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ABRAHAM RIBICOFF, *Chairman*
SUBCOMMITTEE ON INTERNATIONAL TRADE

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PREFACE

This document contains thirteen studies on various aspects of the General Agreement on Tariffs and Trade (GATT). These studies were prepared in 1973 by the Executive branch at the request of the Subcommittee on International Trade of the Committee on Finance. The complete text of the General Agreement and the Protocol of Provisional Application is included in the appendix following the studies.

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SUMMARY

No. 1. Tax Adjustments in International Trade: GATT Provisions and EEC Practices (April 1973—pp. 5–21)

This study explores the GATT provisions on tax adjustments made at the border on imports and exports, specifically with regard to adjustments made by the EC in connection with value added taxes. Tax shifting assumptions on direct and indirect taxes are examined, in the context of the higher level of consumption taxes in the Common Market as compared with the United States. The study points out that deficiencies clearly do exist in the present GATT provisions governing these matters. However, neither the United States nor any other country has yet come forward with any practical proposals for change.

No. 2. GATT Provisions on Unfair Trade Practices (May 1973—pp. 23–30)

This study discusses the GATT provisions dealing with antidumping, countervailing duties, subsidies, and the protection of patents, trademarks and copyrights. The description of the International Antidumping Code does not deal with the differences between the Code and U.S. law nor the fact that Congress has ruled that U.S. law shall override the Code in all areas of conflict. A list of measures which certain industrialized nations, including the United States, have determined to be subsidies for the purposes of article XVI of the GATT is included. Finally, the study describes the difficulties of attempting to negotiate the nontariff barriers which are deeply embodied in the domestic laws of the United States.

No. 3. The Adequacy of GATT Provisions Dealing with Agriculture (May 1973—pp. 31–37)

The general rules of the GATT dealing with agriculture, including the specific exceptions which have been made for agricultural trade, are discussed in this study. The most important exception is that allowing governments which regulate domestic marketing production or impose restrictions upon imports of that product. Problems raised by the variable levy system of the Common Market, including the so-called "chicken war" of the early 1960's, are discussed. The study points out that neither the GATT nor the negotiations which have been undertaken under its auspices have been very successful in regulating and harmonizing the restrictions on agricultural trade which are imposed by most countries.

No. 4. Effects of Regional Trade Groups on U.S. Foreign Trade: The EC and EFTA Experiences (May 1973—pp. 39–76)

This study discusses the growth of regional trade groups, including both customs unions and free trade areas. The negative impact of such trade blocs on U.S. trade is discussed. The restrictive effect of the EC's variable levy system on agricultural products is specifically analyzed. There is little clear evidence to support the theory that the trade diverting effect of such trading blocs has been offset by the trade creating effect arising from economic integration.

No. 5. Discriminatory Government Procurement Policies (June 1973—pp. 77–85)

Study No. 5 deals with discriminatory governmental procurement policies maintained by the major industrialized countries. It points out that the GATT provides essentially no guidelines with respect to government purchases of goods and services and does not, therefore, provide any framework for governing this portion of international trade among countries. Most Common Market nations maintain procedural policies with respect to procurement and bidding which effectively restrict the ability of foreign suppliers to compete for government contracts. Moreover, the move toward harmonization of procurement policies in the community will have an even more detrimental effect on U.S. trade, particularly in the area of high technology products such as computers. Japan's selective bidding procedures also strongly favor domestic products. In the United States, the Buy American Act provides producers with a 50% price preference for Defense Department purchases, and a 6 to 12 percent price preference for civilian government purposes. Recent efforts in the OECD to harmonize the procurement laws and practices of the major trading countries have not been successful.

No. 6. The Quantitative Restrictions in the Major Trading Countries (June 1973—pp. 87–111)

Although Article XI of the GATT provides for the elimination of quantitative restrictions, this requirement is subject to important exceptions which have generally weakened its effectiveness. Most quantitative restrictions maintained today by the industrialized countries relate to agricultural commodities. However, Japan continues to maintain serious non-agricultural quantitative restrictions, on such high technology products as digital computers and integrated circuits. An appendix listing quantitative import restrictions imposed by the major trading countries is included.

No. 7. The GATT Balance-of-Payments Safeguard Provision: Article XII (June 1973—pp. 113–120)

Article XII of the GATT permits countries to impose quantitative restrictions in order to protect their economies from serious balance of payments deficits. In practice, however, most nations have imposed import surcharges and other measures rather than quotas in dealing with balance-of-

payments difficulties. The study concludes that "Article XII should be amended to reflect the current collective judgment of GATT members by explicitly allowing trade measures other than quotas to be resorted to for balance-of-payments reasons."

No. 8. GATT Provisions on Relief from Injurious Imports (June 1973—pp. 121–129)

Article XIX is the primary GATT provision dealing with safeguard measures imposed to protect domestic industries from injury due to imports. Under such circumstances countries are permitted to raise duties temporarily above concessionary levels. Export restraints have also been used to protect domestic industries from market disruption. The study points out that many countries, including the United States, have often imposed safeguard measures not completely consistent with the GATT. There is a recognized need to negotiate new rules establishing realistic and effective standards for safeguard mechanisms in the GATT.

No. 9. The Most-Favored-Nation Provision (July 1973—pp. 131–146)

This study begins with the history of the implementation of the Most-Favored-Nation (MFN) provision as applied with respect to trade agreements negotiated over the past several hundred years. The reintroduction of the unconditional form of MFN in the 1920s by the United States and other industrialized countries is included in the historical discussion. The study continues with an examination of the general MFN principle in the GATT and the exceptions thereto which have been made for customs unions and free trade areas. It is pointed out that the principle of Most-Favored-Nation trade is currently being observed more in the breach, given the proliferation of trade blocs and preferential trading arrangements including reverse preference schemes. The U.S. has proposed that an overall examination be undertaken by the GATT concerning these trading blocs and their impact on world trade. However, no real progress has been made.

No. 10. The Effect of Foreign Exchange Rate Changes on U.S. Trade and Tariff Concessions (July 1973—pp. 147–149)

This study examines the relationship between monetary fluctuations and trade conditions, with the implication that the current situation of freely adjusting rates tends to reduce the effect of modifications in tariff rates. Flexible exchange rates, the study points out, enable economies to adjust to cyclical changes better than under a fixed exchange rate system. Recent devaluations of the U.S. dollar have had a positive effect on U.S. exports and the trade balance as a whole. A listing of trade negotiations and exchange rate changes since 1947 is included.

No. 11. The GATT Provisions on Compensation and Retaliation (July 1973—pp. 151–159)

This study discusses the GATT provisions aimed at maintaining the overall balance of trade concessions negotiated under trade agreements. These

include Article XIX—which authorizes members to withdraw tariff concessions when increased imports threaten injury to a domestic industry, and Article XXVIII—which provides the procedures by which member countries may withdraw or modify tariff concessions and renegotiate new tariff relationships. Also discussed are Articles XXII and XXIII, which provide for resolution of disputes among members of the GATT who feel that their trade agreement rights are being threatened or impaired by actions of other GATT members. The dispute settlement procedure of the GATT has generally been one of consultation and compromise by the countries affected.

No. 12. The Common Agricultural Policy of the European Community (August 1973—pp. 161–215)

This study provides an overall examination of the Common Market's Common Agricultural Policy, the so-called CAP. It discusses the use of variable levies imposed upon agricultural imports to avoid disruption of the agricultural price support system inside the Common Market. The specific application of the CAP to a number of agricultural products is discussed. The restrictive effect which the CAP has had on exports of U.S. agricultural commodities to the Common Market is also analyzed.

No. 13. An Analysis of Whether or Not Greater Flexibility in Foreign Exchange Rates Would Serve in the Interests of United States and World Trade (October 1973—pp. 217–219)

This study discusses the question: (1) whether greater exchange rate flexibility can facilitate a rational expansion of world trade as a result of a better world payments equilibrium, and (2) whether exchange rate flexibility would reduce the volume of world trade given the costs attributable to increased monetary risks in international transactions. Both questions, subject to certain qualifications, are answered in favor of increased trade. The study concludes that the advantages to trade of a flexible exchange rate system outweigh any adverse technical effects adherent in such a system.

Study No. 1.—Tax Adjustments in International Trade: GATT Provisions and EEC Practices

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Study No. 1.—Tax Adjustments in International Trade: GATT Provisions and EEC Practices

I. Introduction

Some American businessmen have expressed concern that their competitive positions, both in their home market and in markets abroad, have been disadvantaged because other countries levy heavy consumption taxes on imports and grant exemptions or rebates of such taxes on their exports. They do not consider the levying of consumption taxes on imports into the United States and exemption or rebate on export of American consumption taxes as comparable because such taxes are collected at relatively low rates, are primarily collected by state and local governments rather than the Federal Government, and are not as visible as systems in other countries. Although virtually all countries have a general consumption tax system with the inevitable levy on imports and rebate or exemption on exports, the complaints by our businessmen are primarily voiced in terms of tax adjustments on goods in Europe—specifically the tax-on-value added. Many of these businessmen also believe that the direct tax burden (corporate income tax) in Europe is much lighter than it is in the United States, and since the provisions of the General Agreement on Tariffs and Trade (GATT) permit tax adjustments on imports and exports for consumption taxes but not for income taxes, American producers are disadvantaged.

This paper explores GATT provisions on tax adjustments for imports and exports, tax adjustments on traded goods in the European Economic Community, direct and indirect taxes and tax shifting assumptions, corporate profits taxes among the major trading countries, efforts to resolve the issue, and the relationship between the remission on exports of indirect taxes and countervailing duties.

II. GATT Provisions

Application of Domestic Taxes to Imports

The GATT prohibits levying on imported products any "internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products" (Article III:2) and enjoins the use of such internal taxes in such a manner as to afford protection to domestic products.[1] The GATT allows countries to impose on imported products (at the time of importation or subsequently)

[1] A similar prohibition in Article II (see Annex for text) relates only to items contained in the schedules of concessions, bound against increase in duties or other charges. Items not so bound are not covered by Article II. Articles II and III, when read together, suggest that the drafters of the GATT may have had in mind the fact that, unlike tariffs, internal taxes are generally not the subject of traditional trade negotiations and it is therefore important to ensure that protection is achieved by tariffs rather than internal taxes.

all consumption taxes up to the amount which would have been imposed on those products had they been produced and sold domestically; the GATT prohibits imposing internal taxes on imported products in excess of internal taxes on like domestic products.

Countries have traditionally imposed domestic consumption taxes on imports. Provisions similar to those in the GATT have been used in commercial treaties and agreements for over a hundred years and were contained in bilateral trade agreements between the United States and other countries from almost the beginning of the reciprocal trade agreements program in 1934. This concept was carried over into the GATT in 1947, as proposed by the United States and other countries, reflecting the practical view that governments and businessmen would not have accepted procedures which exempted competing imported goods from consumption taxes imposed on similar domestic goods.[2]

Countries apply the GATT provisions in accordance with their own domestic consumption tax system. In countries where multistage consumption taxes are levied on all transactions, whether wholesale or retail, such as under the tax-on-value added which is imposed at the same rate on imported and domestic goods (discussed in later paragraphs), the tax is levied on imports at the border and on subsequent transactions. In countries without multistage taxes, domestic consumption taxes are usually levied on imports at the import stage, if that corresponds to the stage at which the tax is imposed domestically, or at stages subsequent to the import stage. The Canadian Federal 12 percent manufacturers sales tax and provincial retail sales taxes, the United States Federal and state excise taxes and state and local retail sales taxes in 46 states and the District of Columbia, and the British purchase tax (collected at the wholesale stage) are all imposed on imports in the same manner and rate as they are imposed on domestic products. They may be less visible to the foreign exporter if they are collected subsequent to the import stage. The GATT provisions on tax treatment of imports apply to all consumption tax systems without regard to their form.

The purpose of taxing imports—whether at the time of importation or subsequently—is to ensure that foreign products do not receive more favorable tax treatment than similar domestic products. To

[2] The records of the Committee on Finance indicate the difficulties which can arise when a country deviates from this practice. As indicated in the Report of the President's Commission on International Trade and Investment Policy (GPO, July 1971, footnote at 105), the United States attempted a limited type of border tax adjustments freeze early in the trade agreements program. The United States inserted provisions in three early bilateral agreements (with Brazil, Colombia and Cuba) negotiated under the 1934 Reciprocal Trade Agreements Act freezing internal taxes on imported products with respect to which tariff concessions had been granted. Practical problems emerged almost immediately, however, and the policy was abandoned in 1935. Subsequent agreements contained a provision permitting either party to apply to imports a tax equivalent to any internal tax imposed on products produced and sold domestically. See Extending the Reciprocal Trade Agreements Act, Hearings before the Committee on Finance, United States Senate, 75th Congress, 1st Session, at 39.

exempt imported goods from such consumption taxes or to levy such taxes at a lower rate on imported goods would discriminate against domestic products in favor of imports.

Tax adjustments on imports are permitted under GATT only for taxes on products; that is, consumption taxes. The GATT prohibits levying any tax on imported products to compensate for direct taxes, including income taxes, levied on domestic producers. The provision is apparently based on the assumption that income taxes are "paid" by the legal tax payer, whereas consumption taxes are "paid" by the consumer.

