the Tariff Commission to make any peril-point determinations.

ACTIVITIES UNDER THE ESCAPE CLAUSE OF TRADE AGREEMENTS

Since 1943 all trade agreements that the United States has concluded under the Trade Agreements Act have incorporated a safeguarding clause, commonly known as the standard escape clause. The clause provides, in essence, that either party to the agreement may withdraw or modify any concession made therein if, as a result of the concession,

imports of the particular commodity enter in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles.

The Trade Agreements Extension Act of 1951 makes it mandatory for an escape clause to be included in all trade agreements that the United States concludes in the future, and, as soon as practicable, in all trade agreements currently in force. The clause must conform to the policy set forth in section 6(a) of the act. This section provides that no trade-agreement concession made by the United States shall be permitted to continue in effect when the product involved is, as a result, in whole or in part, of the duty or other customs treatment reflecting such concession, being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products.

During the period covered by this report, the procedure for administering the escape clause of trade agreements was prescribed by section 7 of the Trade Agreements Extension Act of 1951, as amended, by Executive Order 10401 of October 14, 1952, and by Executive Order 10741 of November 25, 1957.

Section 7 of the Trade Agreements Extension Act of 1951, as amended, provides that the Tariff Commission, upon the request of the President, upon resolution of either House of Congress, upon resolution of either the Senate Committee on Finance or the House Committee on Ways and Means, upon its own motion, or upon application by any interested party, must promptly conduct an escape-clause investigation. The

Commission is to make a report thereon within 6 months of the date it receives the application. As a part of each investigation, the Commission generally holds a public hearing at which interested parties are afforded an opportunity to be heard. Section 7(a) of the Trade Agreements Extension Act of 1951, as amended, requires the Commission to hold such a hearing whenever it finds evidence of serious injury or threat of serious injury, or whenever so directed by resolution of either the Senate Committee on Finance or the House Committee on Ways and Means. In arriving at its findings and conclusions the Commission is required, without excluding other factors, to consider the following factors expressly set forth in section 7(b): A downward trend of production, employment, prices, profits, or wages in the domestic industry concerned, or a decline in sales, an increase in imports, either actual or relative to domestic production, a higher or growing inventory, or a decline in the proportion of the domestic market supplied by domestic producers.

Should the Commission find, as a result of its investigation and hearing, the existence or the threat of serious injury as a result of increased imports, it must recommend to the President the withdrawal or modification of the concession, or the suspension of the concession in whole or in part, or the establishment of an import quota, to the extent and for the time necessary to prevent or remedy such injury. Thereupon, the Commission must immediately make public its findings and recommendations to the President, including any dissenting or separate findings and recommendations, and publish a summary thereof in the

Federal Register. When, in the Commission's judgment, there is no sufficient reason to recommend to the President that a trade-agreement concession be modified or withdrawn, the Commission must make and publish a report stating its findings and conclusions.

Executive Order 10401, which is discussed in a later section of this chapter, 1/ directs the Tariff Commission to review developments with respect to products on which the United States has modified or withdrawn trade-agreement concessions under the escape-clause procedure, and to make periodic reports to the President concerning such developments.

Status of Escape-Clause Investigations During 1958-59

On July 1, 1958, a total of 3 escape-clause investigations were pending before the Tariff Commission. 2/ During the ensuing 12 months, the Commission instituted 12 additional investigations. 3/ Of a total of 15 escape-clause investigations that were pending before the Commission at one time or another during the period covered by this report, the Commission at the close of that period had completed 9 investigations and had terminated 4 investigations without formal findings; the remaining 2 investigations were in process.

1/ See the section of this chapter on the review of escape-clause actions under Executive Order 10401.

2/ Also pending before the Commission on July 1, 1958, were two investigations relating to commodities on which the Commission reported to the President during 1957-58 (stainless-steel table flatware and umbrella frames). During the period covered by this report the Commission reported to the President on umbrella frames.

3/ Between Apr. 20, 1948, when it received the first application for an escape-clause investigation, and June 30, 1959, the Commission accepted a total of 99 applications.

With respect to the nine investigations that it completed during the period July 1, 1958-June 30, 1959, the Tariff Commission took the actions indicated below:

Commodity	Vote of the Commission	
	For	Against
	escape	escape
	action	action
Barium chloride-----	0	6
Certain carpets and rugs-----	2	3
Tartaric acid-----	5	0
Cream of tartar-----	3	2
Scissors and shears (2d investigation)-----	0	6
Hand-made glassware (2d investigation)-----	0	6
Calf and kip leather-----	0	5
Axes and ax heads-----	0	5
Hardwood plywood (2d investigation)-----	2	4

The nature and status of the individual escape-clause investigations that were pending before the Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959, are shown in the following compilation. 1/

1/ This compilation shows the status of only those escape-clause investigations that were pending before the Commission at one time or another during the period covered by this report. Lists of applications accepted before the period covered by this report, and their status on various dates, are given in earlier annual reports of the Commission. For a résumé of the status of all escape-clause applications accepted by the Commission between Apr. 20, 1948, and Mar. 2, 1959, see U.S. Tariff Commission, Investigations Under the "Escape Clause" of Trade Agreements: Outcome or Current Status of Applications Filed with the United States Tariff Commission for Investigations Under the "Escape Clause" of Trade Agreements, As of March 2, 1959, 11th ed., 1959 (processed).

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959

Commodity	Status
1. Stainless-steel table flatware. (Investigation No. 61; sec. 7)	<p>Origin of investigation: Application by Stainless Steel Flatware Manufacturers Association, Englishtown, N.J.</p> <p>Application received: Apr. 11, 1957.</p> <p>Investigation instituted: Apr. 18, 1957.</p> <p>Hearing held: July 16-19, 1957.</p> <p>Investigation completed: Jan. 10, 1958.</p> <p>Recommendation of the Commission: Withdrawal of concessions (Commissioners Brossard, Schreiber, and Sutton recommended withdrawal of the concessions on stainless-steel table flatware valued under \$3.00 per dozen pieces. Commissioners Talbot, Jones, and Dowling recommended withdrawal of the concessions on stainless-steel table flatware regardless of value.)</p> <p>Vote of the Commission: 6-0.</p> <p>Action of the President: On Mar. 7, 1958, the President announced that, in view of Japan's voluntary limitation of exports to the United States, he was deferring action on the Commission's recommendation. He requested the Commission to keep the matter under review and to report to him as soon as practicable after Dec. 31, 1958.</p> <p>Investigation instituted under sec. 332, Tariff Act of 1930: Mar. 19, 1958.</p> <p>Hearing scheduled: Mar. 17, 1959; postponed until Apr. 21, 1959.</p> <p>Hearing held: Apr. 21-22, 1959.</p> <p>Investigation in process.</p> <p>Reference: U.S. Tariff Commission, Stainless-Steel Table Flatware: Report to the President on Escape-Clause Investigation No. 61 . . . , 1958 (processed).</p>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
<p>2. Umbrella frames----- (Investigation No. 62; sec. 7)</p>	<p>Origin of investigation: Application by Umbrella Frame Association of America, Inc., Philadelphia, Pa., and individual members thereof.</p> <p>Application received: Apr. 22, 1957.</p> <p>Investigation instituted: Apr. 25, 1957.</p> <p>Hearing held: July 30-31, 1957.</p> <p>Investigation completed: Jan. 14, 1958.</p> <p>Recommendation of the Commission: Withdrawal of concession in part.</p> <p>Vote of the Commission: 3-2.</p> <p>Action of the President: On Mar. 12, 1958, the President requested the Commission to submit a supplemental report on umbrella frames.</p> <p>Investigation instituted under sec. 332, Tariff Act of 1930: Mar. 19, 1958.</p> <p>Hearing held: May 27, 1958.</p> <p>Report submitted to the President: Aug. 11, 1958.</p> <p>Action of the President: On Sept. 30, 1958, the President announced that he had decided that he would not approve the increased tariff on umbrella frames that the Tariff Commission had recommended.</p> <p>Reference: U.S. Tariff Commission, <u>Umbrella Frames: Report to the President on Escape-Clause Investigation No. 62 . . . , 1958 (processed)</u>; <u>Umbrella Frames: Supplemental Report to the President on Escape-Clause Investigation No. 62 . . . , 1958 (processed)</u>.</p>
<p>3. Fine-mesh wire cloth---- (Investigation No. 66; sec. 7)</p>	<p>Origin of investigation: Application by 12 domestic producers.</p> <p>Application received: Jan. 20, 1958.</p> <p>Investigation instituted: Jan. 24, 1958.</p> <p>Hearing held: May 20-21, 1958.</p> <p>Investigation terminated by the Commission without formal findings: July 14, 1958.</p> <p>Vote of the Commission: 3-2.</p> <p>Reference: U.S. Tariff Commission, <u>Report on Escape-Clause Investigation No. 66 (Fine-Mesh Wire Cloth) . . . , 1958 (processed)</u>.</p>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
<p>4. Certain carpets and rugs. (Investigation No. 67; sec. 7)</p>	<p><u>Origin of investigation:</u> Application by Carpet Institute, Inc., New York, N.Y. (name later changed to American Carpet Institute, Inc.).</p> <p><u>Application received:</u> Jan. 22, 1958. (The application originally covered Wilton and velvet floor coverings classifiable under par. 1117(a) of the Tariff Act of 1930.)</p> <p><u>Investigation instituted:</u> Jan. 29, 1958.</p> <p><u>Application amended:</u> Apr. 15, 1958. (The amended application requested the Commission to extend the investigation to cover all floor coverings provided for in par. 1117(a) of the Tariff Act of 1930, except Axminster carpets, rugs, and mats; and carpets, rugs, and mats like in character or description to Axminsters.)</p> <p><u>Amended application accepted by the Commission:</u> Apr. 16, 1958.</p> <p><u>Hearing held:</u> June 10-13, 1958.</p> <p><u>Investigation completed:</u> Jan. 12, 1959.</p> <p><u>Recommendation of the Commission:</u> No modification of concession.</p> <p><u>Vote of the Commission:</u> 3-2.</p> <p><u>Reference:</u> U.S. Tariff Commission, Wilton, Brussels, Velvet, and Tapestry Carpets and Rugs: Report on Escape-Clause Investigation No. 67 . . . , 1959 (processed).</p>
<p>5. Barium chloride----- (Investigation No. 68; sec. 7)</p>	<p><u>Origin of investigation:</u> Application by Barium Reduction Corp., South Charleston, W.Va.</p> <p><u>Application received:</u> Feb. 21, 1958.</p> <p><u>Investigation instituted:</u> Mar. 3, 1958.</p> <p><u>Hearing scheduled:</u> June 24, 1958; postponed until July 15, 1958.</p> <p><u>Hearing held:</u> July 15, 1958.</p> <p><u>Investigation completed:</u> Oct. 10, 1958.</p> <p><u>Recommendation of the Commission:</u> No modification of concession.</p> <p><u>Vote of the Commission:</u> 6-0.</p> <p><u>Reference:</u> U.S. Tariff Commission, Barium Chloride: Report on Escape-Clause Investigation No. 68 . . . , 1958 (processed).</p>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
<p>6. Tartaric acid----- (Investigation No. 69; sec. 7)</p>	<p>Origin of investigation: Application by Stauffer Chemical Co., New York, N.Y. <u>Application received: Apr. 25, 1958.</u> <u>Investigation instituted: Sept. 3, 1958.</u> <u>Hearing held: Oct. 14, 1958.</u> <u>Investigation completed: Jan. 14, 1959.</u> <u>Recommendation of the Commission: Modification of concession.</u> <u>Vote of the Commission: 5-0.</u> <u>Action of the President: On Mar. 14, 1959, the President decided that he would not approve the increased tariff on imported tartaric acid that the Tariff Commission had recommended.</u> <u>Reference: U.S. Tariff Commission, Tartaric Acid and Cream of Tartar: Report to the President on Escape-Clause Investigations No. 69 . . . and No. 70 . . . , 1959 (processed).</u></p>
<p>7. Cream of tartar----- (Investigation No. 70; sec. 7)</p>	<p>Origin of investigation: Application by Stauffer Chemical Co., New York, N.Y. <u>Application received: Apr. 25, 1958.</u> <u>Investigation instituted: Sept. 3, 1958.</u> <u>Hearing held: Oct. 14, 1958.</u> <u>Investigation completed: Jan. 14, 1959.</u> <u>Recommendation of the Commission: Modification of concession.</u> <u>Vote of the Commission: 3-2.</u> <u>Action of the President: On Mar. 14, 1959, the President decided that he would not approve the increased tariff on imported cream of tartar that the Tariff Commission had recommended.</u> <u>Reference: U.S. Tariff Commission, Tartaric Acid and Cream of Tartar: Report to the President on Escape-Clause Investigations No. 69 . . . and No. 70 . . . , 1959 (processed).</u></p>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
<p>8. Scissors and shears (2d investigation). (Investigation No. 71; sec. 7)</p>	<p>Origin of investigation: Application by Shears, Scissors and Manicure Implement Manufacturers Association, New York, N.Y. Application received: Aug. 29, 1958. Investigation instituted: Sept. 3, 1958. Hearing held: Nov. 18, 1958. Investigation completed: Feb. 25, 1959. Recommendation of the Commission: No modification of concession. Vote of the Commission: 6-0. Reference: <u>U.S. Tariff Commission, Scissors and Shears: Report on Escape-Clause Investigation No. 71 . . . , 1959 (processed).</u></p>
<p>9. Hand-made glassware (2d investigation). (Investigation No. 72; sec. 7)</p>	<p>Origin of investigation: Application by American Glassware Association, New York, N.Y. Application received: Nov. 6, 1958. Investigation instituted: Nov. 12, 1958. The application requested an investigation of hand-blown glassware (glassware blown from molten glass gathered by hand). On its own motion, the Commission broadened the scope of the investigation to include pressed as well as blown glassware produced from molten glass gathered by hand. Hearing held: Jan. 27-29, 1959. Investigation completed: May 6, 1959. Recommendation of the Commission: No modification of concession. Vote of the Commission: 6-0. Reference: <u>U.S. Tariff Commission, Hand-made Table and Household Glassware: Report on Escape-Clause Investigation No. 72 . . . , 1959 (processed).</u></p>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
10. Calf and kip leather-- (Investigation No. 73; sec. 7)	<p>Origin of investigation: Application by Calf Leather Division, Tanners' Council of America, Inc., New York, N.Y.</p> <p>Application received: Nov. 17, 1958.</p> <p>Investigation instituted: Nov. 19, 1958.</p> <p>On Dec. 3, 1958, the Commission announced that, at the applicant's request, the scope of the investigation had been modified to exclude lining leather made from the specified calf and kip skins.</p> <p>Hearing scheduled: Feb. 17, 1959; postponed until Feb. 24, 1959.</p> <p>Hearing held: Feb. 24-26, 1959.</p> <p>Investigation completed: May 29, 1959.</p> <p>Recommendation of the Commission: No modification of concession.</p> <p>Vote of the Commission: 5-0.</p> <p>Reference: U.S. Tariff Commission, Calf and Kip Leather: Report on Escape-Clause Investigation No. 73 . . . , 1959 (processed).</p>
11. Nails, spikes, tacks, brads, and staples. (Investigation No. 74; sec. 7)	<p>Origin of investigation: Application by Atlantic Steel Co., Atlanta, Ga., and others.</p> <p>Application received: Nov. 20, 1958.</p> <p>Investigation instituted: Nov. 28, 1958.</p> <p>Hearing held: Mar. 3-5, 1959.</p> <p>Investigation terminated by the Commission without formal findings: Mar. 12, 1959.</p> <p>Vote of the Commission: 6-0.</p> <p>Reference: The Commission's press release of Mar. 13, 1959, constituted the report in this investigation.</p>
12. Galvanized fencing wire and galvanized wire fencing. (Investigation No. 75; sec. 7)	<p>Origin of investigation: Application by Atlantic Steel Co., Atlanta, Ga., and others.</p> <p>Application received: Nov. 20, 1958.</p> <p>Investigation instituted: Nov. 28, 1958.</p> <p>Hearing held: Mar. 4-5, 1959.</p> <p>Investigation terminated by the Commission without formal findings: Mar. 12, 1959.</p> <p>Vote of the Commission: 6-0.</p> <p>Reference: The Commission's press release of Mar. 13, 1959, constituted the report in this investigation.</p>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
13. Axes and ax heads----- (Investigation No. 76; sec. 7)	<u>Origin of investigation:</u> Application by True Temper Corp., Cleveland, Ohio, and others. <u>Application received:</u> Nov. 25, 1958. <u>Investigation instituted:</u> Nov. 28, 1958. <u>Hearing held:</u> Mar. 10-11, 1959. <u>Investigation completed:</u> May 21, 1959. <u>Recommendation of the Commission:</u> No modification of concession. <u>Vote of the Commission:</u> 5-0. <u>Reference:</u> U.S. Tariff Commission, Axes and Ax Heads: Report on Escape-Clause Investigation No. 76 . . . , 1959 (processed).
14. Hardwood plywood (2d investigation). (Investigation No. 77; sec. 7)	<u>Origin of investigation:</u> Application by Hardwood Plywood Institute, Arlington, Va. <u>Application received:</u> Dec. 22, 1958. <u>Investigation instituted:</u> Jan. 5, 1959. <u>Hearing held:</u> Apr. 14-17 and 20, 1959. <u>Investigation completed:</u> June 22, 1959. <u>Recommendation of the Commission:</u> No modification of concession. <u>Vote of the Commission:</u> 4-2. <u>Reference:</u> U.S. Tariff Commission, Hardwood Plywood: Report on Escape-Clause Investigation No. 77 . . . , 1959 (processed).
15. Broadwoven silk fabrics. (Investigation No. 78; sec. 7)	<u>Origin of the investigation:</u> Application by American Silk Council, Inc., New York, N.Y., and others. <u>Application received:</u> Feb. 26, 1959. <u>Investigation instituted:</u> Mar. 6, 1959. <u>Hearing held:</u> May 19-22, 1959. <u>Investigation terminated by the Commission without formal findings:</u> June 25, 1959. <u>Vote of the Commission:</u> 5-0. <u>Reference:</u> The Commission's press release of June 26, 1959, constituted the report in this investigation.
16. Mink skins----- (Investigation No. 79; sec. 7)	<u>Origin of investigation:</u> Application by National Board of Fur Farm Organizations, Inc., Milwaukee, Wis. <u>Application received:</u> Mar. 19, 1959. <u>Investigation instituted:</u> Mar. 25, 1959. <u>Hearing held:</u> June 23-25, 1959. <u>Investigation in process.</u>

Escape-clause investigations pending before the U.S. Tariff Commission at one time or another during the period July 1, 1958-June 30, 1959--Con.