Tax Treatment of Exports—"Indirect" Taxes

The GATT permits countries to exempt exported products from domestic consumption taxes and to rebate to exporters such taxes as may have been collected on the exported product. This principle was originally suggested by the United States in September 1946 in its Suggested Charter for an International Trade Organization (ITO) of the United Nations.[3]

The GATT was negotiated the following year, based on the commercial policy provisions of the draft ITO charter, as an interim multilateral trade agreement pending the establishment of the ITO. However, the United States was concerned in 1947 about the ability of some of its agricultural producers to compete in the world market without benefit of export subsidies. Under these circumstances, the GATT export subsidy provisions were limited to a notification and consultation procedure. Since the original GATT allowed export subsidization, there was at that time no reason for the GATT to specifically note that the exemption or rebate on exports of consumption taxes could not be considered to be a subsidy.

Nevertheless there was a recognition of this principle in the antidumping and countervailing duty article of the GATT (Article VI:4). This article, unchanged since 1947, provides that any consumption tax exemption or rebate on exports shall not be the basis for imposing antidumping or countervailing duties. Our own Antidumping Act, 1921, contains a similar legislated provision. The Act specifically directs the Secretary of the Treasury, in his calculations of dumping margins (usually the difference between purchase price and home market price), to add to the purchase price "the amount of any taxes imposed in the country of exportation upon the manufacturer, producer, or seller, in respect to the manufacture, production or sale of the merchandise, which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States." (19 U.S.C. 162.) The Congress presumably did not consider the rebate to exporters of production or sales taxes as contributing to the margin of dumping but rather considered such rebates to be a

[3] Article 25:2. Text contained in Annex.

legitimate procedure which does not contribute to unfair price discrimination.

The GATT provisions permitting rebates of domestic consumption taxes were made more explicit in 1957, following a major Review Session of the GATT Contracting Parties, in Ad Article XVI.[4] The principle was repeated in connection with new provisions which came into effect in 1962 among the major trading countries prohibiting the granting of subsidies on nonprimary products, including a prohibition of the exemption or rebate on exports of domestic charges or taxes *other than* domestic consumption taxes (see below).

It is a universally accepted concept—incorporated in our own domestic law—that since exports are not consumed in the country of production, they should not be subject to consumption taxes in the country of production.

It should be noted that, in accordance with the GATT provisions concerning consumption tax treatment of exports, the United States exempts from or rebates on exported products all state and local sales taxes (46 states and the District of Columbia), as well as Federal and state excise taxes on those exported products. Throughout most of the post-World War II period, our Federal excise taxes were imposed on a wide range of products,[5] often at relatively high rates. Only a few products are subject to Federal excise tax today.

Even in interstate trade within the United States it is customary to exempt from state consumption taxes or rebate such taxes to manufacturers of "exports" to other states.

Tax Treatment of Exports—"Direct" Taxes

As noted earlier, the major trading countries agreed in the GATT not to grant export subsidies on nonprimary products and defined subsidies to include rebates to exporters of direct (income) taxes and social security taxes.

This provision came into effect in 1962 after the major trading countries entered into a "Declaration Giving Effect to the Provisions of Article XVI:4." This Declaration was developed in a Working Party on Subsidies whose report noted that the governments prepared to accept the Declaration "agree that, for the purpose of that declaration, these practices generally are to be considered as subsidies." Among those listed were:

"(c) The remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises;

[4] "The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy."

[5] For example, alcoholic beverages, tobacco products, motor vehicles and parts, tires and tubes, business machines, household appliances, firearms, fur articles, motor fuels, coal and coke, copper, lumber, vegetable oils and seeds, jewelry, luggage, musical instruments, radios, sporting goods, cosmetics, phonographs and phonograph records, television sets, sugar, and refrigerating equipment.

"(d) The exemption, in respect of exported goods, of charges or taxes, other than charges in connection with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respect of exported goods, of amounts exceeding those effectively levied at one or several stages on these goods in the form of indirect taxes or of charges in connection with importation or in both forms."

Some countries accepting the Declaration had rebated on exports part or all of their employers' social security taxes (France) and part or all of their corporate income taxes (Japan). The Declaration clarified which taxes would be eligible for adjustment on export.

III. EEC Practices

The European Economic Community (EEC) Council of Ministers decided in 1964 to harmonize by 1970 its member states' consumption tax systems along the lines of the French tax-on-value added (TVA, or "taxe sur la valeur ajoutée). The TVA, in use in France since 1954, has also been adopted by Germany, Ireland, Italy, the Netherlands, Luxembourg, Belgium, Denmark and Sweden and Norway. The United Kingdom, Austria, and Finland have announced their intention to adopt the TVA system in 1973. The TVA has or will replace in all of these countries a previous national general consumption tax system. These countries have long relied on consumption taxes as important fiscal tools and have for many years made adjustments for these taxes on imports and exports.

The TVA is a consumption or sales tax collected each time a good (whether a raw material, semiprocessed or finished product) is sold, but the tax base at each stage is only the value added by the seller. While the TVA tax base can be computed in different ways, countries currently applying the TVA have chosen the simplest alternative. Under the TVA a businessman has a gross tax liability each month of the total amount of his sales times the tax rate, say 10 percent. His invoices to his customers show this 10 percent as part of the purchase price. From this gross liability he deducts TVA he paid on his purchases. His suppliers will have itemized the TVA payments on their invoices to him. His net TVA liability is the difference between the two figures. If the tax paid *by* him on his purchases (a credit) exceeds the tax paid *to* him on his sales (a debit), he may apply to the authorities for a refund or carry over the net credit to succeeding months.

For example, when a manufacturer buys $10,000 worth of materials and sells products worth $20,000 in a particular month, the difference—$10,000—is the added value for the firm's product or products in that month. At a 10 percent TVA rate, his net TVA tax liability is $1,000 whether or not the firm made a profit in that month. This process is repeated throughout the distribution chain until the prod-

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uct is sold at retail to the final consumer. Since the individual consumer cannot deduct the TVA, the process ends there.

The net tax base (and also the revenue) resulting from all these transactions is the equivalent of that under a retail sales tax at the same ad valorem tax rate. It differs from a retail sales tax principally in that the government gets part of the revenue ultimately paid by the consumer at the earlier stages of production and distribution and therefore it reduces the possibility of tax evasion at the retail stage. Setting aside for the moment the complex question of tax shifting, the TVA does not enter into the cost structure until the final sale to the individual consumer. Until then it is a tax item which accompanies each sale and is kept separate both in the sales invoices and in the firm's books.

Imports enter the TVA cycle at the border. The tax rate is the same as the rate on the similar domestic product, and is payable at importation, unlike retail sales taxes where most imports are not taxed until sold to an individual consumer.[6] The importer treats the TVA paid on imports as any other purchase he makes for his firm. The tax he has paid on his imports is included in his tax credits along with the tax he pays on his domestic purchases. If he sells the imported product, he collects TVA from his customer and remits to the tax authorities the difference between tax on his purchases and tax on his sales at the end of the month. If he uses the imported product, for example a machine tool, in his business, the tax process for the machine tool is completed at the end of the month when the firm treats the TVA paid at time of importation as a tax credit against the debits of the taxes it collects on its sales.

Provided the tax authorities possess adequate means of control to prevent the tax-free sale of an import to an individual consumer, it is unnecessary under the TVA to make tax adjustments at the border on imports. Collection after the import stage would have the advantage of reducing the number of tax collectors at the border but the disadvantage of facilitating tax evasion. Sweden gave serious consideration to exempting products from TVA at the time of importation, but ultimately decided for tax control reasons to make tax adjustments at the time of importation.

Exports under a TVA system are exempt from tax, as are exports under retail sales tax systems. Therefore, there is no TVA tax refund on exports. As for the tax the exporter paid to his domestic suppliers for the materials used to produce the exported product, he treats them

[6] Some have argued that the TVA collected at the time of importation should be levied on a f.o.b. basis, not, as at present, on the c.i.f. duty-paid value. In a TVA system if the tax collected at the border is lower because the valuation base is lower, the importer will simply have a smaller tax credit with which to offset his tax debit. The full c.i.f. duty-paid value of the product—plus the importer's markup—is the valuation base for the next transaction, that is, the sale by the importer to his customer. U.S. consumption taxes are also levied on imports on a c.i.f. duty-paid value.

in the same manner as all of the TVA he pays to his suppliers; that is, as a credit for his end-of-the-month accounting to the tax authorities; he omits from the total sales on which tax is due the value of his exports since he has not collected the TVA from his foreign customer. There is thus no inherent incentive in the TVA system for him to export his product rather than sell it in the domestic market. (The possibility of some backward tax shifting—and thus some possible incentive—is discussed below.) In France, most exporters have elected to operate under a system whereby they may make tax exempt purchases of goods and materials for export production up to the value of the exports in the previous year. This type of tax treatment of exports is materially similar to that of state retail sales tax systems in the United States.

IV. Direct and Indirect Taxes: Tax Shifting Assumptions and Corporate Profits Taxes

There is no record of any discussion by the drafters of the GATT of the economic assumptions underlying the differing treatment accorded to direct and indirect taxes on exports and imports. However, the GATT provisions were written as if increases in indirect taxes were fully reflected in the price of goods (i.e., fully shifted forward) while increases in direct taxes were fully absorbed by producers (or shifted back to factors of production), having no effect on price. If these assumptions are correct, the GATT provisions would equalize the amount of indirect taxes levied on competing domestic and imported goods; would avoid granting an incentive to exports by the rebate of (or credit for) taxes not reflected in prices, and would avoid distortions arising from differing direct tax systems. Under such circumstances, the GATT provisions would be trade neutral.

Few people—even European tax authorities—would argue such absolutes. It is generally recognized that the degree of tax shifting for both consumption and profits or other direct taxes depends primarily on the demand for the product, actions of the monetary authorities, the stage of the business cycle and the degree of competition among producers of the goods. Some economists also hold the view that increases in selective consumption taxes are much more easily shifted forward than increases in general consumption taxes. To the extent consumption taxes are not fully shifted forward, and direct taxes are partially shifted forward, countries may derive some trade benefit from the GATT provisions on border taxes, but it is not known how large or how lasting such benefits may be. Relative prices among countries, on which trade advantages largely depend, are subject to a mix of forces and undergo constant change. These advantages, if any, can be erased by a currency appreciation as well as differential rates of inflation, productivity changes, and even shifts in tastes. After a time,

the first effects of the change may be offset to an indeterminate degree by these other factors. In short, it is impossible to measure the extent of the shifting and its effect on trade in a way which can be used for comparative country analysis. Moreover, there seems no practical way to settle the tax shifting question and quantify effects which the GATT provisions may have on a country's trading position.

It is generally recognized that trade effects can result under certain circumstances when a country changes its tax adjustments on traded goods, as follows:

1. *Equal increases in the level of domestic consumption taxes and adjustments on traded goods.*—This change can affect trade to the extent that the tax increase is not fully shifted forward to the consumer, although the treatment of traded goods assumes full forward shifting.

2. *An increase in the amount of adjustment at the border (to make up for an "insufficient" adjustment) with no change in the domestic consumption tax.*—This type of change can affect trade favorably from the point of view of the country making the change. Such changes discourage imports and promote exports.

3. *A change in the mix of taxes whereby a nonadjustable direct tax is replaced by an adjustable indirect tax.*—An example would be a reduction of a payroll tax or corporate income tax matched by an increase in a consumption tax, either in the form of a higher rate or more comprehensive coverage under a TVA or retail sales tax. This change could have an effect on trade similar to an exchange rate adjustment on trade account.[7]

4. *A change from one type of consumption tax system to another.*—Depending on the extent of undercompensation or overcompensation under the old and new systems, this type of change can also discourage imports and promote exports. A prime example of this type of change is the shift in Germany from a cascade-type gross turnover tax to the tax-on-value added in 1968. The undercompensation in tax adjustments for imports and exports was removed. According to an OECD study, the change raised the average rebate on exports 0.6 percentage points and the average compensating tax on imports 2.4 percentage points while the overall tax "burden" on German goods remained more or less unchanged. The change was similar to a small devaluation of the Deutsche Mark on trade account. This can also go in an opposite direction if the country had been overcompensating, as in the case of Italy.

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[7] Some observers have noted another possible theoretical advantage from reducing or eliminating a direct tax such as the corporate income tax and replacing it with a consumption tax such as the tax-on-value added. It has been noted that the TVA taxes the factors of production at the same rate, unlike the corporate income tax which is a tax on the return to capital only. To the extent that the TVA would encourage capital investment, productivity would be increased over time and a country's competitive position in world markets could be improved.

Corporate Income Taxes in Europe and the United States

It is sometimes said that the United States has high corporate income taxes and European countries have high consumption taxes, and that because the GATT rules permit the rebate of consumption taxes but not of corporate income taxes, the United States is disadvantaged by the GATT rules.

In fact, both have high income taxes, especially in the business sector, and in addition the European countries have higher consumption taxes and higher employers' social security taxes than the United States does.

The corporate income tax in most European countries accounts for a smaller proportion of gross national product (GNP) than it does in the United States—between 1.5 and 2.5 percent of GNP (at market prices) in 1966 in France, Germany, Italy, the Netherlands, and Sweden, compared to 4.6 percent in the United States (and 5.1 percent in the United Kingdom). The difference is largely a reflection of the fact that the corporate sector is relatively smaller in those countries. Corporate *profits* in those countries, as a percentage of GNP, also account for about half those of the United States (see table, p. 10). This is so because a larger portion of European national output arises in sectors of the economy that are largely unincorporated, and because of the differing forms of business structures in Europe. For example, only about 2.4 percent of the more than 2 million enterprises in Germany in 1967 were organized in some corporate form, compared to 13 percent in the United States.