Commodity	Status
17. Red fescue seed (2d investigation). (Investigation No. 80; sec. 7)	<u>Origin of investigation:</u> Application by Pacific Northwest Chewings and Creeping Red Fescue Association, La Grande, Oreg., and others. <u>Application received:</u> May 8, 1959. <u>Investigation instituted:</u> May 18, 1959. <u>Hearing scheduled:</u> Aug. 11, 1959. <u>Investigation in process.</u>

Review of Escape-Clause Actions Under Executive Order 10401

The standard escape clause in trade agreements and section 7(a) of the Trade Agreements Extension Act of 1951, as amended, provide that any escape-clause action that the President takes with respect to a particular commodity will remain in effect only "for the time necessary to prevent or remedy" the injury.

By Executive Order 10401, of October 14, 1952, the President established a formal procedure for reviewing escape-clause actions. Paragraph 1 of that Executive order directs the Tariff Commission to keep under review developments with regard to products on which trade-agreement concessions have been modified or withdrawn under the escape-clause procedure, and to make periodic reports to the President concerning such developments. The Commission is required to make the first such report in each case not more than 2 years after the original escape-clause action, and thereafter at intervals of 1 year as long as the concession remains modified or withdrawn in whole or in part.

Paragraph 2 of Executive Order 10401 provides that the Commission is to institute a formal investigation in any case whenever, in the Commission's judgment, changed conditions warrant it, or upon the request of the President, to determine whether, and, if so, to what extent, the withdrawal, suspension, or modification of a trade-agreement concession needs to be continued in order to prevent or remedy serious injury or the threat thereof to the domestic industry concerned. Upon completing such an investigation, including a public hearing, the Commission is to report its findings to the President.

During the period covered by this report the Tariff Commission reported to the President, under the provisions of Executive Order 10401, on developments with respect to the commodities listed in the following tabulation.

Reviews of escape-clause actions conducted by the U.S. Tariff Commission during the period July 1, 1958-June 30, 1959

Commodity	Status
1. Watch movements (3d report).	: Report submitted to the President under : <u>par. 1: July 25, 1958.</u> : <u>Conclusion of the Commission:</u> The Commis- : sion unanimously concluded that institu- : tion of a formal investigation under par. : 2 was not warranted. : <u>Action of the President:</u> On Oct. 3, 1958, : the President concurred with the Commis- : sion's conclusion. : <u>Reference:</u> U.S. Tariff Commission, : <u>Watch Movements: Report to the President</u> : <u>(1958) Under Executive Order 10401, 1958</u> : <u>(processed).</u> : :
2. Toweling of flax, hemp, or ramie. (1st report).	: Report submitted to the President under : <u>par. 1: July 25, 1958.</u> : <u>Conclusion of the Commission:</u> The Commis- : sion unanimously concluded that institu- : tion of a formal investigation under par. : 2 was not warranted. : <u>Action of the President:</u> On Oct. 3, 1958, : the President concurred with the Commis- : sion's conclusion. : <u>Reference:</u> U.S. Tariff Commission, : <u>Toweling of Flax, Hemp, or Ramie: Report</u> : <u>to the President (1958) Under Executive</u> : <u>Order 10401, 1958 (processed).</u> :

Reviews of escape-clause actions conducted by the U.S. Tariff Commission
during the period July 1, 1958-June 30, 1959--Continued

Commodity	Status
3. Bicycles (2d report)--	Report submitted to the President under par. 1: Aug. 18, 1958. Conclusion of the Commission: The Commis- sion unanimously concluded that institu- tion of a formal investigation under par. 2 was not warranted. Action of the President: On Oct. 3, 1958, the President concurred with the Commis- sion's conclusion. Reference: U.S. Tariff Commission, Bicycles: Report to the President (1958) Under Executive Order 10401, 1958 (processed).
4. Dried figs (5th report).	Report submitted to the President under par. 1: Aug. 29, 1958. Conclusion of the Commission: The Commis- sion unanimously concluded that institu- tion of a formal investigation under par. 2 was not warranted. Action of the President: On Oct. 3, 1958, the President concurred with the Commis- sion's conclusion. Reference: U.S. Tariff Commission, Figs, Dried: Report to the President (1958) Under Executive Order 10401, 1958 (processed).

On August 14, 1958, the President announced that he was carrying out the Tariff Commission's recommendation of June 26, 1958, that the original concession on hatters' fur be restored in full. ^{1/} By Proclamation 3255 ^{2/} of August 14, 1958, effective at the close of business September 13, 1958, he restored the original concession. Under the President's proclamation, the import duty on hatters' fur again became 15 percent ad valorem. As a result of an escape-clause action in 1952, the rate of duty on hatters' fur had been changed from 15 percent ad valorem to 47.5 cents per pound but not less than 15 percent and not more than 35 percent ad valorem.

^{1/} See Operation of the Trade Agreements Program, 11th report, pp. 99-100.

^{2/} 23 F.R. 6372.

Chapter 4

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

INTRODUCTION

Since World War II the free-world countries have created a complex array of international organizations and arrangements to cope with the problems of international trade. Some of these organizations and arrangements have a broad membership; others operate on a narrower, regional basis. All of them, however, have been concerned with the restoration of international trade to a multilateral basis. Although these organizations and arrangements have involved some overlapping of functions, they have resulted in remarkably few conflicts of aims and method.

The postwar program of the free-world nations to restore international trade to a multilateral basis has been grounded primarily in the multilateral General Agreement on Tariffs and Trade, but a number of other international organizations and arrangements have had similar or related objectives. ^{1/} These organizations and arrangements include the International Monetary Fund (IMF); the Organization for European Economic Cooperation (OEEC); the European Payments Union (EPU) and its successor arrangement, the European Monetary Agreement (EMA); such regional groupings of countries as the Benelux Economic Union, the European Coal and Steel Community (ECSC), the European Economic Community

^{1/} For a discussion of the relationship of GATT to existing or projected organizations in the field of international trade, see Operation of the Trade Agreements Program, 10th report, pp. 103-112.

(EEC) or Common Market, and the Central American free-trade area; and such multilateral payments arrangements as the "Paris Club," the "Hague Club," and the "Helsinki Club." The sterling area also comprises a bloc of countries, mainly British, which cooperate in matters relating to their foreign-exchange reserves, the use of sterling, and restrictions on trade with countries both within and outside the sterling area. The World Bank (the International Bank for Reconstruction and Development), the Export-Import Bank of Washington (an agency of the U.S. Government), and the Development Loan Fund (also an agency of the U.S. Government) are concerned with long-range problems of economic development, and their activities are therefore of great importance in the field of international trade. The various forms of U.S. financial aid to foreign countries during the postwar period have likewise served to further the objectives of organizations and arrangements concerned with the problems of international trade.

To the list of international trade organizations and arrangements mentioned above must be added a number of others which have been proposed, but which either have not yet been established or have been abandoned. Proposed regional arrangements that are being actively considered include the European Free Trade Association (EFTA), the Latin American regional market, and the Nordic common market. International trade organizations that have been proposed but not adopted are the International Trade Organization (ITO) and the Organization for Trade Cooperation (OTC).

As originally adopted, the General Agreement on Tariffs and Trade contemplated that its general provisions would be superseded by the

proposed Charter for an International Trade Organization, and that ITO would become the permanent administrative organization of GATT. ^{1/} By 1950, however, it had become apparent that the proposed ITO would not be established in the foreseeable future. At their Sixth Session in 1951, therefore, the Contracting Parties to the General Agreement devised other methods to facilitate administration of the agreement. At that session they established the Intersessional Committee to deal with urgent problems that arise when the Contracting Parties are not in session, and adopted rules for conducting tariff negotiations without convening full-scale conferences of the Geneva-Annecy-Torquay type. While these arrangements improved somewhat the administration of the agreement, they still did not provide GATT with a permanent administrative organization. During the review of the General Agreement during the Ninth Session of the Contracting Parties in 1954-55, therefore, the delegates negotiated an Agreement on the Organization for Trade Cooperation. The principal function of the proposed OTC would be to administer the General Agreement on Tariffs and Trade. ^{2/} The agreement on the OTC, however, provides that it will enter into force only after it is accepted by countries that account for 85 percent of the foreign trade conducted by the Contracting Parties to the General Agreement. Since the United States accounts for more than 20 percent of the total foreign

^{1/} For a discussion of the proposed Charter for an International Trade Organization, see Operation of the Trade Agreements Program: 1st report, pt. II, pp. 17-19; 3d report, pp. 31-32.

^{2/} For a detailed discussion of the proposed Organization for Trade Cooperation, see Operation of the Trade Agreements Program, 8th report, pp. 20-27.

trade of the contracting parties, the agreement cannot enter into force unless it is accepted by the United States.

Earlier reports of the Tariff Commission on the operation of the trade agreements program have discussed in detail the operation of the organizations and arrangements mentioned above, as well as the efforts to restore international trade to a multilateral basis and to create conditions favorable to the general convertibility of currencies. The period covered by this report saw not only further progress by the free-world countries toward their objectives of currency convertibility and trade liberalization, but also the rapid development of such regional groupings as the European Economic Community, the proposed European Free Trade Association, and the proposed Latin American regional market. Among the principal developments during the period covered by this report were the achievement of external currency convertibility by most Western European countries, the further liberalization of the trade of the OEEC countries (including the further liberalization of their dollar trade), the dissolution of the European Payments Union and its replacement by the European Monetary Agreement, the initial implementation of the Common Market Treaty, and the rapid progress toward formation of the proposed European Free Trade Association and the proposed Latin American regional market. Although most of these developments took place during the period July 1, 1958-June 30, 1959, some of them occurred within a few weeks after the close of that period. To assure completeness, the following sections of this chapter take account of some of these later developments.

Although the period covered by this report saw at least the partial attainment of some of the postwar international trade objectives of the free world, it also saw the emergence of a number of new problems. Some of the more important of these concern the implementation of the Common Market and its impact on its member states and the countries with which they trade; the future relationship of the Common Market to GATT, OEEC, and ECSC; and the emergence of regional groupings such as the proposed European Free Trade Association, the proposed Latin American regional market, and the proposed Nordic common market. These matters are discussed in detail in later sections of this chapter.

DEVELOPMENTS WITH RESPECT TO CURRENCY CONVERTIBILITY AND TRADE RESTRICTIONS

During the period covered by this report 15 European countries made their currencies externally convertible, and 15 additional countries participated in the move toward external currency convertibility, most of them by reason of their association in a monetary area with one of the European countries that made its currency externally convertible. Of the 30 countries that made this move toward external currency convertibility, 22 have trade agreements with the United States. These 22 countries are Australia, Austria, Belgium, Burma, Ceylon, Denmark, Finland, France, the Federal Republic of Germany, Ghana, Greece, India, Italy, Luxembourg, Malaya, the Netherlands, New Zealand, Norway, Pakistan, Sweden, the Union of South Africa, and the United

Kingdom. The 8 countries that do not have trade agreements with the United States are Iraq, Ireland, Jordan, Libya, Morocco, Portugal, the Sudan, and Tunisia. The currency of Switzerland, which has a trade agreement with the United States, was already internally convertible and externally convertible for nonresidents whose own currencies were convertible. During the period covered by this report Switzerland extended the scope of its external convertibility by making its currency convertible for residents of the above-mentioned countries that had established external currency convertibility.

Establishment of external currency convertibility by the countries mentioned above was a development of the utmost importance to the United States and the other countries of the dollar area. Before they established external convertibility the countries mentioned above--in order to conserve their foreign-exchange reserves--maintained exchange regulations that differed considerably in their application to various countries or currency areas. Exchange regulations applicable to the conversion of earnings from current trade transactions into dollar currencies were especially stringent, so that an element of discrimination existed against the dollar area. The establishment of external currency convertibility by many of the world's most important trading countries greatly reduced this element of discrimination, largely eliminating the distinction between dollar and nondollar currencies. Although external currency convertibility was not generally accompanied by internal convertibility, many countries did relax their internal

restrictions. The Federal Republic of Germany established complete internal and external convertibility.

The major exceptions to the establishment of external currency convertibility by the countries mentioned above relate to capital transactions and to transactions resulting from bilateral payments arrangements, most of which are with the Soviet-bloc countries. Although the establishment of external convertibility did not generally affect capital transfers, some countries modified the regulations with respect to such transactions, and one country--the Federal Republic of Germany--completely eliminated its controls on capital transactions.

The strengthened economies, the improved balance-of-payments positions, and the increased holdings of gold and foreign exchange were the major factors that made it possible for most of the countries of Western Europe to establish nonresident currency convertibility. Elimination of the distinction between dollar and nondollar currencies indicated that the reserves of the countries that established external convertibility were adequate for them to carry on trade with the dollar area on a nondiscriminatory basis. Establishment of external, or nonresident, convertibility does not, of course, imply the automatic elimination of quantitative restrictions and other barriers to trade. It does, however, indicate that--to the extent that their balance-of-payments positions continued to be favorable--many countries are in a position to eliminate their remaining trade restrictions, as they are required to do under the provisions either of the OEEC Code of Liberalization or of the General Agreement on Tariffs and Trade. The extent to

which the countries with which the United States has trade agreements liberalized their trade just before and shortly after the establishment of external currency convertibility is discussed in the following sections of this chapter.

OEEC Countries

Two of the principal objectives of the Organization for European Economic Cooperation and its subsidiary, the European Payments Union, have been the liberalization of the trade of their member countries and the creation of conditions favorable to the convertibility of their currencies. ^{1/} During the period 1958-59 most OEEC countries made significant progress toward both of these goals. These developments, together with the emergence of regional trading groups such as the European Common Market, are among the most significant developments in the field of international trade since the end of World War II.

After the Organization for European Economic Cooperation was established, it became apparent that some mechanism was necessary to make effective the cooperation of the OEEC countries in achieving their objectives of multilateral trade and currency convertibility. The European Payments Union, which was established in 1950 to assist in achieving these objectives, made it possible for member countries to

^{1/} The 17 member countries of OEEC are Austria, Belgium, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

clear accounts among themselves on a multilateral basis. Under the system established as a basis for EPU operations, the currencies of member countries were accepted without discrimination, and thus became transferable among the member countries. In essence, EPU served as an accounting system for coping with the trade-and-payments problems faced by members of OEEC, especially the balance-of-payments problems created by the shortage of dollar exchange.

From the beginning, OEEC intended to dissolve EPU as soon as it had achieved the objectives for which it was created. The establishment of external, or nonresident, convertibility in December 1958 and the following months by all except two member countries of OEEC marked the end of EPU and its replacement by the European Monetary Agreement. This transition, which had been agreed to in July 1955, became effective on December 27, 1958, when EPU countries accounting for more than 50 percent of the combined EPU quotas formally announced nonresident, or external, convertibility. The credit functions formerly performed by EPU are now handled, within the framework of EMA, by a European Fund. The former functions of EPU, however, have been considerably changed, and provision for automatic credit no longer exists. The clearing functions of EPU are now carried out through a multilateral system of settlements within the framework of EMA. These functions, however, have also been considerably altered and their performance is now largely of a voluntary character.

The establishment of external currency convertibility by many countries during 1958-59 coincided with the implementation of the tariff,

of the quota, and of certain other provisions of the Common Market Treaty; the collapse of negotiations for a European free-trade area that would include all OEEC countries; and the emergence of proposals for a European Free Trade Association embracing seven OEEC countries. The following sections of this chapter discuss the trade-liberalization and currency-convertibility measures adopted during 1958-59 by the member states of the Common Market, by the member countries of the proposed EFTA, and by other OEEC countries.

Common Market countries

Establishment of external currency convertibility by the six member states of the European Economic Community during 1958-59 was a significant step toward the elimination of barriers to international trade. This action, which was similar in scope to that taken by many other Western European countries, made it possible for nonresidents of each of the Common Market countries to convert their holdings (for example, funds held in francs, marks, guilders, or lire) into dollars or any other foreign currency. The extent to which external currency convertibility was established in the European Economic Community, however, differed somewhat from country to country.

The establishment of external convertibility by the member states of the European Economic Community, together with their improved balance-of-payments positions and their increased reserves of foreign exchange, facilitated the implementation of various measures required by the Common Market Treaty. On January 1, 1959, the European Economic Community

began to implement the tariff and quota provisions of the Common Market Treaty. Import duties applied by member states of the Community to commodities imported from other member states were reduced by 10 percent. This reduction was also extended to other OEEC countries, to contracting parties to the General Agreement that are not members of OEEC, and to other countries entitled to most-favored-nation treatment, but only to the extent that it did not result in rates of duty lower than those contemplated in the Common Market's ultimate external tariff. Bilateral quotas in effect in member states and applicable to other member states were converted into global quotas, increased by 20 percent, and opened to all member states without discrimination. For certain industrial products the increased quotas were extended to other members of OEEC on a reciprocal basis. ^{1/} The establishment of external currency convertibility, together with improved economic conditions, also made it possible for member states of the Common Market to liberalize imports of many commodities from the dollar area during the period covered by this report.

France.---During 1958-59, as part of a general program designed to strengthen the country's economy and to eliminate inflationary pressures, France established external currency convertibility, devalued the franc, and significantly liberalized its import trade. On December 29, 1958, France devalued the franc by establishing an exchange rate of 493.7

^{1/} See the section of this chapter on developments with respect to the Common Market.

francs to the dollar. ^{1/} It also announced the creation of a new monetary unit--the "heavy franc"--equal to 100 of the then current francs. Simultaneously, France made the franc partially convertible by permitting nonresidents of the franc area, except residents of countries with which France has bilateral payments agreements, to convert their holdings into any currency.

France's relaxation of exchange controls was followed by a significant liberalization of its import trade. In May 1957 the level of France's trade liberalization had been 82 percent for the OEEC countries (based on imports in 1948) and 11 percent for the United States and Canada (based on imports in 1953). The following month, France abandoned all its trade-liberalization measures and temporarily suspended the issuance of import licenses. With these actions all imports became subject to license, and formerly liberalized imports entering France from other OEEC countries, the transferable-franc area, and the dollar area again became subject to quota. As a result of the new liberalization measures adopted in December 1958 and January 1959, however, France increased its level of liberalization to nearly 90 percent for the OEEC countries and to 56 percent for the United States and Canada. Most of the commodities freed from quantitative restrictions (and subsequently, in most instances, from licensing requirements) were raw materials, semifinished products, manufactured goods, and machinery; but some agricultural products were included. In addition, France enlarged the

^{1/} Before devaluation the basic official rate was 350 francs to the dollar.

quotas for a number of products of interest to the United States, among which were automobiles and bourbon whisky. The group of items thus freed from restrictions when imported from the United States and Canada was the largest such group since the end of World War II.

Other actions taken by France during the period covered by this report included elimination of the requirement of a 50-percent advance deposit for purchases of foreign exchange, and the liberalization of imports of summer oranges from all countries except the member countries of OEEC for the period June 16-September 30, 1959. By the latter action, France permitted the commercial importation of oranges for the first time since 1956.

West Germany.--Although the Federal Republic of Germany retained some restrictions on both resident and nonresident currency convertibility throughout most of the period covered by this report, these restrictions were gradually eliminated. On May 1, 1959, the remaining restrictions on the flow of foreign capital into West Germany were removed and the formal distinction between resident and nonresident mark accounts was abolished. Except for minor restrictions, these moves marked the achievement of full currency convertibility by West Germany. The only remaining West German currency controls relate to interzonal transactions, German-Turkish payments, and amortization payments made under the terms of the London Debt Agreement.