Both statutory and effective corporate tax rates appear to be generally at similar levels for the United States and the European countries, except Belgium which had a somewhat lower statutory rate. The equivalent data for Japan suggest a corporate tax burden equal to or higher than that in the United States.

In addition, employers' contributions to social security—also not considered proper for rebate on exports (or imposition on imports) for countries accepting this GATT provision—are significantly higher in Europe than in the United States. In 1967, such taxes as a percentage of GNP (market prices) were over 10 percent in France, about 6 percent in Belgium, 5.2 percent in Germany, 2 percent in Japan, and 1.8 percent in the United States. The low figure for the United States is partly a reflection of the private pension plans to which our companies contribute.

From the above data, it is impossible to estimate what the effects on a country's trading position would be if GATT provisions were altered to permit the rebate of direct taxes. The ultimate result on a country's trading position would depend on such factors as the size of the rebate, the state of demand for the product, the stage of the business cycle at home and abroad, and the degree of competition

among domestic and foreign producers of the good. In addition, competition in trade occurs not at the level of national economies but at the level of individual business firms and specific products. Therefore, the data also do not indicate whether a change in the GATT rules to permit rebate of profits tax to a specific American firm in its exports of a specific product would help or hurt that firm in competition with foreign firms receiving similar rebates. Rebates for direct taxes would necessarily be imprecise, thus affording opportunities for undetected or for competitive overcompensation.

A broader analysis of the equity of the GATT provisions requires not only an examination of relative corporate tax burdens, but a study of the nature and level of total taxation and government expenditures. A large part of tax receipts (some of which are levied on imports) finance government services which have the effect of conferring benefits on domestic producers, which may lower production costs.

CORPORATE PROFITS AND DIRECT CORPORATE TAXES AS A PERCENT OF GNP, CORPORATE TAXES AS A PERCENT OF CORPORATE PROFITS, AND STATUTORY CORPORATE INCOME TAX RATES IN THE UNITED STATES AND SELECTED EUROPEAN COUNTRIES, 1966

	Belgium	France	Germany	Italy	Netherlands	Sweden	United Kingdom	United States
Direct taxes on corporations as a percent of GNP	1.9	1.9	[1] 1.6	1.8	2.6	2.1	[1] 5.1	[1] 4.6
Corporate profits as a percent of GNP	5.5	4.6	3.6	4.6	([2])	4.8	11.4	10.5
Direct corporate taxes as a percent of corporate profits	35.2	42.5	[1] 44.2	39.1	([2])	43.6	[1] 45.2	[1] 43.4
National statutory corporate income tax rates (percent)	30.0	50.0	[3] 51.0-15.0	[4] [5] 29.9-38.8	[6] 43-46	[7] 40	[8] 40	[9] 22-48

[1] Based on corporate income taxes only.

[2] Not available.

[3] The basic rate of 51 percent is applicable to undistributed corporate profits; the rate is reduced to 15 percent on distributions. As part of the firms profits must be retained to pay the tax on the distributed portion, and is thereby subject to the 51-percent rate, the minimum effective rate is actually about 26 percent. There are also local income taxes.

[4] This represents the range of rates applicable to income from the employment of capital and labor (business activities). There are also local surcharges which range between an average of 11.93 and 13.80 percent so that the total tax on business activities ranges between 29.93 and 38.80 percent.

[5] In addition to the tax on business activities, there is a tax on corporate profits. A 15-percent rate is applicable to income in excess of 6 percent of net worth. This tax is increased by local surcharges which raise the effective to about 18 percent.

[6] On profits not exceeding f.50,000 the rate if 43 percent plus 15 percent of the excess over f.40,000. The rate on profits in excess of f.50,000 is 46 percent.

[7] In addition to the national corporate tax, there is a local tax levied in communities where the corporation has a permanent establishment. The local rate, which varies from year to year and from community to community depending on local needs, averages about 20 percent. As the local rate is deducted from income subject to the national tax the overall effective rate of national and local corporate income taxes is about 52 percent.

[8] The 1965 Finance Act which became applicable in April 1966 changed the method of taxing corporate profits and reduced the overall corporate rate from 55 to 40 percent. Part of the corporate income earned in calendar 1966 was subject to the higher rate.

[9] A normal tax of 22 percent is levied on all taxable income and a surtax of 26 percent on taxable income above $25,000.

Sources: The computed percentages were largely derived from data in Yearbook of National Accounts Statistics, 1967 Statistical Office of the United Nations, New York, 1968. The Belgium, French, German, Italian and Dutch statutory rates were obtained from: Corporate Taxation in the Common Market, Guides to European Taxation, Vol. II, International Bureau of Fiscal Documentation, Amsterdam, The Netherlands, 1968.

V. Efforts to Resolve the Issue

While there are deficiencies in the GATT provisions on border tax adjustments, neither the United States nor any other country has been able to come forward with any practical proposals for amendments. In an effort to direct attention to this issue, the United States initiated a comprehensive study in the OECD in 1963 and brought up the subject for extensive discussion in the GATT during 1968–70.

Considerable time and effort was devoted to the study of the issue within the U.S. Government in consultation with the private sector during the OECD and GATT discussions. All attempts to develop formal proposals for consideration during those discussions failed for three reasons:

1. Any limitation on border tax adjustments would affect the United States as well as others. Although the effect of any limitation on the United States would be less significant than on many other countries, implementation of any limitation would be much more difficult in the United States because most of the U.S. taxes which would be affected are levied at the state and local level and at the retail stage where no adjustment is made at the border.
2. Any effort to obtain greater latitude for the United States, for example, allowing an adjustment for corporate income taxes, could be emulated by others and any advantage gained would be offset.
3. Any proposal which would be self-serving for the United States at the expense of others would not be acceptable and hence would not have any support. The rationale of other countries in this respect has been made quite clear. They do not consider border tax adjustments unfair and state they would have no objections to the United States adopting a TVA and a border tax adjustment system similar to theirs.

The one accomplishment arising from the long consideration of this subject was the establishment within the GATT of a consultation procedure for changes in border tax adjustments.

VI. Rebates of Indirect Taxes and the Countervailing Duty Statute

Under administrative precedents dating back to 1897, the Treasury Department has generally not construed the rebate, remission or exemption on exports of ordinary indirect taxes (consumption taxes on goods) to be a "bounty or grant" within the meaning of our countervailing duty statute (Section 303, Tariff Act of 1930; 19 U.S.C.A. 1303). These precedents have been applied as a general rule with regard to all consumption taxes on goods. The precedents are based on the principle that, since exports are not consumed in the country of production, they should not be subject to consumption taxes in that country. The theory has been that the application of countervailing duties to the rebate of consumption taxes would have the effect of double

taxation of the product, since the United States would not only impose its own indirect taxes, such as Federal and state excise taxes and state and local sales taxes, but would also collect, through the use of the countervailing duty, the indirect tax imposed by the exporting country on domestically consumed goods.

The Treasury Department has not applied these precedents to tax "rebates" in excess of taxes collected on the exported product. If, for example, the foreign exporter has paid $1 in excise taxes on a product he exports to the United States but receives a rebate of $1.20 on exportation, under long-established administrative precedents of the Treasury Department the imported merchandise would be subject to a countervailing duty of $0.20.

A new issue arose in 1967 in the Italian transmission tower case. Up to that time Treasury precedents were based on the assumption that indirect taxes rebated on export had been imposed on the product and that the tax burden on the Department investigation of Italian transmission tower exports revealed that this product benefited from a number of rebates (under Italian Law 639) of indirect taxes which had not been imposed on the product being exported or its components but rather were taxes on general overhead purchases, unrelated to the specific products, such as mortgage taxes, advertising and publicity taxes, and Government license fees. To the extent that such taxes were rebated, the Treasury Department found that they constituted a "bounty or grant" under the countervailing duty statute (T.D. 67-102). The Customs Court decision of September 13, 1971, (*American Express Co.* v. *United States*, *C.D. 4266*) upheld the Treasury Department finding. The Court of Customs and Patent Appeals has affirmed the Customs Court's finding. The Treasury Department has subsequently imposed countervailing duties on a range of Italian products benefiting from Law 639 rebates.

Judicial Interpretations

Considerable confusion has arisen in the countervailing duty field over the interpretation of two early Supreme Court opinions, in which there are *dicta* referring to the term "bounty or grant" as applying to *all* tax rebates, including rebates of indirect taxes. [*Downs* v. *United States*, 113 F. 144 (1902), aff'd 187 U.S. 496 (1903); *Nicholas & Co.* v. *United States*, 7 Ct. Cust. Appls. 97 (1916), aff'd 249 U.S. 34 (1919).] However, the *holdings* of the Supreme Court in these two decisions, as distinguished from the *dicta*, were that overrebates constitute a "bounty or grant" to the extent of the overrebate. As implied from the earlier discussion, the Treasury Department for more than half a century in its administrative decisions has applied the *Downs* and *Nicholas* opinions in accordance with the holdings rather than the

dicta. Recent opinions of the Court of Customs and Patent Appeals in *Hammond Lead Products, Inc.* v. *United States*, 63 Cust. Ct. 316, C.D. 3915 (1969); rev'd 58 C.C.P.A. 129 C.A.D. 1017 (1971) and of the Customs Court in *American Express Co.* v. *United States*, C.D. 4266 (decided September 13, 1971), *in dicta*, have restated the *dicta* of the *Downs* and *Nicholas* opinions. It cannot be predicted how the courts will finally resolve this issue.

Conclusions

The applicability of a statute such as the countervailing duty law, basically unchanged since the early part of this century, to all consumption taxes, including the very complex tax-on-value added, requires a careful analysis. Moreover, the situation may be further complicated by the decisions which will ultimately be rendered by the courts in the countervailing duty cases presently being litigated on appeal.

The Treasury Department is examining the countervailing duty law from the standpoint of its overall impact on the present world trade situation. This study is focusing on the problems discussed earlier, in addition to an overall review of the administration of this law.

ANNEX

Extract From Suggested Charter for UN ITO 25:2

"Except as provided in paragraph 3 of this Article, no Member shall grant, directly or indirectly, any subsidy on the exportation of any product, or establish or maintain any other system which results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market, due allowance being made for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability. The preceding sentence shall not be construed to prevent any Member from exempting exported products from duties or taxes imposed in respect of like products when consumed domestically or from remitting such duties or taxes which have accrued."

Extracts From the General Agreement on Tariffs and Trade

ARTICLE II 2(A)

"a charge equivalent to an internal tax imposed consistently with the provisions of paragraph 2 of Article III in respect of the like domestic product or in respect of an article from which the imported product has been manufactured or produced in whole or in part;"

ARTICLE III

"1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

"2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.

"3. With respect to any existing internal tax which is inconsistent with the provisions of paragraph 2, but which is specifically authorized under a trade agreement, in force on April 10, 1947, in which the import duty on the taxed product is bound against increase, the contracting party imposing the tax shall be free to postpone the application of the provisions of paragraph 2 to such tax until such time as it can obtain release from the obligations of such trade agreement in order to permit the increase of such duty to the extent necessary to compensate for the elimination of the protective element of the tax."

ARTICLE VI

"4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes."

ARTICLE XVI

Subsidies

Section A—SUBSIDIES IN GENERAL.—

"1. If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory. It shall notify the CONTRACTING PARTIES in writing of the extent and nature of the

subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.

Section B—ADDITIONAL PROVISIONS ON EXPORT SUBSIDIES.—

"2. The contracting parties recognize that the granting by a contracting party of a subsidy on the export of any product may have harmful effects for other contracting parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of this Agreement.

"3. Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affected or may be affecting such trade in the product.

"4. Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any products other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market. Until 31 December 1957 no contracting party shall extend the scope of any such subsidization beyond that existing on 1 January 1955 by the introduction of new, or the extension of existing, subsidies.

"5. The CONTRACTING PARTIES shall review the operation of the provisions of this Article from time to time with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties."

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Study No. 2.—GATT Provisions on Unfair Trade Practices

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Study No. 2.—GATT Provisions on Unfair Trade Practices

The term "unfair trade practices" has no inherent significance within the framework of the GATT. In the broadest sense it could be interpreted to embrace not only violations of any GATT provision, but also any action taken by a GATT contracting party that nullifies or impairs any benefit accruing to another contracting party under the GATT or that impedes the attainment of any objective of the GATT. It seems in order, therefore, to limit the consideration of GATT provisions on unfair trade practices to those that are usually included when the term refers to domestic law, that is antidumping, subsidies and countervailing duties, and measures designed to protect patents, trademarks, and copyrights.

Antidumping

GATT provisions relating to antidumping measures are found in Article VI and the Antidumping Code. The latter was signed on June 30, 1967, as a result of one of the few negotiations in the Kennedy Round on nontariff barriers. To date it has been accepted by 21 countries [1] and the European Economic Community. As the Code has been signed by the United States, the discussion set forth below of the substantive provisions of the GATT relating to antidumping measures will focus on Article VI as interpreted by the Antidumping Code.

The Antidumping Code provides definitions of various terms used in Article VI and sets up standards for procedures to be followed in investigations and in imposing antidumping duties. It is not an amendment to the GATT; the Code applies only to actions by those countries which have acceded to it. In addition, accession to the GATT alone by a new country is not sufficient; the country must accede to the Code itself. The Code was termed an "interpretation" of Article VI. A leading expert on the GATT has suggested that the Code may come to be considered as *the* definitive interpretation of the Article.

Like the U.S. antidumping law, GATT provisions do not condemn per se the practice of what our law terms "sales at less than fair

[1] Austria, Belgium, Canada, Czechoslovakia, Denmark, Finland, France, Greece, Germany, Italy, Japan, Luxembourg, Malta, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom, United States and Yugoslavia.