During the period covered by this report the Federal Republic of Germany also took steps to further liberalize its import trade. In

November 1958 West Germany liberalized about 50 industrial commodities for importation from the dollar area. At the same time, however, it sharply deliberalized two fully liberalized agricultural commodities (potatoes and wheat). In January 1959 West Germany liberalized about 60 agricultural products, as well as a number of industrial products, for importation from the dollar area. However, quantitative restrictions still applied to the principal commodities of interest to the United States.

As a result of negotiations at the 14th Session of the Contracting Parties to the General Agreement in May 1959, Germany agreed to remove by stages its import restrictions on many new tariff items, 94 of which are agricultural and 36 of which are industrial. In addition, the effective date for liberalization of 161 other items was advanced by 6 months. The liberalization measures that were applied beginning July 1, 1959, will be fully implemented by July 1, 1962. ^{1/} Despite its actions in liberalizing its import trade, however, West Germany still maintains restrictions on imports of the principal agricultural commodities, and a number of agricultural products that have been liberalized for the OEEC countries have not been liberalized for the dollar area.

Because of greatly increased stocks of coal, West Germany on September 2, 1958, discontinued its liberal policy with respect to imports of coal by making the conclusion of contracts for the importation of coal with other than European Coal and Steel Community countries

^{1/} For a detailed discussion of the liberalization measures that West Germany will apply pursuant to the agreement reached at the 14th Session of the Contracting Parties, see ch. 2 of this report.

subject to license, and by imposing a duty of \$4.78 per ton (beginning in February 1959) on imports of coal--except those originating in other member countries of ECSC--in excess of about 5 million metric tons annually.

Italy.--In December 1958 Italy made its currency externally convertible for all nonresidents except residents of countries with which Italy has bilateral payments agreements. Convertibility was effected by merging two types of accounts--the foreign multilateral lira accounts and the free lira accounts. Italy's action in establishing nonresident convertibility was, in effect, a de jure recognition of an existing situation, inasmuch as it had been possible for nonresidents to convert multilateral lira balances through the free-exchange market and the banknote market.

In June 1959 Italy further liberalized imports from the dollar area and simultaneously introduced a "negative" list of commodities for which import licenses are required. Although the new liberalization measure included some agricultural commodities, it applied chiefly to industrial products. Included among the newly liberalized products were cosmetics, hides, tanned leather, industrial equipment, and a number of organic and inorganic chemicals. The new action increased Italy's level of liberalization for imports from the dollar area to between 80 and 85 percent (based on imports in 1953).

In February 1959, in preparation for the introduction of the European Economic Community's common external tariff, Italy adopted a new customs tariff based on the Brussels Nomenclature.

Benelux countries.--During the period covered by this report the three member countries of the Benelux Economic Union made their currencies externally convertible. Belgium and Luxembourg amended their exchange regulations so as to permit residents of the transferable area to use transferable-account francs to buy dollars as well as any other externally convertible currency. The new measures also permitted the transfer of balances held in transferable accounts to any nonresident account. The Netherlands adopted similar convertibility measures but retained certain restrictions on capital transfers, as well as minor restrictions designed to prevent an immediate drain on the country's foreign-exchange reserves.

The Benelux countries restrict the importation of only a few commodities. Import controls in effect in the Benelux Economic Union consist of those maintained by the Belgo-Luxembourg Economic Union, by the Netherlands, and by the Benelux Economic Union itself (the Benelux global quotas). The Benelux global quotas, which apply to a very small number of commodities, consist of two parts: the first part applies to imports from the other Common Market countries, and the second, to imports from non-Common Market countries. Including the commodities specified in the Benelux global quotas; imports of commodities in 160 tariff classifications are subject to restriction by Belgium and Luxembourg. Restrictions on imports of commodities included in these classifications are applied without discrimination as to country of origin except for commodities that enter under Benelux global quotas.

The few import restrictions that the Netherlands maintains are applied either as restrictions of the Netherlands itself or under Benelux global quotas. In February 1959 the Netherlands eliminated all but a few of the remaining quantitative restrictions that it maintained for balance-of-payments reasons. In that month the Netherlands increased by 120 the number of products liberalized for importation from the dollar area, and in July 1959 it abolished the licensing requirement for most commodities imported from that area. These new liberalization measures virtually eliminated the small remaining discriminatory gap between the levels of import liberalization applicable to the OEEC and the dollar areas.

Member countries of the proposed European Free Trade Association

In December 1958, with the collapse of the negotiations to establish a European free-trade area that would embrace all member countries of OEEC, seven OEEC countries that were not members of the Common Market entered into negotiations to establish an alternative free-trade arrangement to be known as the European Free Trade Association. The member countries of the proposed EFTA will be Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom. 1/

The improvement in the balance-of-payments positions of the seven prospective EFTA countries made it possible for them to eliminate a number of their trade restrictions during the period covered by this report. All seven countries made their currencies externally convertible

1/ See the section of this chapter on the proposed European Free Trade Association.

during 1958-59, and four of the countries significantly liberalized their trade by eliminating licensing requirements for the importation of many commodities. These four countries (Denmark, Norway, Sweden, and the United Kingdom) reduced the discriminatory gap between the levels of import liberalization applicable to the OEEC and the dollar areas. Switzerland's liberalization for its trade with both the OEEC and dollar areas was already at a high level. Austria, however, continued to maintain--as it has for some years--a low level of liberalization for imports from the dollar area. 1/

Austria.--In December 1958, in concert with other European countries, Austria established nonresident convertibility for its currency by freely permitting, with certain exceptions, the conversion into any currency of funds held in nonresident accounts. Subsequently Austria broadened the scope of external convertibility by making many blocked schilling accounts freely convertible and by permitting the transfer of proceeds from the sales of securities held by nonresidents into any freely convertible currency--provided the securities originally had been purchased with such currency or with free Austrian schillings. Austria also eliminated the requirement that exchange licenses must be obtained before payment could be made for goods imported from countries which settle with Austria in fully convertible currencies or in externally convertible European currencies. Previously, licenses had been required for all

1/ The United States does not have a trade agreement with Portugal, the remaining member of the proposed EFTA.

imported commodities except those liberalized for importation from OEEC countries.

During the period covered by this report, Austria took no further steps to free its trade from quantitative restrictions or other controls. Austria's failure in recent years to further liberalize imports from the dollar area has been attributable in large part to conflicting interests within the country. The present level of liberalization for imports from the dollar area (40 percent, based on imports in 1953) has resulted largely from the liberalization of industrial commodities. Producers of such commodities are reluctant to consent to additional liberalization for them unless there is a considerable rise in the level of liberalization for agricultural products. Opposition by farmers to further liberalization of agricultural products is very strong.

On September 1, 1958, in preparation for participation in a European free-trade arrangement, Austria placed in effect a new customs tariff based on the Brussels Nomenclature. Most of the former specific duties were replaced by ad valorem duties, but specific duties were retained for most agricultural products.

Denmark.---The continued improvement in Denmark's balance-of-payments position during 1958-59 made it possible for Denmark not only to establish external currency convertibility but also to further liberalize imports from the dollar area. Two liberalization measures adopted in January and April 1959 raised the level of dollar liberalization from 66 to about 86 percent (based on private imports in 1953). Included among

the commodities freed from licensing requirements and placed on the "free list" for importation from the dollar area were passenger automobiles and parts, motorcycles and parts, certain trucks, hearing aids, petroleum products, asbestos piece goods, clothing and textiles, cordage of long-fibered silk and rayon, casein, cheese, and certain fruits. Besides liberalizing the importation of certain fresh fruit, Denmark also permitted the importation--subject to licensing and value quotas--of canned pineapple, peaches, apricots, and citrus fruits from the dollar and OEEC areas during the first half of 1959. During the period covered by this report, Denmark also eliminated its special licensing requirements for the reexportation of goods originating in the dollar area. As a result of these liberalization measures, Denmark no longer requires licenses for the importation of commodities from the dollar area if licenses are not required for such commodities when imported from OEEC countries and Finland.

"Mixing" regulations adopted by foreign countries concern the United States because they frequently are employed to restrict imports of certain commodities. Moreover, because they are changed frequently, mixing regulations usually introduce an element of uncertainty in the trade with the particular country. The fact that such regulations are contrary to the provisions of the General Agreement on Tariffs and Trade has not prevented some contracting parties from employing them. Legislation adopted by Denmark in July 1957 authorized the Ministry of Agriculture to require that all wheat and rye flour produced in Denmark contain a specified minimum proportion of domestic wheat and rye. For

an indefinite period beginning February 12, 1959, the Ministry of Agriculture specified that all domestically produced wheat flour must contain not less than 80 percent of Danish wheat. For rye flour, the proportion of Danish rye was fixed at 55 percent. Before February 12, 1959, the specified proportions of Danish wheat and rye were 70 and 90 percent, respectively.

During the period covered by this report, Denmark decided to gradually terminate its dollar export incentive plan. ^{1/} Under this plan, exporters of most Danish commodities shipped to dollar countries are permitted to retain a certain percentage of the proceeds from their exports. These "dollar premium" export proceeds may be used to import otherwise restricted goods from a specified list of countries, including the OEEC countries and their associated territories, the Soviet Union, and several other nondollar countries. Since August 1952, when the plan became effective, the proportion of the proceeds that exporters have been permitted to retain--and for which they have been issued transferable "title to import" licenses--has been reduced from 10 to 6 percent. The proportion is to be reduced from 6 to 4 percent in 1960, and to 2 percent in 1961. At the end of 1961 the plan will be terminated.

On February 1, 1959, Denmark placed in effect a new customs tariff--based on the Brussels Nomenclature--which provides for a considerable shift from specific to ad valorem rates of duty. Adoption of the new

^{1/} For the earlier history of the dollar export incentive plan, see Operation of the Trade Agreements Program, 7th report, pp. 151-153.

tariff, which coincided with similar moves by other OEEC countries, was largely a result of Denmark's intention to join either the proposed European Free Trade Association or the proposed Nordic common market, 1/ or both.

Norway.--In December 1958 Norway established nonresident convertibility of the krone for current transactions. Under the new exchange-control regulations, exporters were permitted to convert the proceeds from their exports into dollars or any other fully or externally convertible currency, and importers were permitted to pay for liberalized imports in any currency. The new regulations, however, were not applicable to transactions with the 11 countries with which Norway has bilateral payments agreements. 2/

On January 1, 1959, in preparation for possible participation in the proposed Nordic common market or in a European free-trade area, Norway placed in effect a new import tariff based on the Brussels Nomenclature. The new tariff involved a substantial shift from the specific to the ad valorem type of duty, but the general level of the duties was not altered appreciably.

At the same time that it adopted the new tariff, Norway significantly liberalized its trade by eliminating the licensing requirement for all commodities imported from the dollar area (except automobiles)

1/ The proposed Nordic common market is discussed in a later section of this chapter.

2/ These bilateral-agreement countries are Brazil, Bulgaria, Czechoslovakia, the Federal Republic of Germany, Hungary, Israel, Poland, Rumania, Spain, the U.S.S.R., and Yugoslavia.

which could be freely imported from the OEEC area. This action, which increased Norway's level of dollar liberalization from 87 to 91 percent (based on private imports in 1953), eliminated discrimination in the treatment of all commodities except automobiles imported from OEEC countries or the dollar area. Although, in general, the newly liberalized commodities had previously been licensed freely, Norway's action was significant because it formally eliminated the discriminatory treatment of dollar goods. Simultaneously with the liberalization action, Norway abolished its import "free list" and replaced it with a single "negative list" which specifies the commodities still subject to restriction when imported from OEEC countries or the dollar area.

During the period covered by this report, Norway also freed from licensing requirements--but did not formally liberalize--imports of certain fresh fruit and canned goods from both the OEEC and dollar areas. Included were fresh grapes, oranges, mandarins, tangerines, apricots, peaches, pineapples, and canned asparagus.

Sweden.--In December 1958 Sweden extended the scope of its currency convertibility by making the krona freely convertible into other currencies for current commercial transactions with all countries except those with which Sweden has bilateral payments agreements. 1/ With the extension of nonresident convertibility, Sweden eliminated the requirement that exchange proceeds from exports to dollar countries

1/ These countries, classified as bilateral-account countries, are Brazil, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania, Spain, and the U.S.S.R.

be surrendered to the exchange-control authorities, and terminated its transit-dollar system. ^{1/}

On January 1, 1959, Sweden placed in effect a new customs tariff based on the Brussels Nomenclature. Most of the duties in the new tariff are of the ad valorem type, but some specific rates of duty were retained, chiefly for the few agricultural products that are dutiable. In the new tariff the general level of duties was not altered significantly; most of the rates of duty are at the levels contemplated for the external tariff of the proposed Nordic common market. With the adoption of its new tariff, however, Sweden imposed specific import duties--stated to be of a temporary nature--on imports of automobile tires, household china, and certain textiles. The temporary specific duties are in addition to the ad valorem duties specified in the new tariff.

In accordance with the price-and-market policy that Sweden inaugurated in 1956, important competitive agricultural products are subject to import taxes in addition to the applicable import duties. The import taxes are altered frequently to reflect changes in the prices farmers receive for their products and changes in the cost-of-living index. During the period 1958-59 the import taxes on many commodities were changed. Significant changes included an increase of about 20 percent in the import taxes on a number of commodities, including cereals, oilcakes, dairy products, eggs, meat, and potatoes.

^{1/} For the discussion of the transit-dollar system, see Operation of the Trade Agreements Program, 10th report, pp. 143-144.

Besides extending the scope of its external currency convertibility and adopting a new customs tariff, Sweden during 1958-59 abolished its dollar import "free list" and replaced it with a list specifying those nonagricultural products for which licenses are required when imported from the dollar area. Included in the new list were the commodities specified in the discontinued transit-dollar list. This action clarified, but did not alter, existing licensing requirements. Certain other commodities, however, were placed on a conditional "free list." Although licenses are required for the importation of such commodities, they will be granted freely.

In February 1959 Sweden increased its level of liberalization for commodities imported from the dollar area by freeing from the licensing requirement imports of petroleum and all commodities (except textiles) formerly on the transit-dollar list. The action taken with respect to nonagricultural products imported from the OEEC countries was similar to that taken for those imported from the dollar area; an import-licensing list was established and import "free list" was abolished. However, discrimination still exists in the treatment of both agricultural and nonagricultural commodities imported from the dollar area.

Switzerland.--The establishment of nonresident currency convertibility by many other Western European countries in 1958-59 made it possible for Switzerland to extend the scope of its currency convertibility. The Swiss franc was already convertible for Swiss residents and for residents of countries whose currencies had previously been

made externally convertible. It was now made convertible for residents of countries that established external currency convertibility during the period covered by this report.

Switzerland has eliminated virtually all discrimination against imports from the dollar area; its liberalization lists are substantially the same for both the OEEC and dollar areas. During the period covered by this report, Switzerland's level of liberalization remained at 99 percent (based on private imports in 1953) for the dollar area and at 91 percent (based on private imports in 1948) for the OEEC area.

United Kingdom.--On December 29, 1959, the United Kingdom established external currency convertibility. With few exceptions, the United Kingdom unified its external accounts--American, Canadian, transferable, and registered--into one external account and permitted nonresidents of the sterling area to freely convert sterling held in those accounts into dollars or any other currency.

The trade-liberalization measures that the United Kingdom adopted during the period 1958-59 continued the pattern established in August 1957. At the Commonwealth Trade and Economic Conference held in Montreal in September 1958 the United Kingdom announced that it was eliminating a number of its restrictions on imports. At that time other Commonwealth countries were urged to follow, and subsequently did follow, the British pattern of liberalizing imports from the dollar area.

In July 1958 the United Kingdom significantly liberalized its restrictions on imports of fresh apples from the dollar area by combining the

quotas for imports from countries of North America and Western Europe and from certain other countries into a single Northern Hemisphere quota. The new quota, which embraces two import periods (July-December and January-June), is based on weight rather than on value. Subsequently, on October 1, 1958, the United Kingdom established individual quotas for imports from the dollar area of fresh fruit (including citrus fruits but not including apples), dried fruit, canned fruit (including grapefruit), and fruit juice. The total value of the quotas announced on October 1 was approximately \$20 million. Almost all U.S. fruit sold in the United Kingdom since World War II has been purchased with dollars made available to the United Kingdom under the Agricultural Trade Development and Assistance Act of 1954, as amended. Now that commercial quotas for fruit have been established, purchases of fruit will not be made under the provisions of that act.

In August and September 1958 the United Kingdom extensively liberalized its trade by placing many commodities on an open general-license list which specifies the products that may be imported without license from the dollar area. The commodities liberalized in August included a wide range of chemical and related products. Except for dyes and dyestuffs and products intended primarily for consumer use (such as paints and cosmetics), licenses are still required for imports of most industrial chemicals. In September about 300 additional commodities were placed on the open general-license list. Included were insulators, wires and cables, abrasive machinery, agricultural machinery, cash registers, cement-making machinery, and dairy machinery.

Wholly freed from controls were imports of newsprint and (except for imports from countries of the Soviet bloc) canned salmon. These new measures raised the United Kingdom's level of liberalization for imports from the United States and Canada to about 73 percent (based on imports in 1953).

On June 8, 1959, the United Kingdom liberalized imports of many additional commodities from the dollar area. The new liberalization measure applied to a wide range of consumer goods. The first group of commodities, which formerly could be imported freely from countries of Western Europe, was liberalized for importation from the dollar area. Included in this group were cheese, canned fish, frozen and canned vegetables, lubricating oils, perfume, soaps, tires and tubes, furniture, refrigerators, boats, shoes, musical instruments, and certain cameras. The second group consisted of commodities the importation of which from both Western European countries and the dollar area had previously been restricted. Included in this group were porcelain, optical glass, umbrellas, and sunshades. A third category of liberalized commodities embraced certain products that formerly could be imported under quota from Western European countries and certain other nondollar countries. Quotas for these commodities are to be increased and opened to imports from dollar-area countries. Participation by dollar countries in these enlarged quotas was to begin in most instances after December 31, 1959, but quotas for several commodities (canned and

bottled apples and fresh pears) were opened to the dollar area on July 1, 1959.

The increase in the number of commodities that the United Kingdom has liberalized for importation from the dollar area has considerably reduced the scope of the British token-import plan. This plan, under which specified consumer commodities are admitted from dollar countries in token quantities, still remains (June 30, 1959) the only basis under which U.S. firms can gain access to the United Kingdom market for a number of specified manufactured commodities. Many of the commodities that the United Kingdom liberalized for importation from the dollar area in June 1959 had been on the British token-import-plan list, but have now been dropped from it. With the increasing liberalization of imports from the dollar area, it is probable that the British token-import plan will soon be abandoned.

On January 1, 1959, the United Kingdom--with a view to participating in a European free-trade arrangement--adopted a new customs tariff. The new tariff, which is based on the Brussels Nomenclature, did not involve any significant changes in the levels of the import duties.

Other OEEC countries

Greece.--On May 25, 1959, Greece established external convertibility for its currency by permitting nonresidents to convert the drachma into dollars and other specified convertible currencies.

Since 1953, when it devalued the drachma by 50 percent and

liberalized its trade, Greece has required import licenses for only a few commodities. In 1958-59, however, as a result of the increased volume of imports during 1957 and 1958 and the accompanying decline in its reserves of gold and foreign exchange, Greece adopted a series of controls designed to reduce imports and to prevent a further decline in its exchange reserves.

On March 1, 1959, Greece added 19 new commodities or groups of commodities to a list of 38 commodities or groups of commodities for which prior approval is required before import licenses will be granted. The commodities added to the list included fans, certain canmaking machinery, irrigation equipment, and certain farm machinery. Three groups of commodities--bandsaws, concrete mixers, and pressers for macaroni factories--were deleted from the list. At the same time, all imports of used machinery were made subject to the licensing requirement.

In April 1959 Greece placed in effect additional import restrictions. Passenger automobiles, 1/ trucks, buses, automobile chassis and bodies, and certain textile materials and finished goods were made subject to import licensing. Frozen meat, timber, coal, iron and steel products, sewing machines, certain electrical equipment, woodpulp, newsprint, and tires and tubes were made subject to import quotas if they originated in the United States, Canada, member countries of the

1/ In September 1958, registration and circulation taxes on passenger automobiles were drastically increased in such a manner as to favor the importation of smaller cars.

OEEC, or countries with which Greece does not have bilateral payments agreements.

Greece requires an advance deposit for the importation of all commodities except foodstuffs and certain other specified products. For commodities imported on a cash basis, the required advance cash deposit is either 50 percent or 100 percent, depending on the classification of the commodities. In August 1958 certain commodities previously subject to a 15-percent advance deposit were made subject to an advance deposit of 50 percent, and the number of commodities subject to a 100-percent advance deposit was increased by 55. Commodities subject to an advance deposit of 50 or 100 percent were also made subject to an additional prior deposit requirement of 20 or 40 percent, respectively; this additional deposit is, in effect, an advance payment against import duties and other charges. For imports against time drafts, the importer must give a personal guarantee equal to 25 percent of the c.i.f. 1/ value of the commodities.

The new restrictions that Greece imposed on imports during the period covered by this report did not necessarily reflect a change in the liberal trade policy that it has pursued since 1953. As of January 1, 1959, the level of private imports freed from quantitative restrictions by Greece exceeded 95 percent for both the OEEC area (based

1/ Cost, insurance, and freight.

on imports in 1948) and the dollar area (based on imports in 1953). Nevertheless, Greece's imposition of the new import restrictions during the period covered by this report was in marked contrast to the general tendency of Western European countries to relax or eliminate such restrictions.

Iceland.--Because of Iceland's particular balance-of-payments problem, special provisions of the OEEC Code of Liberalization exempt that country from the general requirement that OEEC countries attain a liberalization level of 90 percent for their import trade.

Iceland did not establish external convertibility for its currency during the period covered by this report, as most OEEC countries did, and its 1959 import program included stricter licensing requirements for imports of capital goods than its 1958 program did. With the exception of commodities specified in a special conditional "free list" and of a limited number of staple commodities, Iceland requires licenses for all imports and exports. During the period covered by this report the liberalization for Iceland's import trade remained at the low levels of 29 percent for the OEEC area (based on private imports in 1948) and 33 percent for the dollar area (based on private imports in 1953).

Turkey.--During the period covered by this report the most important change in Turkish commercial policy resulted from Turkey's adoption on August 4, 1958, of a comprehensive stabilization program. Before it adopted this program, Turkey had found it difficult to engage in foreign

trade because of the country's unrealistic exchange rates. To eliminate the disparity between internal and external prices, Turkey abolished most of its multiple-currency practices and established a new exchange-control system which involved a single effective import (selling) rate and three effective export (buying) rates.

After it had revamped its exchange-control system, Turkey adopted new regulations for the conduct of its import and export trade. Barter transactions were prohibited, licensing and quota systems were established for exports made against payment in other than transferable and convertible currencies, and a global quota was established for the importation of essential commodities. The first global quota under the new program, which was effective for the last quarter of 1958, provided for the importation of raw materials, machinery and spare parts, and other commodities, valued at \$150 million. Individual importers were allowed to participate in each individual commodity quota up to a maximum of 15 percent of the particular quota. A second global import quota, likewise of \$150 million, was announced in February 1959, but the 15-percent rule was eliminated with respect to imports from countries with which Turkey has clearing agreements. In May 1959, 160 commodities on the second global-quota list were freed from quantitative restrictions. Included in the list of liberalized commodities were hydraulic oil, safety glass for vehicles, pig iron, copper rods and sections, copper springs, and parts for various types of machinery.

The Overseas Sterling Area

The United Kingdom is the most important member of the sterling area, not only because of its leading trade position but also because it is "banker" for the area and repository of the area's official foreign-exchange reserves. Other countries of the sterling area hold the bulk of their exchange reserves in sterling, and settle most of their international transactions in that currency. Developments in the commercial policies of the overseas sterling countries, 1/ therefore, must be viewed in relation to commercial-policy developments in the United Kingdom. The obligations and responsibilities of the United Kingdom as a member of the European trading community largely explain the significant steps it took in the direction of currency convertibility and multilateral trade during the period covered by this report. In taking these steps, however, the United Kingdom also had in mind the interests of the entire sterling area and acted in consultation with the other members of the area. Shortly after the United Kingdom established external currency convertibility in December 1958, the countries of the overseas sterling area amended their exchange-control regulations to bring them into conformity with the new developments.

Although each independent member of the sterling area determines its own commercial policy, the policies of the individual countries

1/ Sterling area countries other than the United Kingdom, Ireland, and Iceland.

are coordinated with those of the United Kingdom at the annual conferences of the Commonwealth finance ministers, and a general trade policy for the sterling area is formulated. At the Commonwealth Trade and Economic Conference, held in Montreal from September 15 to 26, 1958, the United Kingdom notified the Commonwealth countries of the steps it had recently taken to eliminate restrictions on imports from the dollar area, and urged them to adopt a similar policy. As a result, many of the overseas sterling-area countries followed the British pattern by liberalizing their trade and relaxing their restrictions against imports from the dollar area.

The principal developments during 1958-59 with respect to trade restrictions for all countries of the overseas sterling area with which the United States has trade agreements (except Ghana) are discussed below. Ghana did not significantly alter its import-control system during the period covered by this report.

Australia

In controlling its import trade, Australia employs three types of quantitative restrictions--quotas, administrative licensing, and an import-replacement system. Most commodities to which each of these types of control apply are licensed for importation from nondollar countries only, but each type of control also includes some commodities that may be imported on a global basis. Commodities subject to quota enter in predetermined quantities that are established for each licensing period. The quantities of commodities that may be licensed for importation on an administrative basis are not established in advance; each application

for a license is considered on its merits, and the application may or may not be granted. Under the import-replacement system, licenses are granted to importers on the basis of their imports of the particular commodity in a specified preceding period.

On August 1 and December 1, 1958, Australia liberalized its import trade by freeing imports of a number of commodities from the licensing requirement. Among the products thus freed on August 1 were bromine salts, various cyanides, calcium silicide, chromium silicide, fashion plates and books, maps, charts, geographical globes, and oil and watercolor paintings. Imports of chrome ore; raw silk; raw quartz crystals; and pulp, paper shavings, and wastepaper for manufacturing paper were freed from the licensing requirement on December 1.

Besides freeing the commodities mentioned above from the licensing requirement for importation from all sources, Australia reduced the degree of discrimination against imports from the dollar area. Discrimination against imports of broad categories of capital equipment (other than electrical) from the dollar area was relaxed on August 1, 1958, by transferring many commodities from the nondollar licensing list to the nondiscriminatory global list. On December 1, 1958, similar action was taken for additional commodities, including tubes, belting, natural and synthetic rubber and rubber substitutes, and silicones and certain other chemicals.

On April 1, 1959, Australia further eliminated discrimination against imports from the dollar area by placing 330 commodities on a

list of products for which licenses would be granted on a nondiscriminatory basis. Commodities transferred to this worldwide licensing list included agricultural machinery, tractors, earthmoving equipment, roadmaking machinery, diesel engines, automobiles, lighting and air-conditioning equipment for railroad trains, locomotives and parts, aircraft and parts, scientific instruments, fire engines, spark plugs, television sets, radios, and various chemicals and drugs. Agricultural products transferred to the worldwide licensing list included oils in bulk (except pine oil), molasses, linseed cake and oilcake, linseed oilmeal, tung oil, and certain cotton and synthetic yarns. For most agricultural products, Australia now grants licenses on a nondiscriminatory basis, and importers are thus permitted to select their source of supply. The addition of the 330 commodities mentioned above to the nondiscriminatory import-licensing list increased from 50 to about 70 percent the total value of Australian imports no longer subject to discriminatory treatment. Imports of motor vehicles and parts, textiles, certain consumer goods, canned goods, and timber are not free from dollar discrimination; they are, however, subject to administrative licensing, and imports of these commodities from the dollar area are permitted on an individual basis. Although discrimination against imports from the dollar area was reduced by the liberalization measures mentioned above, Australia's import budget of approximately 800 million Australian pounds per year remained unchanged during the period covered by this report.

Ceylon

Ceylon regulates the importation of all but a few commodities; however, since imports of many commodities are subject to open general license,

The restrictions--at least for authorized importers--are nominal.

Individual licenses are required, however, for many consumer goods imported from the dollar area.

On July 3, 1958, imports of hulling and polishing machines and parts thereof were made subject to individual license. In November 1958, however, restrictions were relaxed on the following imports from the dollar area: Confectionery; toys and parlor games; whisky; and beer, ale, porter, and all other malt liquors. Previously, licenses had been granted only for token imports of alcoholic beverages, and no licenses had been granted for the other commodities mentioned. Under the new regulations, licenses are issued at the discretion of the Government. All imports of sarongs and sarong cloth made of cotton or of rayon or other synthetic fibers were prohibited during the period November 16, 1958-January 16, 1959.

To reduce the deficit in its budget for the year 1958-59, Ceylon on July 18, 1958, increased the excise taxes on several products and altered the import duties on a wide range of commodities. Import duties were reduced on materials used by domestic industry and increased on certain finished products, including tobacco, cigarettes, and some luxury products.

India

India's import policy is based largely on the availability of foreign exchange and on import requirements for the country's second 5-year plan. To insure importation of only the most essential commodities, India maintains import control on virtually all commodities and

imposes especially stringent restrictions on the importation of consumer goods. Imports are controlled on the basis of 6-month licensing periods that begin on October 1 and April 1 of each year. Commodities may be imported from any country under general license and, in addition, from soft-currency countries, under soft-currency license. 1/

During the fiscal half year October 1958-March 1959, India's need to conserve foreign exchange was still of primary importance, and the country's import policy continued to be restrictive. However, loans and various other forms of assistance made it possible for India to increase its foreign-exchange allocation for the 6-month period slightly and to relax somewhat its discriminatory treatment of imports from the dollar area.

During the October 1958-March 1959 licensing period, India increased the quotas for a number of commodities imported from the dollar area. Included were spare parts for several types of machinery, refrigeration and air-conditioning equipment, 1-day alarm clocks, precision and measuring tools, electrical instruments, tractor-drawn agricultural implements, rough iron and steel castings, boiler tubes, copper and brass sheets, and certain metalworking tools. Because larger quantities of some commodities were available from domestic sources, however, quotas for imports of similar products were reduced; included were ball bearings of certain sizes, starters for electric motors, certain chemicals, twist drills, metalworking saws, and cloves.

1/ To conserve foreign exchange, use of the open general license, under which commodities could be imported without quantitative restriction and without discrimination as to country of origin, has been largely discontinued since 1957. Only a few commodities imported from Pakistan and certain replacement goods now enter under open general license.

Although India's import policy for the April-September 1959 licensing period was as restrictive as that for the preceding period, and although the overall foreign-exchange allocation was substantially the same, several significant changes were made in the import-control regulations. The period during which import licenses were valid was increased from 6 months to as much as 12 months for imports of industrial raw materials, thus permitting more rational planning of imports and of domestic production. A second important change involved the extension of the base period employed to calculate import quotas for established importers. For imports of 47 commodities the base period was extended to cover the fiscal year 1957-58, thus providing established importers with an additional year from which to select the most favorable year for calculation of import quotas. Included among the commodities affected by this change were mercury, garage tools, X-ray film, tires and tubes, and spare parts for agricultural tractors.

At the beginning of the April-September 1959 licensing period, India altered various individual commodity quotas in order to provide foreign exchange for more urgently needed goods. Quotas were increased for 53 commodities, including asbestos packing, fractional horsepower motors, garage tools, hydrosulfite of soda, gum arabic, cork products, dyeing and tanning substances, bleaching powder, and certain scientific and mathematical instruments. Commodities for which the quotas were reduced included antimony ingots, leather belting, and certain electrical appliances. Quotas for imports of copper and zinc, which had been eliminated during the previous licensing period, were restored; quotas

for mercuric chloride, phosphoric acid, and dicalcium phosphate were withdrawn.

India's general policy with respect to imports from the dollar area, as established in 1957, remained unchanged for both the October 1958-March 1959 and April-September 1959 licensing periods. One-half the value of all soft-currency-area import licenses could still be used for imports from the dollar area, and import licenses with a face value of less than 5,000 rupees 1/ could be fully used for the importation of dollar goods.

India's extensive export program, which is designed to maximize earnings of foreign exchange, is maintained for the primary purpose of purchasing capital goods necessary to meet the requirements of the country's 5-year plan. Important steps taken by India during the period covered by this report to increase exports included reduction of the export duties on a number of commodities and the elimination of those on vegetable oils, oilseeds, and oilcakes. On August 30, 1958, export restrictions on more than 200 commodities were eliminated, the exportation of several previously "prohibited" commodities was authorized, and licenses were more liberally granted for exports of additional commodities. During the period covered by this report, India also established export-incentive plans for a number of commodities. Under the program to promote additional exports of textile products, which was established during the October 1958-March 1959 licensing period, textile mills were granted licenses to import raw materials, such as dyestuffs, chemicals,

1/ U.S.\$1 = Rs4.76.

and raw cotton (and also, under certain conditions, machinery) up to a fixed percentage of their earnings from exports of textiles.

New Zealand

New Zealand's policy of liberalizing its import trade was reversed on January 1, 1958, when the country reduced the level of permitted imports and adopted a stricter licensing system. The stated official reason for the stricter import policy was the rapid depletion of New Zealand's foreign-exchange reserves. The United States was especially concerned over New Zealand's action because it increased the degree of discrimination against dollar imports at a time when New Zealand's dollar holdings were no more unfavorable than its holdings of other currencies. In March 1958, however, New Zealand revised its January 1958 licensing schedule and considerably reduced the degree of discrimination against imports from the United States.

In 1959 New Zealand continued its policy of reducing the degree of discrimination against imports from the dollar area. The country's 1959 import-control policy provided for a substantial reduction of imports, for more liberal treatment of dollar imports, and for significant changes in its licensing system. The category of goods for which licenses previously had been automatically granted was eliminated, and the tariff items therein became subject to more strict licensing requirements. The category of goods for which licenses are issued only in exceptional circumstances was enlarged. For most of the remaining tariff items, licenses may be granted, but only for a fixed percentage of the value of the licenses that were issued in 1958 or of the value of imports entered in

1956 or 1957. Most of the quotas provided for in New Zealand's 1959 licensing schedule were global, and therefore the degree of discrimination against dollar imports was substantially reduced.

On April 1, 1959, New Zealand increased the total value of permitted imports for the 1959 licensing year by increasing to \$588 million the overall exchange quota of \$550 million established on January 1, 1959. The quota increase was applicable to certain raw materials and equipment for industry, as well as to some consumer goods. Additional commodities, the importation of which previously had been prohibited or strictly controlled, were made subject to license on an individual basis. A subsequent addition to the overall 1959 exchange quota for private imports increased the quota to about \$644 million. Although the new increase applied primarily to commodities subject to global quota, quotas for commodities subject to individual control were also increased.

Pakistan

Pakistan's import policy for the July-December 1958 import period was substantially the same as that for the preceding 6-month period. The requirement of individual licenses for all commercial imports was retained, and issuance of licenses continued to be restricted to essential commodities and to commodities specified in an "importable" list. Except for commodities subject to certain trade-agreement commitments, however, licenses continued to be valid for importation from any country.

As a result of its deteriorating balance-of-payments position, Pakistan adopted a severely restrictive import program for the January-June 1959 import period; the number of commodities on the importable

list was reduced from 207 to 174. On December 31, 1958, in order to centralize control of foreign exchange in the state bank, Pakistan suspended all authorized import licenses involving letters of credit 1/ and permitted payments for imports only with the permission of the state bank. The new regulations did not apply to commodities imported under various special programs (e.g., the international-cooperation program) or under rupee-payment plans.

On January 15, 1959, Pakistan abolished all existing import quotas and export programs and introduced a new export bonus plan. The export bonus plan applies to permitted exports except raw jute, raw cotton, most hides and skins, wool, rice, tea, and exports made in connection with barter arrangements and rupee-payment accounts. 2/ Under the plan, exporters of all manufactured goods (except manufactures of jute and cotton) receive 40 percent of the exchange earnings from their exports. Exporters of all other commodities (including manufactures of jute and cotton), as well as certain service industries, receive 20 percent of their exchange earnings. Foreign exchange obtained in this manner may be used to import under open general license any of 219 listed commodities. 3/ Foreign-exchange earnings not turned over to exporters are used to finance the importation of essential commodities and of commodities required by industries that do not earn sufficient foreign exchange.

1/ Many of the suspended import licenses were revalidated during the January-June 1959 import period.

2/ The revised export regulations freed from export control all but 16 commodities or groups of commodities.

3/ Some of the commodities on the open general-license list are luxury or nonessential items. On Feb. 9, 1959, to discourage the importation of such commodities, Pakistan increased the rates of duty on 14 of them, including coffee, cocoa and chocolate other than confectionery, certain toilet articles, and umbrellas.

Union of South Africa

Although the Union of South Africa requires licenses for most imports, it grants such licenses without discrimination as to country of origin. Imports of some commodities are licensed on a replacement basis; imports of others are subject to exchange quota, and licenses are issued only to the extent permitted by the quotas.

In May 1958, because of balance-of-payments difficulties, South Africa reversed the policy of import decontrol that it had pursued from 1953 to 1957 and adopted somewhat more restrictive import-control regulations. ^{1/} The country's import policy for 1959 involved only a few changes from that followed in 1958. One commodity--adjustable slide fasteners--was exempted from import licensing; several other commodities (including parts and accessories for office machines, motor vehicles, motorcycles, and motor scooters) were added to the list of products for which licenses are liberally granted on a replacement basis; and several commodities that had been liberally licensed were made subject to quota. South Africa's overall exchange quota for 1959, as announced through July of that year, approximated that for 1958.