"value" and the GATT calls "dumping." Rather, measures may be taken to counteract this practice only when it causes or threatens to cause injury (our law) or material injury (GATT).

Dumping is defined in GATT Article VI as the introduction of a product of one country into the commerce of another country at less than its normal value. Dumping occurs when the export price of the product is less than the comparable price for a like product destined for consumption in the home market. In the absence of a comparable domestic price, the dumping margin is determined by (1) a comparison with a representative price of a like product exported to a third country in the ordinary course of trade or (2) the cost of production in the country of origin plus a "reasonable amount" for administrative, selling and other costs, and profits. A like product is defined in the Code as an identical product or one which has characteristics closely resembling those of the product in question. To facilitate a comparison between the export price and the domestic price in the exporting country, the Code provides that comparisons shall be made at the same level of trade, normally at the ex factory level.

The Code states that before special antidumping duties can be levied, the dumping in question must cause or threaten material injury to an established domestic industry or retard materially the establishment of a domestic industry. Domestic industry refers to the domestic firms that produce all of the product in question, or those whose aggregated output accounts for a major portion of total domestic production with certain exceptions. Cause is qualified by the Antidumping Code to mean a "principal cause," while material injury is to be determined from an examination of all relevant factors. A number are listed, but the Code cautions against the use of any one or several as giving decisive guidance: development and prospects with regard to turnover, market share, profits, prices, export performance, employment, volume, utilization of capacity of domestic industry, productivity, and restrictive trade practices. In determining the principal cause for material retardation of the establishment of a domestic industry, there must be convincing evidence showing, for example, that plans for a new industry have reached a fairly advanced stage or that a factory is being considered or machines have been ordered. All determinations shall be based on positive findings and not on allegations or hypothetical possibilities.

If dumping and injury are found, then the GATT authorizes an offsetting antidumping duty to be imposed, but the amount of such duty must not exceed the margin of dumping. It is not to be considered a punitive measure. Clearly, such a duty may exceed rates bound under the GATT.

The Antidumping Code also sets forth standards for procedures for contracting parties to follow in antidumping proceedings. The

burden of proof rests on the importing country, with no duties being levied by a contracting party unless it determines that injury exists. Similarly, provisional measures (e.g. withholding of appraisement or provisional assessment of dumping duties) may only be taken when a preliminary decision has been taken that there is dumping and when there is sufficient evidence of injury. Code provisions also relate to other procedural matters, such as the giving of evidence, provisional measures that may be taken, the duration of antidumping duties, and retroactivity.

Countervailing Duties

Article VI permits the imposition of countervailing duties to offset a subsidy that has been granted, directly or indirectly, on the manufacture, production or export of any product in the country of origin or exportation, including any special subsidy to the transportation of a particular product. The same injury requirement applicable to antidumping extends as well to countervailing duties.

The United States is exempted from the injury requirement under Article VI by virtue of the "grandfather clause" in the Protocol of Provisional Application. This provision states that Part II of the GATT—which includes Article VI—shall be provisionally applied to the fullest extent not inconsistent with existing legislation. U.S. countervailing duty legislation (section 303 of the Tariff Act of 1930), which contains no injury requirement, antedates the GATT.

Subsidies

While GATT Article VI allows imposition of a countervailing duty where subsidized imports injure a domestic industry, GATT Article XVI provides the general rules with respect to subsidies. The GATT provides three basic obligations with respect to subsidies under Article XVI. *First*, a contracting party must notify the GATT of any subsidy (domestic or export) which operates directly or indirectly to increase exports or to reduce imports, and to consult on them. *Second*, contracting parties must not grant export subsidies on primary products that would result in more than an equitable share of world export trade for the subsidizing country. *Third*, contracting parties must cease *export* subsidies on any nonprimary product where the subsidies result in export sales at prices lower than those in the domestic market, that is, if they result in dual pricing. The first two obligations apply to all contracting parties; the third applies only to those contracting parties that have signed a specific declaration relating to this obligation. The developing countries have not accepted the third obligation. The United States attached a reservation to its acceptance of the declaration, stating that it would not prevent the United States "as part of its subsidization of exports of a

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primary product, from making a payment on an exported processed product (not itself a primary product) which has been produced from such primary product if such a payment is essentially limited to the amount of the subsidy which would have been payable on the quantity of such primary products, if exported in primary form, consumed in the production of the processed product." This reservation was motivated by a desire to continue the U.S. export payments program then applied on raw cotton and the raw cotton content of cotton textiles.

Action with respect to subsidies may be taken not only under Articles XVI and VI (see above section), but also Articles XXII (consultation) and XXIII (compensation or retaliation) if a contracting party believes its rights or benefits under the GATT are being impaired. While a subsidy may not result in a violation of the GATT, its application may violate other GATT obligations, e.g., the national treatment obligation of Article III with regard to imports.

The first obligation to notify the GATT consists of a requirement to notify the GATT periodically in writing and in detail of all subsidies. The right to request consultations with the subsidizing country under Article XVI:1 extends to any nation that feels that its trading interests are threatened. If bilateral consultations do not succeed, a party may then request consultations with the Contracting Parties acting jointly. It should be noted that the sole obligation of the subsidizing party under Article XVI:1 is to discuss the possibility of limiting the subsidization.

The scope of the second obligation—to refrain from granting export subsidies on primary products that would result in more than an equitable share of world export trade for the subsidizing country—depends upon the interpretation adopted for the various terms. "Primary product" 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. The term "equitable share of world export trade for the subsidizing country" is difficult to define. There seems to be no consensus as to its meaning or as to how it should be calculated, but it seems clear that it is not intended to cause rigid market allocation or to freeze trade patterns.

The third obligation to cease export subsidies on any nonprimary product, accepted by the major trading countries, represents the strongest obligation with respect to subsidies which is found in the GATT. It prohibits directly or indirectly any form of subsidy on the export of any product other than a primary product where the subsidy results in the sale of the product or export at a price lower than the comparable price charged for the like product to buyers

in the domestic market. GATT provisions both on subsidies and on countervailing duties specifically state that the exemption or rebate on exports of consumption taxes shall not be considered to be a subsidy.

The greatest problem with this obligation is to determine what practices are covered by the term "subsidy." While the Contracting Parties have been unable to arrive at a precise definition, there seems to be general agreement that "subsidy," for purposes of this obligation, includes:

(*a*) Currency retention schemes or any similar practices which involve a bonus on exports or re-exports;

(*b*) The provision by governments of direct subsidies to exporters;

(*c*) The remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises;

(*d*) The exemption, in respect of exported goods, of charges or taxes, other than charges in connection with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respect of exported goods, of amounts exceeding those effectively levied at one or several stages on these goods in the form of indirect taxes or of charges in connection with importation or in both forms;

(*e*) In respect of deliveries by governments or governmental agencies of imported raw materials for export business on different terms than for domestic business, the charging of prices below world prices;

(*f*) In respect of government export credit guarantees, the charging of premiums at rates which are manifestly inadequate to cover the long-term operating costs and losses of the credit insurance institutions;

(*g*) The grant by governments (or special institutions controlled by governments) of export credits at rates below those which they have to pay in order to obtain the funds so employed;

(*h*) The government bearing all or part of the costs incurred by exporters in obtaining credit.

At the initiative of the United States, in the fall of 1972 a GATT Working Group began consideration of: (a) domestic subsidies that stimulate exports; and (b) a revised definition of subsidies and the possible application of GATT provisions to subsidization in third country markets. GATT Article VI:6(b) permits a contracting party to levy antidumping or countervailing duties on dumped or subsidized imports which injure an industry in another country exporting the product to the importing country. Such action, which requires the

approval of the Contracting Parties acting jointly, has not in practice been taken. When no domestic industry is being injured by subsidized imports, an importing country can be expected to be reluctant to impose countervailing duties at the request of another country. The subsidy enables the importing country to buy that product at a lower price than it would in the absence of a subsidy. A request from the injured exporting country for the levying of a countervailing duty would also oblige the importing country to "choose sides" in a trade dispute between the exporting countries. The United States also has difficulty with the clause qualifying subsidization as that "which results in the sale of a product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market." Believing that price is only one of many means by which export competitiveness can be enhanced through subsidization, the United States has recommended elimination of this clause.

Protection of Patents, Trademarks, and Copyrights

Two provisions of the GATT relate to protection of patents, trademarks, and copyrights. Article XX(d) states that as long as they are not applied in an arbitrary or unjustifiably discriminatory fashion and are not disguised restrictions on international trade, nothing shall prevent a contracting party from adopting measures "... necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of [the GATT] including those relating to ... the protection of patents, trademarks and copyrights. ..." Article XX(d) also permits measures designed to prevent deceptive practices, such as actions under the Trademark Act, Federal Trade Commission Act, and the Tariff Act of 1930 which affect deceptive practices in connection with imported goods.

Article IX provides that "The contracting parties shall cooperate with each other with a view to preventing the use of trade names in such manner as to misrepresent the true origin of a product. ..." There have been no cases arising with respect to either provision, and no relevant Interpretative Notes. International regulation in the area of patents, trademarks, and copyrights would appear to lie outside of the GATT.

Study No. 3.—The Adequacy of GATT Provisions Dealing with Agriculture

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Study No. 3.—The Adequacy of GATT Provisions Dealing with Agriculture

Trade in agriculture, as other trade, is subject to the three elements of the GATT system: general rules, procedures for interpreting and enforcing them, and specific tariff commitments.

General Rules

The general provisions of the GATT apply to agricultural as well as to industrial trade. They should afford stability of trading expectations and give meaning to negotiated tariff and other concessions. To the extent that these purposes are frustrated through such devices as nontariff trade controls, internal support mechanisms, and export subsidies, the GATT becomes less effective.

Nontariff controls on agricultural products abound. Many of them are applied pursuant to the general exceptions provisions of the GATT. Among these provisions are those which permit restrictions necessary to protect human, animal or plant life or health and temporary quantitative restrictions to safeguard the balance of payments. Some restrictions are justified under the Protocol of Provisional Application which contains a "grandfather clause" permitting the application of measures required by domestic legislation which antedates the GATT, even though these measures are inconsistent with GATT provisions. A few restrictions have been authorized by waivers, subject to certain conditions. (In 1955, the United States obtained a waiver entitling it to apply restrictions required by Section 22 of the Agricultural Adjustment Act (of 1933), as amended, when such restrictions are inconsistent with the GATT.) Finally, there are a number of restrictions which are inconsistent with the GATT and are not covered by waivers.

The GATT also speaks to the problem of subsidies, including price or income support policies, which have the effect of increasing exports or reducing imports. It brings them under a regime of notification, exchange of information, and consultation. It particularly notes the possibly harmful effects of export subsidies and the undue disturbance to normal commercial interests which they may occasion. The GATT does not prohibit export subsidies on primary products. It states that governments should seek to avoid their use; but that if a government does apply an export subsidy on a primary product, it should not do so in a manner which would give that country more than an equitable share of world export trade in that product. The GATT provisions on export subsidies on primary products reflects the position taken by the United States on this matter when the GATT was reviewed in 1955.

This ambiguity in GATT language concerning export subsidies on primary products has come to cause special problems. Subsidies which have the effect of creating an artificial trade where none has heretofore existed or could exist without support interfere with the stability of trade relationships. The meaning of equitable share is vague; and the phrase "world export trade in that product" has been interpreted to mean the totality of trade (and contracting parties are thus left considerable freedom to concentrate their subsidies on exports to particular markets). If subsidized imports result in injury to domestic producers, the subsidies may be countervailed. The GATT does not, however, provide an effective remedy for exporters who are injured by the loss of third country markets to competitors whose exports are subsidized. There is a GATT provision permitting the Contracting Parties to authorize countervailing duties in such cases, but the countervailing country has little or no incentive to apply duties in behalf of an injured third country supplier.

A GATT working party in 1955 addressed itself to the problems raised by domestic subsidies. It agreed that a government which has negotiated a tariff concession is entitled to expect, failing evidence to the contrary, that the value of that concession will not be nullified or impaired by the later introduction or increase of a production subsidy.

Specific Exceptions for Agricultural Trade

The general provisions of GATT contain few exceptions specifically for agricultural trade. These exceptions, while significant, are carefully circumscribed. The basic thrust of the GATT is that protection for domestic production should not extend beyond the application of a tariff. There is an exception to this rule for agricultural and fisheries products. Insofar as a government restricts domestic production or marketing of a particular agricultural or fisheries product or of an animal product derived from imports of the product in question, it may also restrict imports of that product. Also, insofar as a government sells a domestic surplus of the product in question to its domestic consumers at reduced prices, it may restrict imports. Nonetheless, the GATT requires that the controls a government institutes under these circumstances should not reduce the proportion of imports to domestic production that might reasonably be expected in the absence of restrictions.

Tariff Commitments

All of the major trading countries have made important concessions on agricultural products. The value of some of these concessions however has been adversely affected by subsequent developments.

The creation of the European Community affected the tariff commitments the member states had contracted earlier. It also introduced on a wide scale a variable charge on imports in place of fixed

import duties that had hitherto been the subject of GATT negotiations. During the examination of this customs union in the course of the 1960-62 Dillon Round negotiations, there were lengthy discussions concerning agricultural commodities on which there had been bindings by individual member states but which were to be subject to an EC variable import levy. These commodities included wheat, corn, grain sorghum, rice, and poultry meat. The United States and the Community agreed to defer a final settlement (standstill) on these commodities; meanwhile the United States reserved its negotiating rights as of September 1, 1960.

The poultry issue was resolved by the withdrawal of U.S. concessions in January 1964. The 1962 standstill agreements concerning wheat, corn, and grain sorghum were extended into Kennedy Round discussions of an International Grains Arrangement (IGA). U.S. negotiating rights on grains covered by that Arrangement remained in suspension through the three-year term of the IGA ending June 30, 1971. The United States has asked the EC to negotiate on these rights and the U.S. rights on rice not covered by the IGA concurrently with the negotiations on the enlargement of the EC.

The results of the Kennedy Round (1964-67) proved disappointing insofar as agriculture was concerned. The United States sought agreement to limit the European Community's variable import levies. The goal was to reduce them if possible and, at any rate, to bind them against further increase. The Community countered with a broad offer to negotiate on all agricultural products on the basis of binding the margin of support. This would have been defined as the difference between the internal price (including all direct support measures) and a world price (reference price) which would be negotiated. The Community plan as put forward at that time would have required concessions by the EC's trading partners while at the same time it would have (1) continued its support levels which were high compared to those of the United States and (2) it would have replaced price competition with support manipulations and triennial negotiations. The United States did not accept the Community plan.

The IGA which emerged from the Kennedy Round did not secure the hoped-for assurance of improved access to import markets, and the higher price levels which it set turned out to be unworkable.

Enforcement Mechanism

The GATT procedure for dealing with an alleged violation of the general rules or an alleged impairment of a tariff commitment provides for a procedure of consultation and accommodation, with the possibility of ultimate recourse to retaliation pursuant to authorization by the Contracting Parties. Countries have been reluctant individually to push complaints to the point of collective discussion.

The United States has used the GATT enforcement mechanism with regard to many trade issues involving agricultural products.

Several of the U.S. complaints have involved quotas and restrictive licensing systems employed by a number of European countries, especially in the fruits and vegetables area. In some instances, restrictions were removed, quotas were enlarged, or the period of permissible imports was lengthened. In other instances, the U.S. complaint remains outstanding. Some of these latter instances include: the United Kingdom's quota restrictions on fresh U.S. grapefruit and certain processed citrus fruits, cigars and rum, the European Community's variable levy on sugar added to canned fruits, and the European Community's price supports and buyers' premiums for domestic tobacco. In some instances, the United States has been successful in having a quantitative restriction removed. However, in a few cases the removal of a quantitative restriction has been offset by increases in tariffs or the institution of variable levies has accompanied or followed closely upon the abolition of quotas.

A different kind of U.S. action arose from the failure of the United States and the European Community to agree to a final settlement on poultry meat. The Community's withdrawal of a tariff binding became a tangible problem when the common agricultural policy for poultry went into effect in July 1962. After further unsuccessful negotiations, the United States invoked the rights it had reserved in the standstill agreement concerning poultry meat. A GATT panel determined the value of the withdrawal of the tariff concession, and both the United States and the Community accepted its judgment. In January 1964, the United States, in accord with the panel's judgment, suspended trade agreement duty rates and restored the statutory rates on certain agricultural and nonagricultural items.

The GATT and U.S. Agricultural Trade

The structure of tariff bindings built up over several rounds of negotiations, compensations, and accession agreements gives U.S. traders of agricultural products a considerable degree of stability in what they may expect in their transactions. This structure is not perfect. Its building has not progressed so far as could be hoped. Moreover, it is undermined in a number of countries by trade practices that have evolved since the GATT was established. These practices (some of which are deviations from the basic GATT rules) often are an integral part of domestic agricultural support policies and programs.

In part, the problem arises from GATT silence concerning member countries' general tariff obligations, apart from specific commitments on particular products. Presumably, a government may change an unbound rate as it chooses; but to what extent and how frequently may it do so without upsetting the principles and stability of the GATT trading system? How comprehensive must a price support system be, and to what heights must it raise prices before it seriously disturbs the balance of trading advantages under the GATT?

If the GATT system is to be effectively implemented and improved, the major contracting parties may have to adjust their agricultural support programs so that the costs of these programs are not passed on to their trading partners.

Study No. 4.—Effects of Regional Trade Groups on U.S. Foreign Trade: The EC and EFTA Experiences

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Effects of Regional Trade Groups on U.S. Foreign Trade: The EC and EFTA Experiences

An analysis of the effects of regional trade groups on U.S. foreign trade hinges on a comparison of actual U.S. trade performance with what it would have been in the absence of these regional groups.* It is clear that the preferential trade barrier dismantlement between members of regional trade groups has the effect of increasing the share of partner countries and decreasing the share of outside countries in total imports of the region. In the cases of the European Communities (EC) [1] and the European Free Trade Association (EFTA),[2] U.S. trade in manufactures has not fared badly, at least in absolute terms. However, the many economic forces at work within both trade groups over the past 15 years make it impossible to speculate on how the current U.S. trade picture in manufactures would have changed had these trading blocs not been formed. By contrast, in the agricultural sector it is clear that the Common Agricultural Policy (CAP) of the EC has adversely affected exports of some U.S. products to the EC and to third markets.

Choice of Period for Analysis

European reconstruction was not complete until the mid-1950's. Marshall Plan aid was not completely phased out until about 1954. The Agreements establishing the European Economic Community (EEC) and the EFTA were signed in 1957. The European Coal and Steel Community (ECSC) was created in 1952. Some trade effects resulting from economic integration were therefore underway even before the end of reconstruction. 1957 cannot be utilized as a benchmark for analytical purposes, since world trade was significantly distorted by the closure of the Suez Canal. The analysis is therefore limited to the period 1958–1970. Detailed 1970 Organization for Economic Cooperation and Development (OECD) trade data is not yet available, so in some cases the analysis ends with 1969.

Growth in Intra-Area Trade

Since 1958 intra-EC and intra-EFTA trade has grown much more rapidly than their trade with the rest of the world. This is associated with the progressive liberalization of intra-area trade while many

* The analysis for this paper was made in mid-1972. The Executive informs the staff the conclusions would not materially change if 1970 data was included.

[1] Members of the EC are Belgium, France, Germany, Italy, Luxembourg, and the Netherlands.

[2] EFTA members are Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom; Finland is an associate member.

barriers to extra-area trade (although reduced) were maintained. By 1968 tariffs were eliminated on intra-EC trade and on nonagricultural intra-EFTA trade. (Agriculture is largely outside the scope of the EFTA.)

For the six EC members as a whole, exports among member countries rose from 32.1 percent of total exports to all countries in 1958 to 48.9 percent of total exports in 1970; imports from other member countries increased from 34.7 percent of total imports from all countries in 1958 to 51.0 percent of total imports in 1970. For EFTA members as a group [3] exports among member countries rose from 17.5 percent of total exports to all countries in 1958 to 27.9 percent of total exports to all countries in 1970; imports from other member countries increased from 16.4 percent of total imports in 1958 to 25.4 percent of total imports in 1970. Table 1 [4] shows this trend on an annual basis for the period 1958–1970.[5]

U.S.-EFTA Trade

Despite the growth in intra-EFTA trade, as indicated in Tables 3 and 5, the United States increased its share of total EFTA imports (including intra-EFTA trade) from 9.3 percent in 1958 to 10.0 percent in 1969. The largest U.S. share was 10.4 percent in 1968. The gain, however, was posted in the United Kingdom and Norway; the U.S. share of total imports declined in Denmark, Finland, Sweden, Austria, Switzerland, and Portugal, with the decline most noticeable in Austria. As shown in Tables 4 and 5, the U.S. share of total EFTA imports increased in three of the nine major commodity categories from 1958 to to 1969: animal and vegetable fats and oils, machinery and transport equipment, and miscellaneous manufactured articles. The machinery and transport equipment category includes aircraft and parts, computers, industrial machinery and equipment, contracting and excavating machinery, automotive equipment and parts, and many other types of capital goods. For the agricultural items and many of the industrial goods (notably aircraft and computers) tariff preferences

[3] For purposes of this paper, Finland is considered a full EFTA member, which corresponds to the treatment accorded Finnish goods in other EFTA countries and EFTA products in Finland. Iceland was not an EFTA member during the period discussed herein.

[4] Tables 1–4, 6, 7, 9 and 10 are also presented graphically.

[5] It can be argued that the more rapid growth in intra-area trade indicates that such growth has displaced imports from non-members but this is not necessarily the case. One way of exploring the question was undertaken by the National Institute of Economic and Social Research in the United Kingdom. According to its study, in the EC, non-members have increased their share of apparent consumption of manufactured goods in the EC from 6.2 percent in 1958 to 7.9 percent in 1968. As Table 2 indicates, all EC members except the Netherlands experienced an increase in the share of non-EC imports in apparent consumption of manufactured goods during this period; the Netherlands share remained unchanged. The share of domestic output in apparent consumption of manufactured goods also fell from 1954 to 1958 for all EC members except Italy, while the share of imports from other EC member countries in apparent consumption increased in all but Italy (unchanged). The share of imports from third countries, however, fell slightly in Belgium/Luxembourg, Italy, and the Netherlands from 1954 to 1958, but increased in France and Germany. Since 1958, imports from other EC countries have apparently displaced domestic output rather than imports from non-members. No comparable study is available for EFTA.

in favor of other EFTA suppliers were of little importance given the unavailability of directly competitive items within EFTA.

Excluding intra-EFTA trade, the U.S. share of imports rose from 11.2 percent in 1958 to 13.2 percent in 1969 (see Tables 3 and 5). The high-water mark was 13.5 percent in 1968. On this basis the U.S. share increased in Finland as well as in the United Kingdom and Norway, but declined in all other EFTA members. Changes in the U.S. share of major commodity groups were identical to those described in the previous paragraph.

The shift in U.S. market shares also reflects structural changes. For example, the U.S. share of mineral fuels and lubricants fell because of the increasing importance of oil as an energy source and the relative decline of coal. The United States is a major supplier of coal but exports relatively small amounts of petroleum and petroleum products. It should also be noted that most high technology products, in which the United States enjoys a competitive advantage, are included in the major commodity groups machinery and transport equipment and miscellaneous manufactured articles; the United States increased its share of EFTA imports in these two groups.

U.S.-EC Trade

As shown in Tables 6 and 8, the U.S. share of total imports by EC member countries fell from 12.2 percent in 1958 to 9.7 percent in 1969. The U.S. share declined in all EC member countries, but the decline was greatest in Italy, followed by Germany, Belgium/Luxembourg, the Netherlands, and France. As Tables 7 and 8 indicate, the U.S. share increased in two major commodity groups: food and live animals and beverages and tobacco. The former reflects below average U.S. shipments in 1958; the 1969 U.S. share is the lowest of any year since 1958. There was a sharp decline in the U.S. share of mineral fuels and lubricants, due to structural changes, and of animal and vegetable fats and oils, which probably reflects a trend toward imports of oilseeds. The U.S. share of imports of inedible crude materials, manufactured goods classified chiefly by material, machinery and transport equipment, and miscellaneous manufactured articles fell only slightly from 1958 to 1969, with a larger decline in the U.S. share of imports of chemicals.

Excluding intra-EC trade, the U.S. share of EC imports rose from 17.4 percent in 1958 to 18.7 percent in 1969 (see Tables 6 and 8). From 1958 to 1969 the U.S. share increased significantly in France and somewhat less in the Netherlands, barely rose in Germany, declined slightly in Belgium/Luxembourg and noticeably in Italy. The U.S. share of total EC imports, however, has been declining steadily since 1964 when it reached 20.0 percent. The year in which the largest U.S. share was recorded was: Belgium/Luxembourg, 1962

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(20.2 percent); France, 1964 and 1968 (18.0 percent); Germany, 1964 and 1965 (21.2 percent); Italy, 1961 (23.4 percent); and the Netherlands, 1966 (24.7 percent). As can be seen from Tables 7 and 8, the change in the U.S. share was unevenly distributed among major commodity groups. There was a large increase in beverages and tobacco with smaller increases (in order of magnitude) recorded for food and live animals, miscellaneous manufactured articles, machinery and transport equipment, and manufactured goods classified chiefly by material. There were slight declines in the U.S. share of chemicals and inedible crude materials and large decreases for mineral fuels and lubricants and animal and vegetable fats and oils. U.S. exports to the EC, both in absolute and market-share terms, were aided—as they were in the case of EFTA though to a lesser extent—by the fact that in a number of agricultural and industrial items tariff preferences among EC members were of little importance given the unavailability of directly competitive items within the EC.

U.S.-EC Agricultural Trade

The EC's common agricultural policies have adversely affected exports of some U.S. products to the Community and to third country markets. These policies consist of supporting domestic prices at uneconomic levels without limitation on production while insulating the resulting domestic price structure from the world market through import levies and export subsidies. The result has been a dramatic increase in EC production of, internal trade in, and export to third countries of agricultural commodities.

U.S. agricultural exports to the Community have grown at a considerably slower rate than have commercial agricultural exports to other countries. 1960 represents a fairly representative year for U.S. agricultural exports and is before the EC's variable import levies were first imposed on July 30, 1962. In 1970, U.S. agricultural exports to the Community amounted to nearly $1.6 billion, an increase of about 40 percent over the 1960 figure. U.S. commercial agricultural exports to other countries amounted to nearly $4.7 billion in 1970, more than double the 1960 figure. In 1970, U.S. agricultural exports to the EC amounted to about a quarter of total U.S. commercial farm exports; in 1960, they were about a third.