Burma

The fluctuations in the level of its foreign-exchange holdings since 1955 have led Burma to alternately relax and intensify its import restrictions. During 1957-58 Burma in effect abolished its system of open general license by requiring importers to obtain authorization for opening letters of credit. During the same period it also prohibited

^{1/} See Operation of the Trade Agreements Program, 11th report, pp. 152-154.

imports of all commodities from the dollar area except drugs and medicines and certain other products not obtainable elsewhere.

During the period covered by this report, Burma continued to maintain a generally restrictive system of import control, but pursued a policy of reducing the degree of discrimination against imports from the dollar area. The most significant step toward eliminating dollar discrimination was taken on January 2, 1959, when all existing open general licenses were abolished and replaced with four new open general licenses. The new open general licenses apply to 27 tariff items, of which 25 (items on open general licenses 1 and 2) may be imported from any country. At the same time, Burma abolished the requirement that importers must obtain prior approval for opening letters of credit for the importation of commodities covered by open general license. The new system represents a significant improvement over the preceding one for, of the 59 items that could be imported under the former open general-license system, only 3 could be imported from the United States. For the importation of commodities not subject to open general license, specific licenses are required; these licenses are valid, in many instances, only for imports from nondollar countries.

Singapore, Malaya, and Rhodesia-Nyasaland

Imports into Singapore and the Federation of Malaya, which are subject to parallel regulations, are made either under open general license or under special license; all commodities that may be imported directly from the dollar area are subject to special license. On January 1, 1959, Singapore and the Federation of Malaya began to freely

issue special licenses for the importation of 23 categories of goods from the dollar area. Before then, special licenses were granted for imports from the dollar area only if the commodities involved were not available from Commonwealth sources at competitive prices. The categories of goods for which licenses are now freely available for importation from the dollar area include trucks, canned and powdered milk, agricultural and mining machinery, paints, certain medicines, and certain steel products.

Except for those commodities that are subject to quota or that are on the "prohibited" (not normally licensed) list, all commodities imported into the Federation of Rhodesia and Nyasaland from the dollar area enter under open general license. 1/ The deletion of several commodities from the prohibited list, which includes more than 100 items, and the increase in the exchange quotas for several other commodities early in 1959 were the only significant changes that the Federation of Rhodesia and Nyasaland made in its import-control regulations during the period covered by this report.

Nondollar Countries Other Than Those in OEEC or the Sterling Area

Certain nondollar countries that are not members of either OEEC or the sterling area had trade-agreement obligations with the United States during the period covered by this report. This group of countries

1/ The Federation of Rhodesia and Nyasaland imposes few restrictions on imports from countries of the sterling area.

included six Latin American countries--Argentina, Brazil, Chile, Paraguay, Peru, and Uruguay--and Finland, Indonesia, Iran, and Japan. Argentina, Iran, and Paraguay have bilateral trade agreements with the United States; the other countries are contracting parties to the General Agreement on Tariffs and Trade.

All the above-mentioned countries are members of the International Monetary Fund, which makes its resources available to member countries that require assistance to support their exchange rates. The Fund, moreover, encourages the simplification or abolition of multiple-exchange-rate systems, and seeks in other ways to create and maintain orderly exchange procedures. The Fund also advises the Contracting Parties to the General Agreement on Tariffs and Trade as to whether individual contracting parties that are also members of the Monetary Fund are in a position to relax or remove quantitative import restrictions they have maintained for balance-of-payments reasons.

Some of the above-mentioned countries made significant progress during 1958-59 toward establishing unitary exchange rates--a goal long sought by the International Monetary Fund. Argentina eliminated its system of multiple-exchange rates and established a single fluctuating rate, while Chile, in effect, created a single-exchange market with one fluctuating rate of exchange. Of the 10 countries mentioned above, only Brazil, Peru, Uruguay, and Indonesia now employ multiple-exchange-rate systems. The trend

toward simplifying and eliminating multiple-currency practices during 1958-59 was accompanied by a marked decrease in the use of quantitative and licensing restrictions. Argentina abolished both types of restrictions, Chile eliminated nearly all its quantitative restrictions and licensing requirements, and Finland opened additional quotas for dollar-area imports and permitted the importation, under license, of many additional dollar products to which quantitative restrictions did not apply. However, partly as substitute measures for multiple-currency practices, all six of the Latin American countries mentioned above and Indonesia either adopted or increased prior import deposits or import surcharges. Argentina abolished its requirement of prior import deposits but compensated for this action by the high level of its import surcharges.

Exchange quotas, like import licenses and quantitative restrictions, are employed to regulate the total value of imports permitted to enter a particular country. Japan and Brazil, both of which employ a system of overall exchange quotas, substantially changed the size of their exchange budgets during 1958-59. By substantially increasing its semiannual exchange budgets, Japan increased the total value of authorized imports. Brazil, however, reduced the exchange allocations for various categories of commodities because its foreign-exchange reserves were at a low level.

DEVELOPMENTS WITH RESPECT TO
THE COMMON MARKET

The Tariff Commission's 10th report on the operation of the trade agreements program discussed in detail the history of the European Economic Community, the provisions of the Common Market Treaty, the Community's institutions, and the timetables set forth in the Common Market Treaty for abolishing internal tariffs and for establishing a common external tariff. ^{1/} Subsequent sections of this chapter will discuss the principal developments with respect to the Common Market during the period July 1958-June 1959; analyze the relationship of the Common Market to the General Agreement on Tariffs and Trade, the Organization for European Economic Cooperation, and the European Coal and Steel Community; and discuss the reactions to and effects of the establishment of the Common Market. Before turning to these matters, however, it will be useful to review briefly the nature of the European Economic Community and the principal provisions of the Common Market Treaty.

In June 1955, with a view to more closely integrating their economies, the six members of the European Coal and Steel Community--Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands--agreed to study the feasibility of establishing a customs union to be known as the European Economic Community, or Common Market, as well as a European community for the exploitation of atomic energy (Euratom). The efforts of these countries culminated in

^{1/} Operation of the Trade Agreements Program, 10th report, pp. 112-129.

the signing of treaties for the Common Market and Euratom in Rome on March 25, 1957. When the Common Market's transitional period ends in 1970-73, all tariffs and other barriers to the trade of the participating countries will have been abolished and the European Economic Community will have a common tariff vis-a-vis the other countries of the world. Actually the European Economic Community, as its name implies, is designed to be more than a customs union; the ultimate goal of the participating countries is complete economic integration.

Briefly summarized, the Common Market Treaty provides for--

- (1) Elimination, over a period of 12 to 15 years, of restrictions on the exchange of products among the participating countries.
- (2) Establishment by the member states, likewise over a period of 12 to 15 years, of a common external tariff.
- (3) Abolition of all restrictions within the Community on the free supply of services normally supplied for remuneration, including activities of an industrial or commercial character and activities of artisans and members of the "liberal professions."
- (4) Removal of restrictions on the movement of capital and labor within the Community.
- (5) Establishment of a common policy for rail, highway, and inland waterway transportation.

- (6) Adoption of special arrangements for the trade in agricultural products during the transitional period, and ultimate establishment of a common policy for agriculture.
- (7) Prohibition of any agreements or concerted practices among enterprises that have as their object, or result in, the prevention, restriction, or distortion of competition within the Common Market area (e.g., price fixing, limitation or control of production and markets, and discrimination in providing access to sources of supplies).
- (8) Association with the Community of overseas countries and territories that are politically tied to the participating countries.
- (9) Establishment of an elaborate set of institutions to guide, and to assist in, the Community's work (e.g., the Council, the Commission, the Assembly, the Economic and Social Committee, and the Court of Justice).
- (10) Creation of a special European Social Fund to facilitate the geographical and occupational mobility of workers within the Community.
- (11) Creation of a European Investment Bank to supplement the activities of private banks in financing projects for modernizing or reconvertng enterprises or for

creating new ones, and to assist in the development of economically undeveloped areas and in projects of common interest to some of the member states.

Activities of the Common Market During 1958-59

The Common Market Treaty became effective on January 1, 1958, and the European Economic Community shortly thereafter began the task of implementing its provisions. The activities of the European Economic Community during the period covered by this report fall into several distinct categories: (1) Implementation of the tariff, quota, and other provisions of the Common Market Treaty; (2) activation of the Community's institutions and administrative services; (3) institution of studies required for further implementation of the Common Market Treaty; and (4) cooperation with other international organizations. ^{1/}

Implementation of tariff, quota, and other provisions of the Common Market Treaty

On January 1, 1959, in accordance with the December 3, 1958, decision of its Council, the European Economic Community began to implement the tariff and quota provisions of the Common Market Treaty. On that date the member states took the first step toward eliminating internal tariffs by reducing their duties on all imports from each other by 10 percent. ^{2/} The initial reduction, which applied to all commodities,

^{1/} See European Economic Community Commission, Second General Report on the Activities of the Community (18 September 1958-20 March 1959), Mar. 31, 1959.

^{2/} The second step in the elimination of internal tariffs is scheduled for June 30, 1960; the first step toward the adoption of a common external tariff is scheduled for Jan. 1, 1962.

was based on the rates of duty in effect on January 1, 1957. ^{1/} The 10-percent reduction in import duties also applied to products imported from the associated overseas territories of the Community, and those overseas territories of the Community that have a customs tariff likewise were to reduce by 10 percent their duties on commodities imported from Common Market countries. The Common Market Treaty provides, however, that the obligation of overseas countries of the Community to reduce their tariffs may be waived if such action is necessary to meet the needs of those countries with respect to internal development, industrialization, or finances.

At the same time that the reduction in import duties became effective, all bilateral quotas in effect in member states of the Community vis-a-vis other EEC countries were transformed into global quotas, and the total value of each country's import quotas was increased by 20 percent of the 1956 level. In accordance with the Common Market rules for the elimination of quotas, there was a minimum increase of 10 percent for each individual quota, and all quotas that amounted to less than 3 percent of the national production level for the particular commodity were increased to the prescribed minimum of 3 percent. The purpose of the rule permitting the uneven application of the quota increases, of course, is to allow member states to increase quotas for articles that are particularly sensitive to competition by less than the prescribed average of 20 percent. The 20-percent increase in quotas,

^{1/} The Federal Republic of Germany reduced the import duties on only a small part of its tariff schedule because it had unilaterally reduced the duties on imports of most industrial products after Jan. 1, 1957.

mentioned above, did not apply to certain agricultural products for which a "standstill" agreement exists, but the import duties on such excepted products were reduced by 10 percent.

In the initial step toward eliminating internal tariffs, the member states of the European Economic Community reduced their import duties on agricultural products by 10 percent and enlarged their quotas on such products--except as noted above--just as they had done for nonagricultural products. The Common Market Treaty provides, however, that--to avoid disturbance to certain sectors of their national agriculture--member states may during the transitional period establish minimum prices for imports of agricultural products from other member states. Moreover, during the transitional period each member state has the right to reduce or suspend imports of agricultural products from other countries of the European Economic Community if the prices of such commodities fall below the established minimum.

Because of the difficulties that were being encountered in the negotiations for a free-trade arrangement that would embrace the Common Market countries and some or all of the other OEEC countries, the Council of the European Economic Community on December 3, 1958, also took certain actions which affected countries that are not participating in the Common Market. In its first action, the Council decided to extend the initial 10-percent reduction in import duties to products imported into the member states of the Community from all other members of OEEC, from all other contracting parties to GATT, and from all non-GATT countries that are entitled to most-favored-nation treatment. The implementation

of this reduction, which differed from country to country, began after January 1, 1959. The reduction was temporary and unilateral, and applied only in those instances in which it would not result in a rate of duty lower than that contemplated in the Community's ultimate common tariff; it did not apply to liberalized agricultural products or to commodities covered by the provisions of the Treaty constituting the European Coal and Steel Community. In its second action, the Council of EEC decided to extend to other OEEC countries--on a reciprocal basis--a 20-percent increase in the quotas for those industrial products for which the level of liberalization was above that achieved under the OEEC Council decisions of January 14, 1955. Ten percent of this increase would be obligatory for each quota, while the second 10 percent would not necessarily apply to each quota but could be concentrated on those products of particular interest to the other countries in question. The quota expansions, unlike the tariff reductions, were not extended to other contracting parties to GATT or to all countries that are entitled to most-favored-nation treatment.

Aside from the initial implementation of the tariff and quota provisions mentioned above, the European Economic Community took several other important steps toward implementing the provisions of the Common Market Treaty during or shortly before the beginning of the period covered by this report. Under the direction of the Community's Commission, two panels of experts nominated by the member states continued the task of constructing the Community's common external tariff, and specialist working parties were set up to prepare for the

negotiations between member states to establish the rates of duty in the common external tariff for the "hard core" items (List G). ^{1/}

On December 9, 1957, as a step toward facilitating the free movement of labor provided for in the Common Market Treaty, the member states signed an agreement in Rome extending social security benefits to all migrant workers in the Community and establishing minimum standards for payments to them. The agreement, known as the European Convention on Social Security for Migrant Workers, applies not only to workers in the coal and steel industries but also to workers in all other industries in the six countries. With minor exceptions, the agreement replaces the provisions of bilateral and multilateral agreements formerly in force, and covers all phases of social security, such as health insurance, disability pensions, old-age pensions, dependents' benefits, accident and occupational-disease benefits, family allowances, and unemployment benefits.

During the period covered by this report, the Community also took the first step toward the opening of markets in the agricultural field with the conclusion of a long-term contract between France and the Federal Republic of Germany. The contract provides for increased imports of French cereals by West Germany.

^{1/} The Common Market Treaty provides that, except for articles specified in Lists F and G, the rates of duty in the common external tariff shall be fixed at the level of the arithmetic average of the duties levied in the Community's four customs territories. Duties for articles in List F (chiefly foodstuffs and raw materials) were established by mutual agreement at the time the treaty was signed. Articles in List G (raw materials, semifinished products, scrap, and certain finished products such as some types of machine tools; engines and parts for motor vehicles; and flying machines, gliders, kites, and parachutes) are to be established by negotiation.

The implementation of the Common Market Treaty makes it necessary for the European Economic Community to develop, as rapidly as possible, common policies with respect to trade, agriculture, transport, and social problems. During the period covered by this report, the Community laid the groundwork for the development of common policies in these fields. By December 31, 1959, for example, the Commission of the Community is required to submit to the Council its proposals for working out and applying a common agricultural policy. The consultative committee on transport, which was convened in constituent session by the Commission of the Community on January 27 and 28, 1959, met several times during the period covered by this report to discuss the problems involved in achieving a common policy with respect to transport.

Activation of EEC institutions and administrative services

The principal institutions of the European Economic Community are the Council, the Commission, the Assembly, the Economic and Social Committee, and the Court of Justice. Except for the Court of Justice, all of these institutions began to function shortly before the beginning of the period covered by this report. The Council, composed of one representative of each member state, is the principal executive body of the Community and directly represents the six member states; it has functioned since January 1958, when it held its first session in Brussels.

Meeting in Paris on January 6 and 7, 1958, the Foreign Ministers of the six Common Market countries appointed the president and members

of the Community's Commission. 1/ The Commission, which is composed of nine nationals of the member states, is the permanent executive organ of the Community and is supranational in character, with authority to administer the Common Market Treaty in the common interest of the Community. It is organized into nine groups, each of which has a directorate-general to implement its policies and actions. 2/ The Assembly, which is the parliamentary body of the European Economic Community, held its opening session at Strasbourg on March 19, 1958. 3/ The Assembly, composed of 142 members appointed by the parliaments of the member states, has general supervision over the operation of the Community, as well as certain quasi-legislative powers. 4/ The Economic and Social Committee of the European Economic Community, which acts in a consultative capacity to the Commission and the Council of EEC, was appointed by the Council in April 1958 and held its first plenary session in Brussels on May 19, 1958; 5/ it consists of 101 experts who represent producers, farmers, transport and general workers, businessmen, artisans, the liberal

1/ Dr. Walter Hallstein, of the Federal Republic of Germany, was appointed president of the Commission. At the same time, the Foreign Ministers appointed the president and members of the European Atomic Energy Community (Euratom) Commission and a new president of the High Authority of the European Coal and Steel Community.

2/ The groups are those for (1) external relations, (2) economic and financial affairs, (3) internal market, (4) competition, (5) social affairs, (6) agriculture, (7) transport, (8) overseas countries and territories, and (9) administration.

3/ Mr. Robert Schuman, of France, was elected president of the Assembly.

4/ The Assembly, which is provided for in the treaties for the European Economic Community and the European Atomic Energy Community, replaces the Common Assembly established by the Treaty for the European Coal and Steel Community.

5/ The technical or specialized sections of the committee are those for (1) nuclear energy, (2) transport, (3) independent activities and services, (4) overseas territories, (5) agriculture, (6) social questions, and (7) economic questions.

professions, and the general public. The Court of Justice, which serves as the judicial body of the European Economic Community, as well as of Euratom and the European Coal and Steel Community, replaces the Court of Justice of the European Coal and Steel Community; it came into being on October 7, 1958, when the seven justices and two court advocates were sworn in at a public ceremony in Luxembourg. 1/

In its Second General Report on the Activities of the Community (18 September 1958-20 March 1959), the Commission of EEC reported that the organization of the administrative services of the Commission was already in an advanced stage, but that the key personnel of the directorates-general of the Commission still had to be brought up to strength. By February 28, 1959, a total of 1,108 officials had been recruited or appointed by the Commission to its directorates-general or to the EEC elements of the Joint Services of the Executives of the European Communities. 2/ The Commission also reported that the Joint Legal Service and Joint Statistical Office had been operating for several months, and that the Joint Information Service was being organized.

1/ For a more detailed description of the institutions of EEC, see Operation of the Trade Agreements Program, 10th report, pp. 117-121.

2/ The European Communities are the European Economic Community or Common Market, the European Coal and Steel Community, and the European Atomic Energy Community (Euratom).

During the period covered by this report the Development Fund for Overseas Countries and Territories, 1/ the European Social Fund, 2/ and the European Investment Bank 3/ also began to function. The Commission of the European Economic Community approved the financing of several social projects by the Développement Fund, which also submitted certain economic projects to the Council of the Community for approval. With the establishment of the European Social Fund and the adoption of initial regulations for the free movement of workers within the Community--which supplements the arrangement mentioned above for the social security of migrant workers--the European Economic Community took the first steps toward the development of a European social policy. During the period covered by this report the European Investment Bank devoted itself to organizing its services, to formulating its credit policy, and to preparing for its first loan operations.

Institution of studies required for further implementation
of the Common Market Treaty

During the period covered by this report the various institutions of the European Economic Community instituted a number of studies which

1/ The Development Fund is to be used to promote the general economic development of the overseas countries and territories, as well as for social projects such as schools and hospitals.

2/ The European Social Fund, to which all member states contribute, is intended to facilitate the adjustment to new competitive conditions created by the Common Market. The Fund is designed to reimburse member states for 50 percent of any public expenditures they make in assisting workers in transferring to new occupations and in assisting workers who are temporarily unemployed as a result of the establishment of the Common Market.

3/ The European Investment Bank, which is intended only to supplement the activities of private banks, is designed to facilitate the financing of projects for modernizing or reconverting enterprises or for creating new ones, and to assist in the development of economically undeveloped areas and in projects of interest to some of the member states.

they considered necessary to carry out the implementation of the immediate and long-range objectives of the Common Market Treaty. Included among the projects initiated were--

- (1) A series of intensive studies, in collaboration with government, business, and professional circles, designed to provide the basis for an overall economic policy within which trade policy, social policy, agricultural policy, and transport policy may be carried out in a coordinated manner.
- (2) A project to improve the supply of data required to analyze economic trends in the member states, as well as to harmonize and make more readily comparable monetary and balance-of-payments statistics.
- (3) A study, in collaboration with the High Authority of ECSC, of the problems involved in achieving a common policy with respect to energy.
- (4) Establishment of a working party to study the possible elements of a general program to abolish restrictions on the freedom to establish businesses and on the free supply of services.
- (5) Collaboration between the Community's Commission and the governments of member states designed to lead to the adoption of a common policy with respect to competition.

- (6) A study of the problems involved in eliminating restrictions on the movement of capital between member states, as well as a study of the structure and trends of the capital market in each member state and the legislation that governs or influences the working of those markets.
- (7) A study of the economic regions of the community, with special reference to unemployment, social and economic structures, and the regional policies pursued by each member state, with a view to singling out those regions which are experiencing economic difficulties and which should be given priority attention.
- (8) A detailed study of the labor market throughout the Community.
- (9) Assembly of information necessary to develop a common policy with respect to transport and to assure the removal of transport discrimination within the Community.
- (10) A study of several concrete cases relating to the divergencies in legislation which require "approximation of laws" of the member states.
- (11) Studies relating to the problem of harmonizing turnover taxes and indirect taxation and the economic repercussions of direct taxes.

- (12) An inventory of the systems of state assistance to industries in member states, as the first step in the study of such systems.
- (13) A study of the development of the social situation within the Community.
- (14) An investigation of the level of wages paid by employers in certain branches of industry in the member states.
- (15) An examination of several requests with respect to the problem of "dumping."

Cooperation with other international organizations

During the period covered by this report the European Economic Community widened its contacts with a number of other international organizations. The Commission of the Community took part in a joint meeting of the Community's Assembly and the Consultative Assembly of the Council of Europe and--with a view to avoiding duplication of activity--established bases for cooperation with the European Productivity Agency and with a number of the technical committees of OEEC.

The Community's Commission also carried on discussions with the United Nations with a view to determining the most suitable formula for official relationship between the Common Market and the United Nations. Pending the final outcome of these discussions, the United Nations and the Commissions of EEC agreed on the form of cooperation between the Commission and certain specialized agencies of the United Nations and the regional economic commissions of the United Nations Economic and

Social Council. During the period covered by this report the Commission of EEC took steps to establish liaison with the United Nations Food and Agriculture Organization, and was invited to participate in the tripartite conference on the European Social Charter, which was scheduled by the International Labor Organization at the request of the Council of Europe. The Commission also established a cooperative relationship with the United Nations Economic Commission for Europe; the arrangement provides for an exchange of papers by the two organizations and for representation by the Commission of EEC at all meetings of the Economic Commission for Europe that are of interest to it. The Commission of EEC also took steps to establish a similar official relationship with the United Nations Economic Commission for Asia and the Far East and the United Nations Economic Commission for Latin America.

Relationship of the Common Market to Other International Trade Organizations

The introduction to this chapter called attention to the complex array of international organizations and arrangements that the free-world countries have created since World War II to cope with the problems of international trade. As each of these international organizations and arrangements has come into being, there has emerged the problem of reconciling the new set of relationships it has created among member countries with the obligations those countries already have assumed as members of, or parties to, other international organizations and arrangements. In most instances there has been little difficulty in reconciling such relationships. The emergence of large-scale regional

economic groupings such as the Common Market, however, has created an entirely different and more difficult set of problems with respect to reconciliation of the relationships involved in them and in existing organizations and arrangements. The following section of this chapter examines the relationship of the newly established European Economic Community, or Common Market, to the General Agreement on Tariffs and Trade, the Organization for European Economic Cooperation, and the European Coal and Steel Community.

General Agreement on Tariffs and Trade

Establishment of the Common Market has resulted in the emergence of another set of relationships between its member states and the Contracting Parties to the General Agreement on Tariffs and Trade. As contracting parties to the General Agreement, the six Common Market countries are obligated to observe the provisions of the General Agreement and to maintain the tariff concessions they have granted under it. If they were not associated in a common-market arrangement, the member states of the European Economic Community could reduce their import duties on concession items on a purely unilateral basis--that is, without obtaining the consent of other contracting parties to the General Agreement--provided they extended the benefits of the reductions in accordance with the most-favored-nation principle. As member states of the Common Market, however, they cannot reduce or eliminate import duties on their trade with each other except on the terms laid down by the General Agreement for the establishment of customs unions or free-trade areas. In applying their common tariff to imports of commodities

from nonparticipating countries, the Common Market countries likewise must observe those rules of the General Agreement that relate to most-favored-nation treatment and to the maintenance of tariff concessions that they have granted.

When the General Agreement was drafted it was anticipated that contracting parties might wish to form regional groupings such as the European Economic Community. The General Agreement recognized that organizations and arrangements such as the International Monetary Fund--and even the General Agreement itself--might be inadequate to meet the more limited needs of specific groups of countries. It therefore provided rules--in an article dealing with customs unions and free-trade areas--for the creation of such regional groupings. 1/

The process of postwar European economic integration had already made considerable headway before the Common Market Treaty was concluded in 1957. Of great significance in this process was the establishment in 1948 of the Organization for European Economic Cooperation and in 1950 of its subsidiary, the European Payments Union. One of the primary objectives of OEEC has been the relaxation and ultimate abolition of quantitative restrictions on the trade of its member countries with one another. OEEC is not, however, a customs union, and its member countries have continued to maintain their own individual tariffs vis-a-vis each other and the other countries of the world. The Benelux Customs Union (Belgium, the Netherlands, and Luxembourg) and the

1/ See Operation of the Trade Agreements Program, 10th report, pp. 116-117.

European Coal and Steel Community, on the other hand, represented limited developments toward the goal of European integration.

In 1951 the same six countries that later joined to form the European Economic Community established the European Coal and Steel Community, which is the most direct antecedent of the Common Market. The six participating countries eliminated import duties and other restrictions on the movement of coal, iron ore, scrap iron, and steel within the territories of the participating countries, and adopted a common tariff on imports of these commodities from countries outside the European Coal and Steel Community. This arrangement subsequently became the model for the Common Market, in which tariffs and other restrictions are to be removed from virtually all trade between the six member countries, and a common customs tariff is to be applied to imports from third countries.

While the General Agreement on Tariffs and Trade has from the beginning contemplated the development of regional groups within its framework, the actual establishment of regional organizations such as the Common Market constitutes to some extent a new departure in the approach to the world's postwar international trade problems. Since World War II the free-world countries have had as one of their major economic objectives the return to multilateralism in international trade. Until recently, however, multilateralism has been thought of principally in terms of participation by single countries or small, compact regional groups such as the Benelux Customs Union. The development of a large regional group like the Common Market, which

presents a common-tariff front to the rest of the world, creates certain problems with respect to multilateralism that do not exist in a more conventional trading system.

Development of a regional group like the Common Market results, of course, in greater economic cohesiveness within the group. It also results, to a certain extent, in the detachment or compartmentalization of the countries concerned. Since these two opposite forces operate in the development of any regional economic group, the problem from the standpoint of international trade as a whole is to assure that the benefits of trade liberalization within the group will be accompanied by comparable external benefits--that is, the further expansion of international trade and the further reduction or elimination of the barriers to such trade.

It is for this reason that the recent proliferation of customs unions on the scale contemplated by the Common Market, the proposed European Free Trade Association, and the proposed Latin American regional market has raised serious questions in many quarters. Will the integration of such groups of countries ultimately promote or retard achievement of the kind of worldwide multilateralism in trade and payments that has been the postwar objective of the free-world countries? Will these new groups fit readily into the framework of existing arrangements such as the General Agreement on Tariffs and Trade and the Organization for European Economic Cooperation? Will the new organizations ultimately develop into exclusive "clubs" of countries with highly protectionist outlooks toward the rest of the world, or will they serve as points of

departure for more complete regional economic integration? Under present arrangements for the conduct of international trade it is the function of the Contracting Parties to the General Agreement--under whose aegis regional groups have been or are being established--to attempt to reconcile whatever difficulties may arise in connection with the external operation of such groups. 1/

From the standpoint of the Contracting Parties to the General Agreement, adoption by the European Economic Community of its external tariff will involve not only the mechanics of adjusting to a common level the individual customs tariffs of the four customs territories included in the European Economic Community, 2/ but also the determination of precisely what tariff concessions the Common Market operating as a unit will grant to other contracting parties under the General Agreement. In relationship to the General Agreement on Tariffs and Trade the external tariff of the Common Market will stand in the same position as the tariff schedule of any other contracting party to the agreement. Like the tariff schedules of other contracting parties, the external tariff of the Common Market will ultimately embrace two types of duties--those on which the EEC has granted concessions under the General Agreement and those on which it has made no such commitments. Once established, the rates of duty on concession items may be

1/ For a discussion of the actions taken thus far by the Contracting Parties to the General Agreement with respect to the Common Market Treaty, see Operation of the Trade Agreements Program, 11th report, pp. 54-56, and the section on the European Economic Community in ch. 2 of this report.

2/ I.e., the customs tariffs of the Benelux countries, France, West Germany, and Italy. The Benelux countries already have a common customs territory.

increased only by negotiation with the Contracting Parties; those on nonconcession items may, of course, be altered unilaterally by the Common Market.

The "conversion" or "translation" of the concessions previously granted under the General Agreement by the individual member states of the Common Market into concessions granted by the Common Market operating as a unit will take place at the Geneva Conference of the Contracting Parties to the General Agreement which is scheduled to begin in September 1960. At that Conference the Contracting Parties presumably will examine the common external tariff proposed by the Common Market with a view to determining whether, for the purposes of the General Agreement, it is no higher or more restrictive on the whole than the former individual tariffs of the member states. ^{1/} If the Contracting Parties are satisfied on this score, there will then remain the problem of determining precisely what concessions (presumably in the form of reductions in or bindings of certain of the rates of duty specified in the common external tariff) the Common Market as a unit will be willing to grant in its schedule in the General Agreement, in return for concessions by other contracting parties. The General Agreement recognizes that formation of a customs union may result in increases in some rates of duty that are bound against increase in the GATT schedules of the individual participating

^{1/} Except for the so-called hard-core items, the Common Market Treaty prescribes the formulas for arriving at the common external tariff on commodities specified in six lists. The common external tariff on commodities specified in the seventh list (List G)--the so-called hard-core items--is to be established by future negotiations among the member states.

contracting parties. Article XXIV of the General Agreement therefore provides for the renegotiation of such bound duties and for the granting of compensatory concessions to offset increases in bound rates of duty.

It is impossible at this time to foresee the precise manner in which the Common Market's schedule of concessions will ultimately be worked out. However, should the schedule of tariff concessions first proposed by the Common Market not be considered satisfactory by the various negotiating contracting parties, presumably negotiations would then take place. During such negotiations either the Common Market would improve its offer of tariff concessions or the other contracting parties would withdraw or modify certain concessions previously granted by them to the individual Common Market countries. On the basis of past experience in GATT tariff negotiations, it seems likely that adjustments will take place on both sides until a satisfactory balance is achieved.

Organization for European Economic Cooperation

Just as establishment of the Common Market has resulted in the creation of another set of relationships between its member states and the Contracting Parties to GATT, so it has resulted in another set of relationships between its member states and the Organization for European Economic Cooperation. Since all the Common Market countries are also members of OEEC, they still have certain obligations to the other members of that organization. These obligations relate to the

maintenance of currency convertibility and to the relaxation of quantitative restrictions on imports under the OEEC Code of Liberalization. The complete elimination of quantitative restrictions on the trade between the countries participating in the Common Market is, of course, entirely in harmony with the aims of OEEC. Likewise in complete harmony with those aims is the elimination of quantitative restrictions on the trade of the Common Market as a unit with other OEEC countries--as provided in the OEEC Code of Liberalization.

Since the establishment of OEEC in 1948, its principal objectives have been cooperation among member countries, in collaboration with the United States and Canada, in the use of dollar aid that has been extended to them since World War II; cooperation by member countries in meeting the problems arising from their shortage of dollar exchange; freeing of intra-OEEC trade from quantitative trade restrictions (and, incidentally, the liberalization of their trade with non-OEEC countries--particularly the United States and Canada); establishment of currency convertibility among member countries; expansion of production in member countries; and integration of the economies of member countries. Some of these objectives have been either completely or partially achieved. To a great extent the task of completing the achievement of the objectives of OEEC will now fall to the European Economic Community and the proposed European Free Trade Association. Of the OEEC countries, 6 have joined the Common Market arrangement and 7 others (Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom) have indicated that they will join in a European Free Trade Association.

One of the announced purposes of the proposed EFTA is to facilitate negotiations with the Common Market and with other members of OEEC.

The precise role of the Organization for European Economic Cooperation in the further development of European economic integration cannot now be foreseen. Views as to the future of OEEC range from the feeling that a strengthened OEEC will emerge as a result of the advent of the Common Market and the proposed European Free Trade Association, to the feeling that OEEC has already been considerably weakened by the establishment of the Common Market and will be further weakened, if not completely outmoded, when the European Free Trade Association is formed. The probability, however, is that in the immediate future OEEC will continue to function alongside the regional groupings that are emerging. Presumably the OEEC arrangement will prove useful, at least for some time to come, not only as a bridge between the Common Market and the proposed EFTA, but also as a link between those organizations and the four OEEC countries that will not, for the moment at least, be members of either the Common Market or the proposed European Free Trade Association. ^{1/}

European Coal and Steel Community

The most direct antecedent of the Common Market is the European Coal and Steel Community (ECSC). In 1951 Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands--the same six countries that have now joined to form the European Economic

^{1/} Greece, Iceland, Ireland, and Turkey. Spain, the 18th country to join OEEC, did not do so until after the close of the period covered by this report.

Community--established the European Coal and Steel Community. The six participating countries then requested the Contracting Parties to the General Agreement to waive their most-favored-nation commitments under article I of the General Agreement and their commitments regarding the nondiscriminatory application of quantitative import restrictions under article XIII. At their Seventh Session in 1952 the Contracting Parties granted such a waiver. In effect, the waiver permitted the member countries of ECSC to form a limited customs union for the purpose of establishing a common market within the Community for coal, iron ore, scrap iron, and steel products. The member countries of ECSC then proceeded, during a transition period which ended on February 10, 1958, to abolish import duties and other restrictions on the movement of the above-mentioned products within the territories of the participating countries, and to adopt a common tariff on imports of those commodities from countries outside the ECSC. This arrangement subsequently became the model for the Common Market, in which import duties and other restrictions are to be removed from trade between the six member states, and a common tariff applied to imports from third countries.

The implementation of the Common Market Treaty raises the question of the future relationship of ECSC and the Common Market. At the end, or toward the end, of the Common Market's transitional period, the ECSC could no doubt be merged with the European Economic Community by incorporating in the Common Market Treaty the special rules that apply to the coal and steel industries. Until that time, however, ECSC will probably be maintained--for several reasons--as a separate organization.

From the standpoint of time schedules, for example, the trade of the Common Market will presumably not be entirely freed of restrictions until the end of its transition period in 1970-73, whereas the trade in coal and steel between member countries of ECSC has already been completely freed of restrictions. Moreover, the ECSC organization provides for greater federal authority and for more rigid rules with respect to concentration and discriminatory prices than does the Common Market. As the end of the Common Market's transitional period approaches, however, these differences will tend to disappear. With their disappearance, presumably there would be no further need for a separate European Coal and Steel Community.

Reactions to Establishment of the Common Market

Countries outside the Common Market are not particularly concerned about how the member states of the European Economic Community abolish import duties or other restrictions on their trade with one another. On the other hand, such countries--as well as such international arrangements and organizations as the General Agreement on Tariffs and Trade and the Organization for European Economic Cooperation--are deeply concerned about the effect on themselves and on third countries of the Common Market's external tariff and certain provisions of the Common Market Treaty. The principal concerns of countries outside the Common Market relate to (1) the height of the European Economic Community's common external tariff; (2) the single set of quota restrictions that will ultimately be applied to imports into the Common Market countries;

(3) association with the Common Market of overseas countries and territories that are politically tied to the participating countries; (4) the special rules that will apply to agriculture and to the trade in agricultural products; and (5) enforcement of the rules governing competition within the Common Market.

As to the first of these matters it appears that, because of the inclusion of some duties that will be sharply increased on commodities of importance to some of the member states, the overall level of the external duties initially adopted by the Common Market will probably be slightly higher than the arithmetic average of the individual tariffs of the member countries. Moreover, creation of the Common Market, like the establishment of any customs union, involves a measure of discrimination. This discrimination is not the selective type to which, for example, the dollar-area countries have been subjected since World War II because of the balance-of-payments problems of certain countries. It is, nonetheless, discrimination in that the Common Market countries will discriminate against the rest of the world, not by increasing their external tariff, but by progressively reducing the import duties and other trade restrictions that they apply to one another. When the transition period has been completed, the Common Market countries will engage in free trade among themselves but will present a common tariff front to the rest of the world.

Regarding the second of these concerns--the proposal for a single set of quota restrictions on imports into the Common Market countries--fear has arisen among nonparticipating countries that if one of the

member states should insist--for balance-of-payments reasons--on restricting imports by a quota, the other member states might have to join in the restrictive measure even though their external financial positions might not warrant such action.

With respect to the third of these matters--association with the Common Market of overseas countries and territories that are politically tied to the participating countries--reaction to the possible consequences of the operation of the Common Market is by no means confined to highly industrialized countries that are concerned about the changes it may effect in their productive mechanism and trade. Countries that are heavily or preponderantly dependent on exports of raw materials and foodstuffs are uneasy over the provision in the Common Market Treaty for association with the European Economic Community of overseas countries and territories that are politically tied to the participating countries. 1/

Some British Commonwealth and Latin American countries fear that association with the Common Market of overseas countries and territories that are tied politically to the member states--particularly the French

1/ Most of these countries and territories, including French West Africa and French Equatorial Africa, are politically tied to France. Morocco and Tunisia may also eventually be associated with the Common Market. The other overseas countries and territories are the Belgian Congo, Ruanda-Urundi, the Italian Trusteeship Territory in Somaliland, and Netherlands New Guinea. France insisted that its overseas territories be associated with the Common Market as a condition of its own participation. Although member states of the Community are to accord to imports from their overseas territories the same treatment they apply to imports from other member states, any overseas territory will be permitted to maintain duties on commodities imported from member states of the Community. These duties, however, must be the same duties that the territory applies to goods from the European country with which it has political ties.

countries in Africa--will result in exclusion of many tropical products that the British Commonwealth and Latin American countries now supply to Common Market countries. Ghana, for example, is deeply concerned about the possible effect of the Common Market's preferential treatment of cocoa. Although Ghana receives the benefit of an imperial preference rate on cocoa of 1 percent in the United Kingdom market, it is faced with the possibility of a much higher Common Market preferential rate, to the benefits of which it would not be entitled but which would benefit cocoa producers in the French countries of West Africa. Malaya has expressed similar concern about the effect of the Common Market preferential system on exports of Malayan rubber, and various Latin American countries are concerned about the effect of the system on their exports of coffee, cotton, and other basic commodities. From the standpoint of the General Agreement on Tariffs and Trade, which for years has been opposed in principle to preferential tariff systems, the inclusion of overseas territories in the Common Market plan again raises the question of imperial preferences.