The formation of the EC has resulted in a shift in trade patterns which favors intra-EC trade at the expense of imports from nonmember countries. Intra-EC trade as a percentage of total agricultural imports by the Community rose from 17.5 percent in 1960 to 36.4 percent in 1970. The U.S. share declined from 12.9 percent to 10.7 percent. In this period, intra-EC trade rose about 300 percent compared with a 57 percent rise in imports from the United States and a 44 percent increase from all other sources. In absolute terms, intra-EC

trade rose over $4.5 billion compared with a $652 million increase in imports from the United States and $2.7 billion from all other sources. In view of the substantial increase in EC production in most areas of agriculture, it is evident that the extremely sharp rise in intra-EC trade has displaced imports from the United States and third countries.

Tables 9, 10 and 11 provide data on U.S. agricultural exports to the EC and the world.

The Community applies variable levies on its imports of grains, rice, poultry, eggs, beef, pork, dairy products, sugar, olive oil, and commodities processed from base products such as cereals.[6] At the beginning of the 1971-72 marketing season, variable levies for key grain commodities were as follows: durum wheat about 75 percent ad valorem; other wheat 95 percent; corn nearly 70 percent; and barley (the major feed grain grown in the Community), 50 percent (as a percentage of lowest adjusted c.i.f. price).

EC variable levies held the rise in U.S. exports to the EC of affected commodities to a modest 25 percent from the beginning of the 1960's to 1970 compared with about a 60 percent gain for commodities not subject to variable levies. Increases in shipments of feedgrains contributed most to the modest gain in variable levy items over this period. The gain in exports of U.S. feedgrains would have been substantially larger if EC policies hadn't encouraged a sharp expansion in production of feed grains and surplus wheat eventually used as feed. U.S. exports of other variable levy items such as poultry, lard, rye, dairy products, and beef and veal fell off. Soybeans and soybean meal have been the major U.S. non-variable levy commodities shipped to the EC. Soybeans and soybean meal move readily into the Community under duty-free bindings obtained from the Community during the Dillon Round negotiations in 1960-1961. U.S. exports of these commodities to the Community in 1970 reached $629 million, an increase of $490 million from 1960 and $30 million more than the total increase for all U.S. agricultural exports to the Community.

U.S. agricultural exports in traditional markets other than the Community have been confronted with heavily subsidized EC competition. Examples of EC subsidized competition include: poultry in Austria, Greece, and Switzerland, feedgrains in the United Kingdom (from French denatured wheat), corn in Spain, lard in the United Kingdom, tomato products in Canada, and wheat flour in several Caribbean countries. In some instances the United States has had to resort to export subsidization itself to restore its share of markets lost to this subsidized competition.

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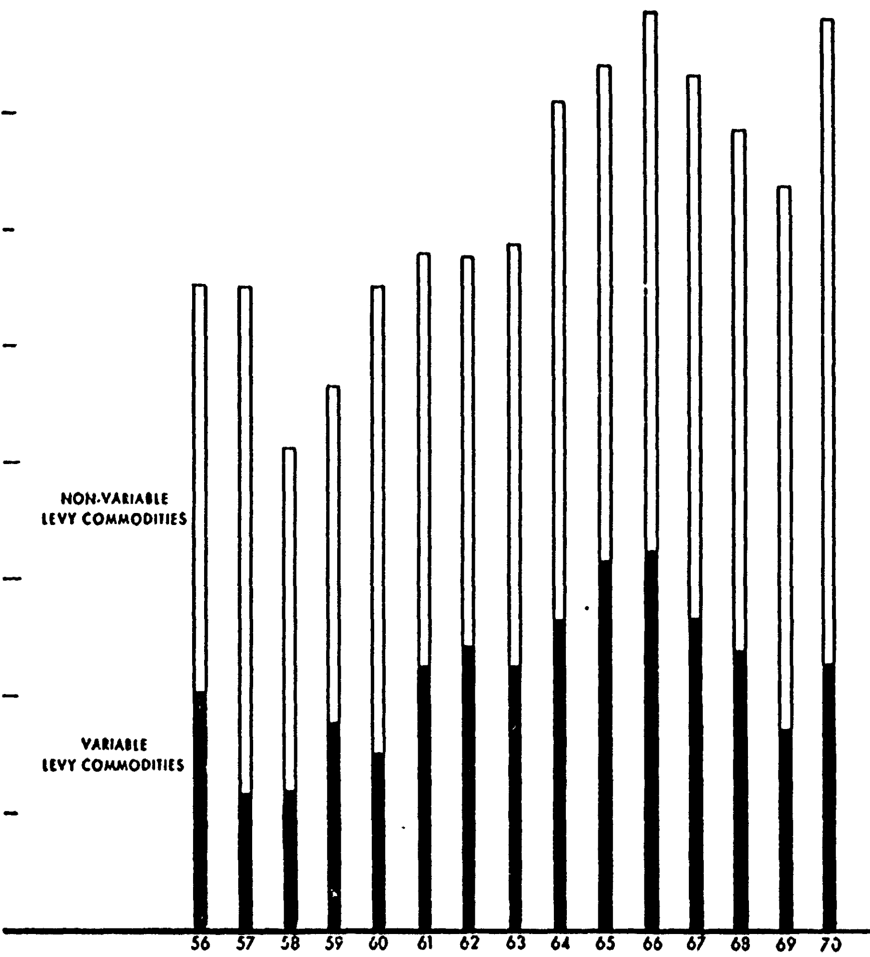
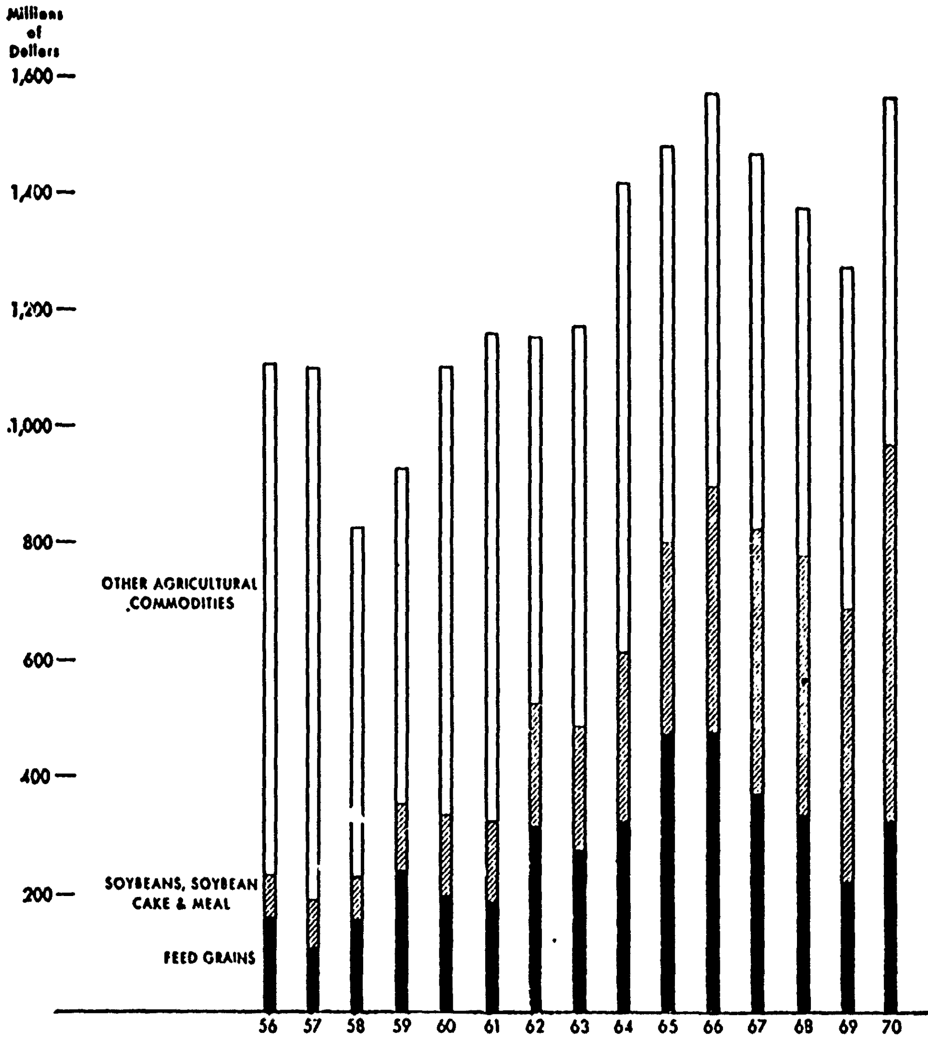
[6] Grains (including wheat flour), poultry, and pork became subject to variable levies on July 30, 1962; rice, on September 1, 1964; and beef and dairy products, on November 1, 1964.


US EXPORTS OF AGRICULTURAL PRODUCTS TO THE EC
Millions of Dollars
1,600
1,400
1,200
1,000
800
600
400
NON-VARIABLE LEVY COMMODITIES
VARIABLE LEVY COMMODITIES
56 57 58 59 60 61 62 63 64 65 66 67 68 69 70

US EXPORTS OF AGRICULTURAL PRODUCTS TO THE EC



Regional Trade Groups, Economic Growth, and Trade Diversion

Two (offsetting) factors may affect third country trade when a regional trade group such as the EC or EFTA is established. First, there may be a tendency for intra-area trade to displace imports from non-members. There is no clear evidence, however, except for some agricultural products subject to variable levies, on the effect which the growth in intra-EC and intra-EFTA trade has had on imports from the United States. The U.S. share of EFTA imports, including intra-trade, has in fact increased since 1958 while it has declined in the EC. According to one private study, the share of imports from non-members in apparent consumption of manufactures in the EC has risen since 1958. As previously indicated, the increase in intra-EC trade appears to have displaced domestic production rather than imports from non-members.

Second, the resulting larger and (partial) economic integration may accelerate the rate of economic growth in member states, which should (at least in the EC and EFTA) benefit U.S. exports since there is a close correlation between changes in Gross National Product and changes in imports. There is, however, no conclusive evidence which would indicate that economic integration has resulted in significantly accelerated rates of economic growth in the EC. Lawrence Krause's 1968 study for the Brookings Institution estimates the growth rate effect of economic integration on the EC member states (in the aggregate) at a plus .2 percent per annum.[7] A more recent (1970) study by the British National Institute concludes that "calculations of . . . relative rates of growth still provide no substantial evidence that countries of the Community have become .... faster growing by reason of their membership." [8] Although EC growth rates (see Table 12) were considerably higher than those in the rest of Western Europe and North America in 1950–58, the gap was narrowed during 1958–69 as the aggregate EC growth rate was unchanged while that of other countries accelerated. Individual country growth rates were higher for smaller economic units (Belgium and the Netherlands) than for larger economic units (especially Germany). The difference, if any, attributable solely to economic integration cannot be measured with certainty and will vary from country to country. In the case of EFTA, the composite growth rate was one percent per annum higher after the formation of EFTA than before. It is difficult to ascertain whether the shift resulted from the establishment of EFTA.

[7] European Economic Integration and the United States.
[8] National Institute Economic Review, November 1970.

TABLE 1.—*Intra-area trade as a percent of total trade*

	Exports to member countries as percent of total exports [1]		Imports from member countries as percent of total imports [1]	
	EC	EFTA	EC	EFTA
1958	32. 1	17. 5	34. 7	16. 4
1959	33. 0	17. 7	36. 1	16. 3
1960	34. 5	20. 9	36. 3	18. 5
1961	36. 8	21. 8	38. 4	19. 6
1962	39. 6	21. 8	39. 5	20. 0
1963	40. 7	22. 4	39. 5	20. 8
1964	43. 2	24. 2	42. 5	21. 3
1965	43. 4	24. 3	44. 4	22. 1
1966	44. 1	24. 9	45. 5	22. 9
1967	43. 7	26. 6	46. 3	23. 7
1968	45. 0	26. 0	48. 4	23. 4
1969	48. 2	26. 4	50. 3	24. 7
1970	48. 9	27. 9	51. 0	25. 4

[1] Exports and imports f.o.b.

Data source: GATT annual International Trade series.

TABLE 2.—*Shares in the EC's apparent consumption of manufactures: 1954, 1958, and 1968*

[In percent]

	1954	1958	1968
Belgium/Luxembourg:			
Domestic output	64. 0	58. 1	38. 2
Intra-EC trade	18. 1	24. 1	38. 9
Other imports	18. 0	17. 8	22. 8
Total		100. 0	100. 0
France:			
Domestic output	94. 6	92. 8	84. 1
Intra-EC trade	2. 1	3. 3	10. 3
Other imports	3. 3	3. 9	5. 6
Total		100. 0	100. 0
Germany:			
Domestic output	93. 8	90. 8	84. 9
Intra-EC trade	2. 6	3. 6	7. 9
Other imports	3. 6	5. 6	7. 1
Total		100. 0	100. 0
Italy:			
Domestic output	90. 6	90. 9	84. 2
Intra-EC trade	4. 0	4. 0	9. 2
Other imports	5. 4	5. 1	6. 6
Total		100. 0	100. 0

TABLE 2.—*Shares in the EC's apparent consumption of manufactures: 1954, 1958, and 1968*—Continued

[In percent]

	1954	1958	1968
Netherlands:			
Domestic output	57.8	55.5	47.3
Intra-EC trade	26.6	29.3	37.5
Other imports	15.7	15.2	15.2
Total		100.0	100.0
EC:			
Domestic output	89.5	87.7	79.8
Intra-EC trade	5.1	6.2	12.3
Other imports	5.4	6.2	7.9
Total		100.0	100.0

Source: "National Institute Economic Review," November 1970.