As to the fourth cause for concern--the special rules that will apply to agriculture and to the trade in agricultural products-- the proposal for managed markets instead of free markets for agricultural products in the Common Market area has met with much criticism from agricultural producers in nonparticipating countries. Under the provisions of the Common Market Treaty, special rules will apply to the trade in agricultural products. The effects of unification on agriculture are to be mitigated during the transition period because of the particular

and diverse ways in which agriculture is already being regulated by the various member states. The special arrangements for agriculture include the fixing of minimum prices for agricultural products, joint organizations for the production and sale of such products, and long-term contracts between member states and nonmember countries from which such products are imported. Under an escape-clause type of provision, each member state is to retain, during the transition period, the right to object provisionally to the importation of any agricultural products that might exert a downward pressure on the minimum prices it has established for comparable domestic products. Moreover, even when the European Economic Community is fully established, the rules applicable to agricultural products will be considerably different from those that apply to other products. The member countries will have a common policy for agriculture, just as they will have a common policy for other sectors of production and trade, but there will be a common marketing organization for agricultural products, as distinct from a free market for other products. Agricultural producers in nonparticipating countries want assurances from the European Economic Community that such agricultural marketing arrangements as are envisaged by the Common Market Treaty will not be used to seriously dislocate established markets. Development of a common agricultural policy is thus in many ways one of the most difficult of the problems that confront the Common Market, and the ultimate success of the venture may depend in no small measure on the ability of the member states to develop such a policy.

The fifth cause for concern by nonparticipating countries relates to the enforcement of the rules governing competition within the Common Market. The Common Market Treaty prohibits, as incompatible with the objectives of the European Economic Community, any agreements or concerted practices among enterprises that have as their object, or result in, the prevention, restriction, or distortion of competition within the Common Market area. Specifically mentioned are such practices as price fixing, the limitation or control of production and markets, and discrimination in providing access to sources of supplies. Government intervention in economic matters by member states must be limited to projects that serve the interests of the Common Market as a whole, except for such types of governmental aid as assistance in the event of natural calamities and assistance in the development of economically backward regions. The latter exception is intended to make possible the assistance by individual member states to small and medium-sized businesses, as well as to discourage the centralization of industries in certain regions (such as the Rhine Valley) by providing incentives for them to locate in less industrialized regions (such as are to be found in France and Italy). Thus, under the Common Market Treaty the localization of industry within the Community is not left entirely to the play of market forces, but is subject to a certain amount of state interference. The facilities provided by the European

Investment Bank and the European Social Fund are intended to place the solution of such problems on a cooperative basis. The success of attempts to solve problems of the kind noted above will depend, of course, primarily on the effectiveness of the Council, the Commission, and the other governing bodies established by the Common Market Treaty.

Effects of the Common Market

Establishment of the Common Market has set in motion a series of complex changes in the economies of its member states, as well as in the economies of the countries with which they trade. These changes will involve not only shifts in the channels and composition of the trade of all the countries concerned, but also--in one degree or another--alterations in their industrial, commercial, and agricultural structures. If the Common Market countries achieve their ultimate objective of economic union, the European Economic Community may also result in far-reaching changes of a social and political nature in its member states.

The implementation of the Common Market Treaty has not, of course, reached the point where it is possible to appraise with any degree of accuracy the precise character of the changes that establishment of the European Economic Community may produce in the economies of its member states and the countries with which they trade, much less to measure their magnitude. It will be some time before the various economic changes that result from the establishment of the Common Market can be measured quantitatively. The existence of numerous variables, as well

as the unforeseen problems that may interject themselves as the Common Market moves toward its established goal, make it possible now to hazard only a few generalizations as to its internal and external effects. Even after more time has elapsed, one of the principal difficulties in appraising the economic impact of the Common Market will be the tendency to attribute future changes in the structure of international trade to the operation of the European Economic Community. While the impact of that organization will no doubt be great, many other forces will be operating simultaneously in the field of international trade. To place future developments in their proper perspective, therefore, requires that these forces be segregated--insofar as possible--from those that may be attributable to the operation of the Common Market itself.

It will also be important to distinguish between the short-run and long-run effects of the Common Market. Attainment of the objectives of the Common Market will require from 12 to 15 years, assuming that the Community does not either shorten or extend the transition period. While the economic adjustments within and outside the Common Market will be great, they will take place over what is by any standard a considerable length of time. On the whole these adjustments will perhaps be no more profound than some of those to which international trade has been subjected during the last century, especially since World War I. Unlike most of the historical adjustments in international trade, however, those resulting from the operation of the Common Market will take place on the basis of a published plan and

time schedule; all interested parties will have due notice of the adjustments that are to be made and the time at which they are to take place.

In general, the more obvious initial effects of the operation of the Common Market will be (1) on the foreign trade of its member states; (2) on the foreign trade of the countries with which the Common Market countries trade; (3) on industry, commerce, and agriculture in the member states; and (4) on industry, commerce, and agriculture in the countries with which the Common Market countries trade. These effects, of course, will give rise to a host of secondary or longer range effects. The longer range effects--some of which began to operate at the time the Common Market actually was established--include the effects on mobility of capital, labor movement, monetary and fiscal policy, and standards of living within the Common Market countries, and the effects on labor, capital movement, and international trade policies in the countries with which they trade.

In some of the literature on the Common Market, attempt is made to appraise the "trade creation" and "trade diversion" potentialities of the Common Market. After the Common Market arrangement has been in operation for a longer time, studies that attempt to measure the extent to which the Common Market has either created additional trade or has diverted existing trade from third countries to its member states may serve a very useful purpose. At the moment, however, it appears that in the short run (3 or 4 years) the Common Market possesses a fairly small potential for trade creation, but a very

substantial potential for trade diversion, with its consequent impact on nonparticipating countries. In the long run, assuming that it attains its established goals, the Common Market probably possesses a very large potential for trade creation. The "trade diversion" aspects of the Common Market in the long run, however, will probably assume a declining importance, since much of the adjustment on this score will have taken place in the earlier part of the Community's transitional period.

If the Common Market attains its objectives, internally it will no doubt result in increased efficiency and specialization; in more economic utilization of the Community's human, material, and financial resources; and, in the long run, in a larger internal market and higher standards of living. Establishment of the Common Market may result in more efficient internal use of labor and capital resources (because of the mobility that those resources are to have within the Community), the establishment of new industries financed with domestic capital, the merger of existing industries, the elimination of the less efficient producers, the elimination of duplication in industry and agriculture, increased capital investment by American and other foreign interests, development within the Common Market of a larger domestic market, changes in consumer habits, a general rise in

standards of living, harmonization of agricultural policies, development of a common transportation policy, and integration of fiscal and monetary policies.

If, as expected, the Common Market promotes economic activity within the territory of the European Economic Community, this will be reflected in increased purchasing power. Much of this increased purchasing power will no doubt be utilized to purchase goods and services within the Community, but a part of the increase may become available for purchases abroad. In their attempt to maximize the proposed internal benefits of the Common Market, however, its member states face the problem of so ordering their internal economies that they do not sacrifice the benefits that flow from full participation in international trade.

To what extent the expected internal benefits of the Common Market arrangement will enable the European Economic Community to compete more successfully in international trade cannot now be foreseen. Presumably, however, success in integrating productive facilities within the Common Market, together with mobility of capital and labor within the Community and adoption of common policies with respect to agriculture, taxation, finances, transport, and social problems, will contribute toward that end. Regardless of the effect that implementation of the Common Market may have on the total volume of trade of its member countries and the countries with which they trade, it will undoubtedly result in a considerable rearrangement of the channels of trade, of the composition of the trade between the countries concerned, and of the competitive

positions of the various countries involved.

From the standpoint of the governments and industries of nonparticipating countries, perhaps the principal concern thus far has been apprehension that reorganization and relocation of Common Market industries, together with gradually increasing tariff preferences for Common Market products, may make exports from nonparticipating countries--particularly of manufactured goods--less competitive in trade not only in the Common Market countries, but also in other countries of the world. Some initial reactions to this problem have been the establishment--by foreign producers--of manufacturing facilities within the Common Market area, the development of subsidiaries within the area, and licensing arrangements with Common Market producers.

From the standpoint of the United States the most immediate effect of the implementation of the Common Market--and this effect probably will not be felt for some time--will be its impact on the U.S. export trade, especially that portion of U.S. exports that consists of manufactured goods. This effect may manifest itself in two ways: A decline in exports of manufactured goods to the Common Market countries themselves, and increasing competition between U.S. manufactures and those of the Common Market in third countries. In the long run, however, increased efficiency and greater purchasing power within the Common Market may actually result in greater total exports from the United States to Common Market countries, although the composition of such U.S. exports may be expected to change materially from the present.

There is rather general agreement that, initially, the implementation

of the Common Market may result in reduced U.S. exports of certain types of manufactured products--notably machinery, machine tools, automobiles, and certain chemicals. There is also fairly general agreement that the reduction in U.S. exports of these commodities to Common Market countries will not be felt for some years. But, while there may be decreased U.S. exports in certain industrial sectors, there is also a possibility that even in the short run this decrease may, at least in part, be offset by increased U.S. exports of raw materials, semimanufactured goods, and certain types of capital goods in the production of which the United States excels. In the long run, increased purchasing power in the Common Market countries may provide increased opportunity for U.S. exports in the finished-manufactures field. The extent to which such exports may increase will, of course, depend upon a number of factors--notably the height of the Common Market's external tariff, the extent to which the Common Market liberalizes its trade, and the extent to which the prices of U.S. products will be competitive.

In considering the impact of the Common Market on the foreign trade of the United States, there is a tendency to think in terms of a simple two-way trade--that is, exports from the United States to the Common Market countries and imports into the United States from the Common Market countries. Actually, U.S. trade will continue to be multilateral, as it has been in the past. The initial impact of the Common Market on the U.S. export trade may result in a reduced level of exports of certain types of manufactured goods to its member countries by the United States. A greater level of economic activity

in the Common Market countries, however, would result in an increase in Common Market purchases of raw materials in primary producing countries. Such primary producing countries would then be in a position to import more manufactured goods, and would thus become a better market for U.S. products--unless, of course, they were tied to the Common Market by some kind of preferential arrangement.

Establishment of the Common Market will in no way automatically exempt its member states from the more serious international trade problems that they have faced in the past, such as balance-of-payments problems. Until the Common Market reaches its established goal of complete economic union--which implies a common monetary and fiscal policy--the individual member states will continue to face such problems, and the methods employed to solve them will greatly concern the countries with which they trade.

In the Common Market Treaty, the member states agree to harmonize their policies relating to balance-of-payments problems. In approaching those problems, however, each member retains the right--subject to approval by the Commission of the European Economic Community--to impose quantitative restrictions to correct its balance-of-payments position. Should a member state of the Community find itself in balance-of-payments difficulties, or face a serious threat of such difficulties, the Common Market Treaty provides that other member states of the Community may assist the country in difficulty by providing it with credits. Should this form of assistance prove inadequate, the country in difficulty may be authorized to take independent action to protect its balance-of-payments position. In such an eventuality, the provisional reestablishment of import restrictions is not excluded as

a remedy. Somewhat similar to the provision for correcting balance-of-payments difficulties is the provision of the Common Market Treaty for correcting difficulties during the transition period "which are likely to persist in any sector of economic activity" or "which may seriously impair the economic situation in any region."

One of the effects of the establishment of the Common Market has been the impetus it has given to the development of plans, not only for the proposed European Free Trade Association, but also for regional economic groupings in other parts of the world. ^{1/} The development of regional economic groupings in areas that for the most part are highly industrialized--such as the European Economic Community--presents a number of problems that do not exist in more conventional trading systems. Some of these problems were mentioned earlier in this chapter. Development of regional economic groups in less highly industrialized areas or in so-called underdeveloped areas, however, presents a different and more complex range of problems than those which face the Common Market countries or even the countries that will participate in the proposed European Free Trade Association.

Any appraisal of the effects of regional economic groupings such as the Common Market must recognize that the long-range objectives of such groupings are in part political. The operation and effects of such groupings, therefore, cannot be explained solely in terms of economic phenomena. In highly industrialized groupings such as the Common Market, the objective is not only the formation of a customs union, but also the economic union of the countries involved, with the implication of ultimate political union

^{1/} See the sections of this chapter on the European Free Trade Association, the Latin American regional market, and the Nordic common market.

of some kind. While political objectives are no doubt also inherent in proposed regional groupings of less developed countries, the probability is that for them economic and political union is far less the ultimate objective than is the development of stable prices and markets for primary products, as well as the development of "infant" industries.

DEVELOPMENTS WITH RESPECT TO OTHER REGIONAL GROUPINGS

The period covered by this report coincided not only with the implementation of the first stage of the tariff and quota provisions of the Common Market Treaty, but also with the rapid development of plans for the proposed European Free Trade Association (EFTA), for the proposed Latin American regional market, and for the proposed Nordic common market. The following section of this chapter discusses the developments with respect to the proposed EFTA, the proposed Latin American regional market, and the proposed Nordic common market. Developments with respect to the Central American free-trade area have been discussed in detail in chapter 2 of this report.

European Free Trade Association

The rapid evolution of a draft plan for the proposed European Free Trade Association during the period covered by this report resulted in

large part from the implementation of the Common Market Treaty, and the consequent desire of nonparticipating OEEC countries to quickly bring into being an arrangement that would offset some of the disadvantages that would be felt by them from the operation of the Common Market, as well as to provide a vehicle for ultimate rapprochement with the European Economic Community. The structure of the proposed European Free Trade Association, as it developed after the collapse of the OEEC negotiations in December 1958, differs markedly from that of the European free-trade area originally envisaged by OEEC. Before discussing the draft plan for the proposed EFTA it will, therefore, be useful to review the negotiations for a free-trade area that took place within the framework of OEEC during the period 1956-58.

Development of plans for the Common Market, which took form rapidly during the period 1955-57, raised serious questions for the 11 OEEC countries that were not scheduled to participate in it. ^{1/} Should they seek some type of association with the European Economic Community? Should they simply continue to collaborate within the framework of OEEC? Or should they join in some other form of regional organization?

By 1956 a movement was under way within OEEC to form an association that would embrace all the member countries of the Organization for European Economic Cooperation. OEEC decided that such an association should take the form of a European free-trade area within which the six-member Common Market would function as a single member. At its session in July 1956, therefore, the Council of OEEC established a working

^{1/} Spain, the 18th country to join OEEC, did not do so until after the close of the period covered by this report.

party and instructed it to "study the possible forms and methods of association, on a multilateral basis, between the proposed Customs Union and Member countries not taking part therein." As a possible method of association, the Council of OEEC asked the working party to consider the feasibility of creating a European free-trade area that would include both the Common Market countries and the member countries of OEEC that were not to participate in the European Economic Community. The working party, which submitted its report to OEEC in January 1957, took the position that such a free-trade area was technically feasible.

Besides the general problem of coordinating the economies of the countries of the proposed free-trade area and the specific problem of how to treat agricultural products, OEEC was confronted with a number of other problems that had to be resolved before the proposed free-trade area could be established. One of these problems involved defining the origin of products--a question that had not arisen in connection with the European Economic Community because of its common external tariff. For member countries of a free-trade area, however, such a definition would be of primary importance, since each participating member would retain its own external tariff on imports from countries outside the area. Another problem involved possible recourse to escape clauses by countries of the proposed free-trade area that might be unable during the transition period to fulfill the obligations they had assumed to remove tariffs and quantitative restrictions. Still another problem was that of establishing rules adequate to prevent distortion of competition within the proposed free-trade area, either by restrictive

business practices in private trade (such as monopolies and dumping) or by governmental intervention (such as subsidies and other forms of export assistance).

The OEEC working party agreed on the general principle that, since the economies of the countries participating in the proposed free-trade area would become increasingly interdependent as trade barriers were removed, it would be necessary to coordinate their economic and financial policies more closely. As background for considering what might be done to harmonize the economic and financial policies of the countries of the proposed free-trade area, the working party observed that the plan for the European Economic Community envisaged arrangements for the ultimate removal of restrictions on the movement of capital and labor within the Common Market. The working party agreed that the Council of OEEC would have to decide to what extent similar arrangements should be made to meet the requirements of the proposed free-trade area, and how the proposed free-trade area could best utilize the services afforded by such institutions as the International Monetary Fund and the World Bank. The working party also observed that, although the requirements of the proposed free-trade area were met to a certain extent by the European Payments Union and the arrangements provided within OEEC for international settlements, provision would have to be made for a continuation of multilateral payments arrangements during and after the formation of the free-trade area.

The United Kingdom--the most important OEEC country that was not a party to the Common Market arrangement--was the principal advocate of

the proposed European free-trade area. The United Kingdom was not officially on record as being opposed to the Common Market; its position was simply that it could not enter into such an arrangement because membership would involve adjusting its own tariffs to conform with a common tariff. The United Kingdom was not willing even to abolish its protective duties on imports of agricultural products originating in other countries of a free-trade area, although it was willing to cooperate fully with other members in removing duties on imports of industrial products originating within such an area. Thus the principal obstacle to the creation of a free-trade area embracing all European members of OEEC was the United Kingdom's insistence upon excluding agricultural products from the arrangement so that it might retain freedom of action with respect to protective tariffs on such commodities produced in the United Kingdom itself.

The United Kingdom's position with regard to agricultural products was based on the preferential treatment that it extends to imports from British areas, as provided in the Ottawa Agreements of 1932. For many commodities, mostly agricultural, the United Kingdom accords more favorable rates of duty to imports from countries and overseas territories of the British Commonwealth than it does to imports of similar commodities from non-British sources. Retention of such a preferential system was out of the question under the Common Market arrangement because the countries engaged in establishing the European Economic Community refused to admit members on that condition. The United Kingdom, therefore, sought to persuade other potential participants in

a European free-trade area to permit the United Kingdom to retain its preferences on agricultural products. Since the advantages of such an arrangement would accrue to British Commonwealth countries and territories as well as to the United Kingdom itself--the preferential arrangements being reciprocal within the Commonwealth--the United Kingdom had the support of the Commonwealth countries and territories in advocating such an arrangement.

Most members of the OEEC working party considered that the exclusion of agricultural products from the arrangements for the proposed free-trade area would be incompatible with the provisions of the General Agreement that relate to free-trade areas. Those provisions call for the elimination of import duties from substantially all the trade originating in the countries comprising a free-trade area. However, the fact that the General Agreement provides for possible waivers of the obligations of contracting parties in this and similar instances suggested the possibility that the Contracting Parties might be willing to grant waivers with respect to products exchanged within the proposed free-trade area. The attention of the working party was also called to the fact that the six Common Market countries had come to regard agricultural products as a special problem requiring in some instances a departure from the application of the agreed methods for removing tariffs and quantitative restrictions from industrial products. This action of the Common Market countries appeared to the United Kingdom to constitute a precedent that might be incorporated in the arrangements for the proposed free-trade area.

The possibility of obtaining a waiver with respect to agricultural products within the proposed free-trade area, and the precedent established by the Common Market countries in providing for a managed market for such products, were circumstances that seemed likely to enable the United Kingdom to persuade other potential members of the proposed free-trade area to permit it to join the area more nearly on its own terms. It developed that the United Kingdom--in return for the waiver privilege--might consent, as a concession to the other potential members of the proposed free-trade area (who hoped to gain easier access to the United Kingdom market for their own agricultural products under a free-trade arrangement), to the inclusion of a provision for the progressive abolition of tariffs on the trade in agricultural products among the member countries.

On February 13, 1957, after it had received the OEEC working party's report, the Council of OEEC decided to commence negotiations for the establishment of a European free-trade area that would associate the European Common Market with other member countries of OEEC. The Council therefore established three working parties to examine in detail (1) the technical problems involved in freeing trade within the proposed organization, (2) the arrangements that might be made to cope with the problem of agriculture, and (3) the special problems of underdeveloped countries. The three working parties were scheduled to report to the OEEC Council at its summer session. However, since the Common Market Treaty had by that time been signed and was being considered by the French Assembly, the OEEC Council meeting was postponed.

At its session in October 1957, the Council Of OEEC again announced its determination to establish a European free-trade area, embracing all 17 members of OEEC, which would associate--on a multilateral basis--the European Economic Community with the other member countries of OEEC. To conduct negotiations for a treaty creating such a free-trade area, the OEEC Council on October 17, 1957, established at the ministerial level an OEEC intergovernmental committee for negotiating a free-trade area. This committee, under the chairmanship of Mr. Reginald Maudling of the United Kingdom, 1/ met during the period November 1957--December 1958. While the committee was able to agree on less important questions, it became clear as the discussions progressed that there were irreconcilable differences between France's desire for a common external tariff and the United Kingdom's preference for individual external tariff arrangements. In December 1958 the negotiations collapsed. The divergences in national policy that emerged during the prolonged negotiations for a free-trade area and the details of the negotiations themselves have been reported in a number of sources. 2/

With the collapse of the Maudling negotiations in December 1958 it became clear that it would not be possible, in the foreseeable

1/ Mr. Maudling, who was Paymaster-General, had earlier been appointed by the British Government as special coordinator for the United Kingdom on free-trade area matters.

2/ U.S. Congress, Special Study Mission to Europe: Pt. II, A Study of European Economic Regionalism--A New Era in Free World Economic Politics, H. Rept. No. 1226 (86th Cong., 2d sess.), 1960; Miriam Camps, Political and Economic Planning, Britain and the European Market series--The Free Trade Area Negotiations, Occasional Paper No. 2, London, 1959, and The European Free Trade Association, A Preliminary Appraisal, Occasional Paper No. 4, London, 1959.

future, to establish a European free-trade area embracing all the OEEC countries, with the Common Market operating as a unit within it. The prolonged negotiations of the Maudling committee, however, had drawn together certain of the non-Common Market countries--the United Kingdom, Norway, Sweden, Denmark, Switzerland, and Austria--and the possibility of establishing some kind of alternative free-trade arrangement, in the event of failure to reach a broad agreement among all OEEC countries, had been discussed for some time. These discussions had been paralleled by efforts of employers' organizations and industrial federations in the six countries looking toward some type of limited free-trade area. Moreover, the important developments within OEEC at the end of 1958 with respect to currency convertibility and trade liberalization had done much to clear the way for the resumption of negotiations for some kind of a European free-trade arrangement. What finally emerged was the concept of a free-trade association embracing the six countries mentioned above, which had become known as the "Outer Six." With the later addition of Portugal, the group became known as the "Outer Seven."

On March 18, 1959, experts from the Outer Seven met in Stockholm to examine the possibility of joining the seven countries in a limited free-trade association. On June 1, 1959, officials of the seven countries again met in Stockholm and drafted, for consideration by their governments, a plan for a European Free Trade Association. The draft plan for the European Free Trade Association provides for--

(1) Gradual abolition, during a transitional period ending January 1,

1970, of all internal import duties on industrial products. On

July 1, 1960--the scheduled date for the second 10-percent reduction of import duties within the Common Market--the members of the European Free Trade Association would reduce their import duties vis-a-vis each other by 20 percent. At intervals of 18 months thereafter (at intervals of 12 months after January 1, 1965), they would reduce their import duties vis-a-vis each other by 10 percent. By January 1, 1970, therefore, all internal tariffs would be abolished. The specified tariff reductions would apply only to commodities originating within the EFTA, or to those which in general have had 50 percent of their value added within the EFTA.

- (2) Gradual abolition by member countries, during the specified transitional period, of quantitative restrictions on imports from other member countries. The first step in the enlargement of quotas would take place on July 1, 1960. In general, the plan for the elimination of quantitative restrictions follows the plan adopted by the Common Market.
- (3) Maintenance by each member country of its own external tariff, with provision for a complaint procedure to correct injurious trade changes that might result from differences in the external tariffs of member states.
- (4) Escape-clause provisions to cover serious difficulties that might arise in special sectors of industry or in special geographic areas.
- (5) Special rules to govern restrictive trade practices.

(6) A special agreement to govern the trade in agricultural products.

This agreement would establish objectives with respect to agricultural and food policy.

(7) Separate treatment, as an independent problem, of the trade in fish and other marine products.

At another meeting in Stockholm on July 20 and 21, 1959, ministerial delegations from Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom studied the draft plan for a European Free Trade Association. At the close of the meeting it was announced that the Ministers would recommend to their respective governments that the seven countries involved establish a European Free Trade Association. The stated objectives of the association would be to strengthen the economies of its member countries by promoting expansion of economic activity, full employment, a rising standard of living, and financial stability, and to facilitate negotiations with the Common Market and the other member countries of OEEC. Using the draft plan as a basis, designated officials of the various countries were to negotiate an agreement, the text of which was to be presented to the Ministers by October 31, 1959. 1/

The Common Market and the proposed European Free Trade Association represent two different approaches to the problem of integrating the trade and commercial policies of the European countries. The two approaches are alike in that they both aim to abolish tariffs and other barriers to trade between the participating countries. The primary

1/ The agreement was drafted by senior officials of the participating countries on Sept. 19 and 20, 1959, and representatives of the participating countries initialed it on Nov. 20, 1959.

difference between the two is that the countries participating in the Common Market will eventually have a common tariff vis-a-vis all outside countries, whereas the participants in the European Free Trade Association will not have a common tariff. Each country or group of countries in the proposed European Free Trade Association will retain its freedom with respect to the level of its own external tariff and with respect to its use of external quantitative trade restrictions--subject only to its obligations in these matters under such arrangements as the General Agreement on Tariffs and Trade and the OEEC. The Common Market and the proposed European Free Trade Association, however, also differ in other respects. Whereas the Common Market Treaty provides the European Economic Community with an elaborate set of institutions to guide its work, the proposed EFTA arrangement does not involve the creation of any separate institutions. Moreover, although the member countries of EFTA have agreed to cooperate in a number of ways, the draft plan of the proposed EFTA does not--unlike the Common Market Treaty--provide for the harmonization or coordination of economic, financial, or social policies.

It is not now possible to foresee the eventual relationship that will develop between the Common Market and the proposed European Free Trade Association. The two organizations may develop a *modus vivendi* that will permit them to live side by side on a cooperative basis; they may ultimately find some basis for permanent association; or they may develop into two entirely separate trading groups, the existence of which could place serious obstacles in the path of European economic integration.

Latin American Regional Market

Although the greatest impetus to the development of a Latin American regional market came with the signing of the Treaty for the European Economic Community or Common Market in 1957, the idea goes back to 1949, when the United Nations Economic Commission for Latin America (ECLA) suggested establishment of such a regional market to embrace the 20 Latin American countries. ^{1/} At the first session of the Trade Committee of ECLA, which was held from November 19-29, 1956, the governments of the Latin American countries agreed in principle on the need to establish such a regional market. The matter was further discussed in May 1957 at the seventh session of ECLA in La Paz, and in August 1957 the feasibility of establishing a Latin American regional market was discussed at the inter-American economic conference held by the Organization of American States in Buenos Aires. The Secretariat of the Economic Commission for Latin America, acting on the recommendation of the member governments of the Commission, began the preparatory work for formulating a plan for a Latin American regional market, and a working group on the Latin American regional market was subsequently established. ^{2/}

The working group, which held its first session in Santiago, Chile, from February 3 to 11, 1958, laid down what its members believed to be the bases for establishment of a Latin American regional market. The

^{1/} United Nations Economic Commission for Latin America, Economic Survey of Latin America, 1949.

^{2/} For a discussion of the so-called Rio Declaration of Oct. 31, 1958, and the efforts of Argentina, Brazil, Chile, and Uruguay to integrate their economies, see the section of ch. 2 on Latin American economic integration.

principal points agreed to at Santiago were that membership in the regional market must be open to all Latin American countries; that the ultimate goal of the regional market must be to include all goods produced within the area, with procedures for the progressive elimination of import duties and other trade restrictions; that special provision must be made for the treatment of less advanced countries; that ultimately the regional market must have a common customs tariff vis-a-vis the rest of the world; that specialization in industries and other activities must be the outcome of the free play of economic forces within the overall conditions established for the regional market; that a special system of multilateral payments must be established; that member countries should retain the right to impose temporary import restrictions; that under certain conditions member countries must have the right to restrict imports of agricultural commodities; that rules must be adopted to prevent unfair competition within the regional market; that the regional market must be provided with a system of credit and technical assistance; that an advisory body and a system of arbitration must be established; and that the success of the regional market would depend to a great extent on participation by private enterprise. ^{1/} At its first session, the working group also asked the secretariat of the Economic Commission for Latin America to make additional studies that would assist the working group in its later activities.

^{1/} United Nations Department of Economic and Social Affairs, The Latin American Common Market (prepared by the Secretariat of the Economic Commission for Latin America), E/CN.12/531, Sales No. 59.II.G.4, 1959, pp. 28-38.

At its second session at Mexico City, which was held from February 16 to 27, 1959, the working group considered in more specific terms the bases for the formation of a Latin American regional market. In accordance with what it considered to be its terms of reference, the working group did not formulate a specific agreement, but drew up a general outline of the proposed Latin American regional market that would provide the secretariat of ECLA with a basis for further study of the subject.

In its study, the results of which it presented to the second session of the Trade Committee of ECLA at its meeting held in Panama City from May 11 to 19, 1959, the working group recommended, among other things, that the Latin American regional market take the form of a free-trade area which could be transformed gradually into a customs union; that the reduction of import duties and other trade restrictions within the regional market be carried out in two stages, the first stage to last 10 years; that special rules be adopted for participation by relatively less developed countries; and that the regional market include all Latin American countries or the greatest possible number of them, but that under certain conditions an initial group of countries be permitted to launch the regional market. 1/

After studying and discussing the report of the working group, the Trade Committee of ECLA decided to intensify efforts toward economic cooperation among the Latin American countries, with a view to establishing a Latin American common market which would--

1/ For the detailed recommendations of the working group, see ibid., pp. 38-50.

- (1) Include all Latin American countries that might decide to participate in its formation.
- (2) Remain open to membership by all other Latin American countries.
- (3) Operate on competitive bases and be applicable to the largest possible number of products.
- (4) Recognize the inequalities that exist in the economic development of the various Latin American countries.
- (5) Provide for the progressive standardization of the customs tariffs and other instruments of trade policy of the Latin American countries, due allowance being made for their international commitments.
- (6) Involve the widest possible collaboration on the part of private enterprise.
- (7) Promote increasing specialization in economic activities, in order to improve utilization of the production factors available in the region.
- (8) Contribute to the expansion and diversification of trade among the Latin American countries, and between them and the rest of the world.

The Trade Committee also decided, among other things, (1) to recommend that the Latin American governments establish working groups to coordinate all national activities that are related to the possible future participation of their respective countries in the Latin American common market, and (2) to request the secretariat of ECLA

(a) to establish a group of high-ranking experts to be appointed by those Latin American governments that may desire to participate in the proposed common market; (b) to coordinate the suggestions and observations made at the second session of the Trade Committee with respect to the proposed common market and to make and transmit to the experts and member governments certain studies that have a fundamental bearing on the formation of a common market; (c) to invite the group of experts, not later than February 1960, to prepare a preliminary draft agreement on the Latin American common market; (d) to transmit the preliminary draft, when completed, to the member governments for study; and (e) to convene a session of the Trade Committee of ECLA as soon as possible to discuss and prepare a final draft agreement on the Latin American common market for submission to the various governments for their signature. ^{1/}

Nordic Common Market

The history of the proposed Nordic common market is intimately connected with that of other international trade organizations and arrangements such as the Organization for European Economic Cooperation, in which the Scandinavian countries form a bloc on many issues; the General Agreement on Tariffs and Trade, in which they have long cooperated with one another; and the European Coal and Steel Community, the Benelux Customs Union, and the European Economic Community, which have provided both example and stimulus to the proposed Nordic union.

^{1/} Ibid., p. 125.

The first positive step toward Nordic economic cooperation was taken in 1947, at the Paris meeting on the Marshall Plan, when the Nordic foreign ministers discussed the possibility of creating a common market that would embrace Denmark, Finland, Iceland, Norway, and Sweden. Subsequently, these countries established a Joint Nordic Committee for Economic Cooperation to study the feasibility of the proposed Nordic common market. On January 30, 1950, the committee issued a preliminary report and, although at that time the prospects for establishing a Nordic common market were not bright, the committee was directed to continue its studies.

In May 1952 the Statute of the Nordic Council was submitted simultaneously to the parliaments of Denmark, Iceland, Norway, and Sweden; the Statute provided for creation of a ministerial-level Nordic Council which was designed, among other things, to facilitate intra-Nordic economic cooperation. Although Finland did not feel that it could adopt the Statute, it was adopted by the other four countries. At a session of the Nordic Council, held in Oslo in August 1954, the representatives of Norway, Sweden, Denmark, and Iceland considered the second report issued by the Joint Nordic Committee. At the same session, the Council approved the proposal to establish a Nordic common market, and subsequently requested the Joint Nordic Committee to make a full report on the proposed Nordic common market. At a session, held in Copenhagen in 1956, the Nordic Council considered and approved an interim report of the Joint Nordic Committee. In October 1957 the committee submitted to the governments of Denmark, Finland, Norway, and

Sweden a comprehensive four-volume report, including a draft plan for a Nordic common market, which was published in advance of the Nordic Council meeting scheduled for February 1958.

The draft plan contained in the committee's report envisioned the establishment of a true common market, with the eventual abolition of all internal tariffs and adoption of a common external tariff. In accordance with that objective, the report recommended that import duties on approximately 80 percent of the commodities moving in intra-Nordic trade (based on the trade in 1955) be eliminated immediately on ratification of the convention establishing a Nordic common market; that a common external tariff be established for commodities entering from nonmember countries; that a common tariff nomenclature be adopted for statistical purposes; that quantitative import restrictions on the trade between member countries be abolished, with provision for some deviation for "hardship" cases; that quantitative import restrictions on the trade with nonmember countries be maintained until individual member countries could eliminate them on an ad hoc basis; that in abolishing internal tariffs and adopting a common external tariff special transitional periods be established for specified commodities; that rules be adopted to insure fair competition within the common market; that member countries cooperate in the fields of production, resources, and research where such cooperation would assist in attaining the objectives of the common market; and that an investment bank be established to provide capital for the long-range economic development of industries in member countries. The draft plan did not provide for

common foreign-exchange controls or for a system of multilateral payments.

The session of the Nordic Council which was scheduled for February 1958 was postponed until November 1958. In view of the discussions that were taking place within OEEC looking toward the establishment of a European free-trade area, the Nordic Council felt that a study should be undertaken to determine the feasibility of Scandinavian membership in a larger union. Although the Scandinavian countries considered membership in a European free-trade area to be particularly desirable, both because of possible United Kingdom participation in it and because of the special treatment that might be accorded the trade in fish and agricultural products, they nevertheless felt that they should proceed with plans for a Nordic common market which could be established should negotiations for the proposed European free-trade area be unsuccessful.

In September 1958 the Joint Nordic Committee issued a supplementary report for use at the November meeting of the Nordic Council in Oslo. The main purpose of the supplementary report was to resolve Danish objections to the proposed Nordic common market by including in the draft plan provisions for special treatment of the controversial fish and agricultural items. At the session of the Nordic Council which was held in Oslo from November 9 to 16, however, the Council was unable to resolve objections to the proposed Nordic common market, particularly those of Norway. A resolution was therefore drafted for consideration by the Council; the resolution urged the governments concerned to enter into direct negotiations with one another on the proposed common market.

The discussions at the session centered on the necessity of conducting further negotiations at the political level, and the necessity for prompt establishment of a European free-trade area in order to avoid tariff discrimination by members of the European Common Market.

The Nordic Prime Ministers again met in Oslo on January 24 and 25, 1959, to discuss the proposed Nordic common market. Their discussions related mainly to the problem of transitional periods, and particularly the necessity of permitting Finnish and Norwegian producers to adjust gradually to the strong competition that was expected from Danish and Swedish producers of industrial goods. Although there was general agreement on the matter of special treatment for fish and agricultural products, the question of the precise nature of such treatment was postponed for consideration by a future ministers conference. The Prime Ministers established a working group to study the question of whether it would be more desirable for the Scandinavian countries to establish a true customs union or a free-trade area.

After a series of meetings early in 1959, ^{1/} at which the discussions related principally to transition periods, external tariff rates, and the problem of agricultural products, the Nordic Prime Ministers postponed the final decision on establishment of a Nordic common market until the Prime Ministers conference which was scheduled to be held at Kungälv, Sweden, on July 10 and 11, 1959. At Kungälv, the delegations considered the final committee reports proposing a Nordic common market,

^{1/} At Stockholm on February 10 and 11, 1959; at Oslo on April 10 and 11, 1959; and at Helsinki on May 10 and 11, 1959.

as well as the proposals for expanded cooperation in the fields of commercial policy, production, investment, exploitation of power resources, finance and currency, and research and education. A communique issued after the meeting indicated that, although the delegations had agreed to present to the cabinets of their respective countries a plan to establish a permanent Nordic Council of Ministers, as well as to expand intra-Nordic economic and financial cooperation, action on the proposed Nordic common market would be deferred pending the outcome of the negotiations for the proposed European Free Trade Association. 1/

1/ For a discussion of the proposed European Free Trade Association, see an earlier section of this chapter.