TABLE 3.—*U.S. share of EFTA imports, by country*

Country	1958		1969	
	Total	Excluding intra	Total	Excluding intra
United Kingdom	9.3	10.3	13.4	15.7
Denmark	9.1	15.1	7.7	13.1
Finland	5.6	7.7	5.1	8.3
Norway	6.9	11.1	7.8	14.0
Sweden	10.6	14.1	8.6	13.6
Austria	10.1	11.4	3.0	3.7
Switzerland	11.5	12.9	8.5	10.3
Portugal	7.1	9.0	4.9	6.4
EFTA total	9.3	11.2	10.0	13.2

TABLE 4.—*U.S. share of EFTA imports, by major commodity group*

SITC group	1958		1969	
	Total	Excluding intra	Total	Excluding intra
0 Food and live animals	9.5	10.5	5.5	6.4
1 Beverages and tobacco	37.3	38.9	30.0	33.5
2 Inedible crude materials	8.8	10.4	7.3	9.5
3 Mineral fuels and lubricants	7.0	7.7	1.4	1.6
4 Animal and vegetable fats and oils	3.3	3.7	3.7	4.5
5 Chemicals	15.2	19.5	12.6	17.1
6 Manufactured goods classified chiefly by material	7.3	9.1	5.4	8.0
7 Machinery and transport equipment	12.4	17.2	19.1	26.2
8 Miscellaneous manufactured articles	8.7	11.4	10.4	15.3
Total	9.3	11.2	10.0	13.2

TABLE 5.—*U.S. market share (percent)*

PORTUGAL

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	0.9	1.0	61.9	63.9	4.3	4.7	11.5	11.9	2.2	2.3
1959	3.3	3.6	59.0	61.0	2.3	2.5	8.2	8.6	1.6	1.6
1960	10.3	11.4	62.3	65.2	5.0	5.5	5.4	5.7	0	0
1961	19.2	20.2	58.2	61.9	5.2	5.7	5.5	6.0	0	0
1962	30.3	32.8	55.9	59.4	2.7	3.0	6.9	7.5	0	0
1963	15.1	16.7	53.3	55.6	2.6	2.9	8.7	9.8	18.0	18.6
1964	24.6	26.1	51.3	54.2	5.0	5.5	6.5	7.3	7.3	7.5
1965	13.3	14.7	42.3	45.2	3.8	4.1	4.8	5.1	10.6	13.9
1966	18.3	21.8	41.5	44.7	2.7	3.0	4.2	4.6	17.0	17.4
1967	10.1	11.3	42.0	44.7	1.4	1.5	3.0	3.2	15.0	15.2
1968	8.7	9.4	50.0	54.3	2.3	2.5	1.3	1.4	17.0	18.0
1969	8.3	9.4	39.1	44.2	2.2	2.4	2.8	2.9	10.8	11.1

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	9.8	14.4	3.4	4.5	7.7	12.1	12.4	19.2	7.1	9.0
1959	9.7	14.3	2.8	3.7	6.7	10.3	11.0	16.7	6.1	7.7
1960	9.8	14.2	5.0	6.4	7.0	10.2	11.7	15.3	7.4	9.2
1961	9.0	13.1	3.5	4.7	6.2	10.4	8.5	12.8	7.6	9.9
1962	9.4	14.2	4.4	6.6	6.3	9.6	9.2	13.5	8.9	11.6
1963	9.2	13.5	9.2	13.8	8.7	12.3	9.5	14.0	8.9	11.4
1964	9.0	13.5	11.9	16.0	7.8	11.8	8.6	12.8	10.4	13.3
1965	8.5	12.6	7.5	10.5	9.0	13.3	8.4	12.6	8.1	10.4
1966	9.4	14.0	3.3	4.7	8.6	13.0	8.1	12.3	8.0	10.4
1967	8.9	13.5	2.3	3.3	10.3	15.5	8.9	12.9	6.9	9.0
1968	8.1	12.3	2.0	2.9	12.5	18.0	7.9	11.5	7.3	9.4
1969	6.6	10.0	1.9	2.8	6.2	9.3	6.6	9.6	4.9	6.4

TABLE 5.—*U.S. market share (percent)*—Continued

EFTA TOTAL

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	9.5	10.5	37.3	38.9	8.8	10.4	7.0	7.7	3.3	3.7
1959	9.1	10.4	34.0	35.7	7.4	9.2	4.7	5.0	4.9	5.6
1960	9.0	10.1	36.0	37.9	10.5	13.1	3.3	3.7	6.5	7.2
1961	7.8	8.8	33.7	35.7	9.1	10.6	3.0	3.3	5.9	6.6
1962	9.6	10.8	28.5	30.3	7.9	9.9	2.7	3.0	4.4	4.9
1963	7.5	8.5	30.9	32.6	7.7	9.6	2.9	3.2	7.0	7.9
1964	8.0	9.2	29.3	31.3	7.8	9.9	2.5	2.7	7.8	9.0
1965	7.6	8.7	24.4	26.6	7.7	9.8	2.5	2.8	7.5	9.1
1966	8.8	10.3	32.8	35.9	7.1	9.1	2.5	2.7	5.4	6.7
1967	6.8	7.9	29.1	32.5	7.4	9.5	4.0	4.4	3.8	4.9
1968	6.1	7.2	30.9	34.4	7.4	9.6	1.7	1.9	4.0	4.8
1969	5.5	6.4	30.0	33.5	7.3	9.5	1.4	1.6	3.7	4.5

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	15.2	19.5	7.3	9.1	12.4	17.2	8.7	11.4	9.3	11.2
1959	15.6	19.9	5.7	7.5	11.8	16.4	9.4	11.8	9.0	10.9
1960	17.2	21.6	8.7	12.0	10.7	22.1	11.1	13.8	10.0	11.8
1961	16.0	20.4	6.4	8.3	14.9	20.3	10.4	13.0	9.8	11.9
1962	15.5	20.1	5.7	7.7	14.0	19.3	9.9	12.6	9.5	11.1
1963	15.5	20.2	6.0	8.3	13.6	19.2	10.2	13.2	9.6	12.1
1964	16.0	21.0	7.9	10.9	14.6	20.2	10.7	13.9	9.9	12.5
1965	15.3	19.9	6.4	8.8	15.0	20.9	11.5	15.4	9.7	12.3
1966	14.6	19.4	6.2	8.7	14.5	19.6	11.6	15.6	9.8	12.6
1967	13.6	18.2	5.6	8.1	16.2	22.6	10.9	15.3	9.8	12.8
1968	14.6	19.6	5.6	8.1	19.4	26.2	10.8	15.3	10.4	13.5
1969	12.6	17.1	5.4	8.0	19.1	26.2	10.4	15.3	10.0	13.2

TABLE 5.—*U.S. market share (percent)*—Continued

UNITED KINGDOM

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	5. 7	6. 2	39. 0	40. 3	7. 5	8. 7	4. 5	4. 5	1. 4	1. 5
1959	7. 7	8. 6	34. 4	35. 9	6. 5	8. 0	3. 0	3. 0	2. 3	2. 5
1960	7. 8	8. 7	36. 9	38. 2	9. 0	11. 3	1. 9	1. 9	4. 9	5. 1
1961	7. 0	7. 8	34. 0	35. 7	7. 9	9. 0	2. 0	2. 0	3. 5	3. 7
1962	8. 4	9. 4	27. 0	28. 1	6. 6	8. 1	1. 6	1. 6	3. 7	3. 9
1963	6. 5	7. 4	32. 0	33. 1	6. 5	8. 0	1. 8	1. 8	4. 7	5. 0
1964	6. 9	7. 8	28. 1	29. 2	6. 2	7. 7	1. 4	1. 4	4. 6	5. 1
1965	6. 8	7. 7	24. 9	25. 9	6. 0	7. 6	1. 7	1. 7	4. 7	5. 6
1966	7. 5	8. 7	35. 4	36. 6	5. 6	7. 0	1. 8	1. 8	3. 6	4. 5
1967	6. 3	7. 2	31. 6	32. 9	5. 4	6. 9	5. 2	5. 2	2. 7	3. 4
1968	5. 6	6. 4	34. 0	35. 4	5. 9	7. 6	1. 3	1. 3	3. 3	3. 7
1969	5. 1	5. 9	33. 5	34. 8	6. 1	7. 9	1. 1	1. 1	2. 5	2. 9

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	22. 6	25. 5	10. 4	11. 9	24. 2	27. 9	11. 3	13. 4	9. 3	10. 3
1959	24. 4	27. 7	7. 1	8. 5	23. 4	26. 8	12. 6	14. 7	9. 3	10. 5
1960	28. 8	32. 2	13. 3	15. 7	35. 7	40. 0	15. 7	18. 1	12. 5	14. 2
1961	26. 4	29. 7	9. 3	10. 7	30. 9	35. 3	15. 6	17. 8	11. 0	12. 3
1962	25. 1	28. 4	8. 4	10. 1	30. 2	35. 3	15. 1	17. 2	10. 6	12. 1
1963	25. 0	28. 2	8. 7	10. 7	29. 7	34. 0	15. 8	18. 2	10. 4	11. 9
1964	26. 0	29. 6	12. 5	15. 4	31. 4	36. 4	17. 0	19. 7	11. 6	13. 4
1965	25. 4	28. 7	9. 8	11. 8	32. 9	38. 1	20. 8	24. 2	11. 7	13. 5
1966	25. 1	28. 7	9. 3	11. 5	30. 6	35. 1	20. 7	24. 1	12. 1	14. 1
1967	23. 0	26. 8	8. 0	10. 3	32. 9	37. 6	19. 3	23. 4	12. 5	14. 6
1968	24. 3	28. 5	8. 1	10. 3	37. 6	42. 8	18. 7	22. 8	13. 4	15. 7
1969	20. 6	24. 2	8. 2	10. 4	39. 3	44. 9	19. 6	24. 0	13. 4	15. 7

TABLE 5.—*U.S. market share (percent)*—Continued

DENMARK

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	14.9	18.2	34.4	38.1	19.9	36.4	10.3	22.5	0.3	0.8
1959	25.7	27.9	34.6	37.6	12.9	19.5	4.2	6.9	1.1	1.5
1960	25.1	27.1	33.7	37.0	15.7	23.8	2.4	3.8	1.4	2.0
1961	15.0	17.0	36.8	40.3	17.1	23.1	2.2	3.5	2.2	2.8
1962	21.0	24.2	29.1	32.0	19.2	29.8	2.0	2.9	1.2	1.6
1963	18.1	20.8	33.1	37.7	22.4	33.5	1.9	2.8	2.3	3.3
1964	18.7	21.1	30.5	34.5	18.6	30.4	1.4	1.9	4.0	5.7
1965	18.6	21.6	26.7	31.0	19.8	32.4	1.7	2.3	.1	.2
1966	16.5	20.1	31.2	36.9	16.9	28.8	1.4	1.8	2.2	3.1
1967	14.4	17.8	30.7	37.2	22.9	38.4	1.4	1.9	2.7	4.3
1968	11.2	14.0	36.5	43.5	20.2	34.6	1.8	2.5	2.0	3.3
1969	9.2	11.3	34.5	42.4	16.0	27.4	.4	.5	.5	.8

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	7.4	13.3	1.4	2.4	7.2	11.8	4.2	6.4	9.1	15.1
1959	8.8	14.6	1.6	2.6	6.9	11.3	5.2	7.6	9.2	13.8
1960	8.1	13.3	2.1	3.6	10.7	16.3	5.6	8.3	9.9	14.6
1961	8.1	13.2	2.4	3.8	8.4	13.0	5.3	7.9	8.1	11.9
1962	8.4	14.2	2.4	4.3	6.5	10.7	5.5	8.5	8.4	12.9
1963	9.1	15.6	2.7	4.8	7.9	13.2	5.8	9.3	8.9	13.8
1964	8.9	15.3	2.4	4.4	8.2	13.7	6.1	10.0	8.7	13.6
1965	9.4	16.5	2.2	4.1	8.4	13.9	6.6	11.1	8.6	13.4
1966	9.0	15.6	2.0	3.9	7.9	13.4	6.7	11.7	7.9	12.7
1967	8.8	14.8	2.2	4.3	10.1	18.0	6.2	11.4	8.6	14.3
1968	9.0	15.3	2.3	4.6	10.7	18.1	6.1	11.5	8.5	14.2
1969	8.9	15.1	2.6	5.3	10.1	17.5	6.2	12.0	7.7	13.1

TABLE 5.—*U.S. market share (percent)*—Continued

NORWAY

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	14.1	16.3	50.0	57.6	8.5	11.2	8.3	13.2	5.5	7.7
1959	17.9	20.5	46.7	53.2	10.5	14.9	8.1	11.9	18.3	25.5
1960	16.1	18.9	51.1	55.6	12.7	19.0	6.5	10.3	18.2	21.0
1961	14.5	16.9	44.2	50.0	9.0	11.1	5.6	8.5	30.0	37.5
1962	17.3	20.1	52.1	57.8	7.9	10.9	5.2	7.6	8.1	11.2
1963	13.5	17.2	44.2	48.7	7.7	10.8	4.6	6.9	9.3	12.6
1964	13.7	16.7	41.2	47.2	10.5	14.9	5.2	7.3	14.8	17.9
1965	11.9	15.0	34.7	45.0	10.3	15.0	7.0	9.7	4.4	6.1
1966	17.6	21.6	41.8	55.6	10.4	15.7	6.3	9.5	11.0	15.5
1967	12.3	15.3	36.9	50.0	10.2	15.8	6.4	9.1	5.0	9.1
1968	10.4	13.5	36.0	49.0	7.8	11.8	6.1	8.6	4.2	6.7
1969	6.7	9.0	27.8	42.1	7.9	12.3	6.3	9.1	4.8	7.0

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	12.3	18.0	4.6	7.3	4.4	8.3	4.6	8.4	6.9	11.1
1959	9.5	13.6	3.2	5.2	4.3	7.9	5.1	8.8	7.0	11.1
1960	10.1	14.5	3.7	5.9	7.5	14.8	5.2	8.8	8.4	13.6
1961	10.4	14.8	3.7	6.8	5.1	10.2	5.0	8.8	6.9	11.4
1962	9.6	13.9	3.7	7.2	5.4	10.9	4.4	8.4	7.2	12.0
1963	12.2	17.9	3.4	6.7	5.6	13.0	4.3	8.7	6.9	12.3
1964	15.0	22.1	3.7	7.1	5.6	11.2	4.8	10.0	7.5	12.7
1965	12.2	17.5	3.3	6.3	5.7	11.3	4.7	10.1	7.0	12.1
1966	10.7	15.6	3.4	6.7	5.7	10.9	5.0	11.5	7.5	12.9
1967	9.0	13.8	2.7	5.8	5.4	10.5	4.1	10.0	6.4	11.5
1968	14.4	21.5	2.9	6.3	7.6	14.2	6.0	14.9	7.6	13.4
1969	12.3	18.9	2.8	6.4	10.0	17.8	4.3	11.5	7.8	14.0

TABLE 5.—*U.S. market share (percent)*—Continued

SWEDEN

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	10. 0	12. 0	44. 6	50. 6	15. 5	18. 8	5. 6	6. 6	13. 0	19. 1
1959	10. 9	13. 1	38. 3	44. 4	11. 2	14. 5	5. 8	7. 0	17. 2	23. 3
1960	10. 5	12. 8	42. 1	49. 9	19. 1	24. 3	4. 2	5. 1	15. 2	20. 4
1961	8. 9	11. 1	41. 1	49. 9	17. 3	20. 6	4. 4	5. 3	9. 4	13. 2
1962	10. 1	12. 5	35. 1	43. 4	11. 9	16. 3	4. 6	5. 8	8. 8	11. 5
1963	9. 7	12. 2	30. 1	38. 1	10. 7	14. 3	4. 3	5. 5	24. 3	34. 2
1964	9. 5	12. 7	42. 3	52. 6	13. 9	18. 2	4. 6	6. 2	29. 2	42. 5
1965	8. 7	11. 4	12. 7	20. 0	12. 1	15. 8	4. 3	5. 9	36. 1	47. 5
1966	9. 9	12. 9	36. 7	55. 2	11. 5	14. 6	4. 3	6. 0	25. 6	35. 6
1967	8. 4	11. 5	24. 7	42. 5	12. 1	15. 8	3. 9	5. 3	14. 6	22. 0
1968	7. 8	10. 8	22. 5	39. 7	14. 6	18. 7	2. 7	3. 5	10. 3	20. 0
1969	7. 6	10. 9	19. 7	36. 3	14. 4	18. 6	2. 7	3. 7	15. 9	31. 1

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	14. 1	20. 7	7. 0	8. 8	14. 2	19. 3	7. 9	12. 0	10. 6	14. 1
1959	15. 4	23. 0	7. 1	10. 2	13. 8	18. 7	8. 0	11. 4	10. 5	13. 8
1960	15. 1	21. 0	8. 3	12. 1	18. 8	25. 7	9. 9	13. 9	12. 6	17. 0
1961	14. 6	21. 6	6. 6	9. 7	16. 0	22. 5	8. 3	11. 8	11. 4	15. 4
1962	14. 4	22. 0	5. 8	9. 0	13. 6	19. 5	8. 4	12. 3	10. 2	14. 3
1963	12. 7	19. 6	5. 8	9. 2	13. 5	20. 0	7. 6	11. 6	10. 1	14. 4
1964	11. 9	18. 7	5. 8	9. 5	12. 9	19. 0	8. 0	12. 4	10. 0	14. 7
1965	11. 8	18. 5	5. 0	8. 1	13. 6	20. 1	8. 5	13. 5	9. 5	14. 1
1966	10. 3	16. 7	4. 9	8. 3	12. 1	18. 8	9. 5	15. 3	9. 3	14. 2
1967	10. 1	17. 5	4. 8	8. 5	13. 7	20. 6	8. 4	14. 1	9. 3	14. 3
1968	12. 3	20. 4	4. 7	8. 4	13. 9	20. 5	8. 2	14. 1	9. 3	14. 2
1969	9. 6	16. 2	4. 8	8. 6	12. 3	19. 0	7. 6	13. 9	8. 6	13. 6

TABLE 5.—*U.S. market share (percent)*—Continued

FINLAND

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	4.9	5.1	27.1	27.6	9.9	13.1	2.1	2.3	0.1	0.2
1959	3.3	3.4	32.3	35.7	7.8	10.3	1.0	1.1	12.7	25.8
1960	4.6	4.9	32.2	34.6	11.4	12.3	1.1	1.2	3.1	4.2
1961	6.4	7.3	41.0	44.7	1.2	1.6	1.1	1.2	20.0	28.1
1962	6.5	7.1	37.1	41.0	11.9	15.6	.9	1.0	0	0
1963	6.8	7.4	40.4	43.3	10.6	13.9	1.4	1.5	0	0
1964	7.3	8.0	33.3	35.7	7.2	9.6	1.0	1.1	3.7	7.1
1965	8.3	9.4	30.8	35.1	7.1	9.7	.9	1.0	3.3	7.1
1966	8.6	10.2	29.5	33.3	6.6	8.9	.8	.8	0	0
1967	3.7	4.2	30.3	35.2	5.1	7.0	.4	.4	0	0
1968	5.1	5.9	30.2	35.0	4.8	6.4	.4	.4	0	0
1969	4.4	5.2	30.3	35.5	4.2	5.8	.3	.3	.4	.9

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	4.8	7.1	1.6	2.4	9.6	17.6	2.1	3.4	5.6	7.7
1959	5.0	7.4	1.7	2.6	8.8	15.7	3.9	6.1	5.2	7.3
1960	5.6	8.5	2.5	2.6	9.6	16.6	5.0	7.7	6.4	8.2
1961	6.5	10.1	2.7	4.2	8.8	15.2	6.1	9.3	5.9	8.7
1962	7.8	12.4	2.3	3.8	6.9	12.2	5.7	8.8	6.1	9.0
1963	6.9	11.7	2.5	4.2	6.9	12.7	7.3	11.5	6.2	9.2
1964	7.3	12.6	2.7	4.5	8.1	14.0	6.2	10.3	6.1	9.0
1965	7.7	12.9	2.6	4.6	7.8	13.9	6.5	11.1	6.2	9.5
1966	7.5	13.2	2.4	4.5	7.2	8.8	5.8	10.3	5.7	7.9
1967	6.6	11.4	2.1	4.1	6.6	12.1	5.6	10.4	4.9	7.6
1968	7.1	12.2	2.1	4.4	6.0	11.5	5.7	11.6	4.5	7.2
1969	6.8	12.1	2.2	4.7	8.1	15.0	4.8	10.5	5.1	8.3

TABLE 5.—*U.S. market share (percent)*—Continued

SWITZERLAND

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	10.4	11.3	21.6	22.1	9.5	10.6	9.3	9.5	8.9	9.4
1959	11.8	12.9	23.8	24.4	8.9	10.4	7.6	7.7	5.4	5.7
1960	10.5	11.3	22.9	24.1	13.7	16.3	6.5	6.6	8.3	9.0
1961	8.9	9.7	23.6	25.0	12.3	11.3	4.7	4.7	4.3	4.5
1962	8.9	9.9	22.6	23.9	9.0	10.9	4.0	4.1	2.5	2.7
1963	6.1	6.9	21.9	23.1	7.5	9.1	5.0	5.1	1.9	2.1
1964	5.4	6.3	22.4	23.9	9.4	11.3	4.4	4.5	3.0	3.1
1965	5.6	6.3	24.2	25.7	9.0	10.7	4.1	4.1	2.2	2.3
1966	7.6	8.5	20.7	22.0	7.8	9.3	3.1	3.1	.5	.5
1967	4.7	5.2	20.5	23.0	8.4	10.2	2.0	2.1	1.1	1.2
1968	5.2	5.7	20.3	22.1	7.3	9.1	1.5	1.6	.6	.6
1969	5.5	6.1	23.0	24.7	6.5	8.2	1.0	1.0	.8	.8

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	17.9	19.7	8.8	10.3	14.5	17.1	11.6	13.0	11.5	12.9
1959	15.8	17.5	8.4	9.9	11.1	14.3	10.5	11.6	10.6	12.2
1960	15.2	16.7	7.3	8.7	15.7	18.4	10.0	11.2	11.4	12.9
1961	14.9	16.5	6.2	7.4	14.8	17.1	8.5	9.5	10.3	11.7
1962	14.3	16.0	5.0	6.0	14.6	17.1	7.9	8.9	9.8	11.3
1963	12.7	14.5	5.3	6.4	12.1	14.4	8.1	9.2	8.6	10.0
1964	12.3	14.1	5.9	7.2	11.9	14.3	7.6	8.8	8.7	10.3
1965	11.5	13.3	4.5	5.5	11.3	13.7	7.1	8.4	8.5	10.0
1966	11.4	13.3	5.9	7.4	13.8	16.5	6.9	8.2	9.0	10.7
1967	10.4	12.0	5.7	7.4	13.6	16.4	6.9	8.4	8.4	10.0
1968	10.1	11.8	4.3	5.7	16.4	19.6	7.1	8.8	9.0	10.7
1969	10.5	12.3	3.8	5.3	13.5	16.5	7.0	8.7	8.5	10.3

TABLE 5.—*U.S. market share (percent)*—Continued

AUSTRIA

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	13.3	14.0	31.5	32.2	14.6	16.3	25.3	25.4	6.8	7.7
1959	9.0	9.8	22.5	23.1	11.0	12.4	13.9	14.1	4.1	4.7
1960	6.7	7.0	17.1	17.5	13.9	15.9	10.6	10.7	5.2	5.8
1961	4.2	4.4	12.3	12.7	11.5	13.1	6.5	5.6	7.8	8.9
1962	9.9	10.5	23.4	24.3	9.9	11.2	5.2	5.2	3.7	4.6
1963	6.1	6.5	14.3	14.8	8.6	9.7	5.3	5.3	3.8	4.3
1964	9.4	10.1	19.4	20.2	9.2	10.3	3.4	3.4	9.3	10.1
1965	5.3	5.7	17.7	18.5	8.3	9.3	2.1	2.1	8.7	9.7
1966	9.8	10.8	17.6	18.4	7.5	8.3	1.5	1.6	.8	.9
1967	3.6	4.0	14.9	15.9	8.7	9.6	.9	1.0	.4	.4
1968	3.8	4.2	16.6	17.8	7.6	8.4	.4	.4	.5	.5
1969	4.0	4.5	13.7	15.0	7.1	7.8	.3	.3	35.7	38.2

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	6.2	7.3	2.9	3.6	4.9	5.6	3.9	4.6	10.1	11.4
1959	6.1	7.1	2.2	2.7	4.6	5.2	4.0	4.7	6.8	7.7
1960	6.8	8.1	2.1	2.6	7.8	9.1	3.5	4.1	7.3	8.4
1961	7.1	8.6	2.1	2.5	6.4	7.4	4.7	5.6	5.9	6.8
1962	7.4	9.0	1.7	2.1	4.1	4.8	4.4	5.2	5.6	6.4
1963	7.0	8.7	1.7	2.2	4.0	4.8	3.9	4.7	4.7	5.5
1964	7.5	9.2	2.2	2.7	3.9	4.7	3.9	4.7	5.2	6.0
1965	5.4	6.6	2.6	3.4	3.9	4.6	3.5	4.3	4.4	5.2
1966	5.1	6.3	1.8	2.4	3.5	4.1	3.2	4.0	4.3	5.2
1967	4.7	5.8	1.9	2.6	3.2	4.0	2.9	3.7	3.5	4.3
1968	4.7	5.8	1.9	2.6	2.9	3.6	3.2	4.2	3.3	4.1
1969	3.8	4.7	1.5	2.1	2.8	3.5	2.6	3.5	3.0	3.7

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TABLE 6.—*U.S. share of European Communities imports, by country*

Country	1958 Total	1958 Excluding intra	1969 Total	1969 Excluding intra
Belgium/Luxembourg	9.9	18.6	7.7	18.0
France	10.0	12.9	8.5	17.2
Germany	13.7	18.4	10.5	18.6
Italy	16.3	20.8	11.3	18.5
Netherlands	11.3	19.4	9.7	22.4
Total, EC	12.2	17.4	9.7	18.7

TABLE 7.—*U.S. share of European Communities imports, by major commodity group*

Major SITC commodity group	1958 Total	1958 Excluding intra	1969 Total	1969 Excluding intra
0. Food and live animals	7.6	9.4	8.2	14.3
1. Beverages and tobacco	10.7	12.1	17.0	27.1
2. Inedible crude materials	13.1	14.8	11.1	12.9
3. Mineral fuels and lubricants	15.1	19.1	3.0	3.7
4. Animal and vegetable fats and oils	22.3	24.5	6.4	9.0
5. Chemicals	22.7	40.7	14.9	38.6
6. Manufactured goods classified chiefly by material	6.5	12.8	5.6	13.2
7. Machinery and transport equipment	19.0	39.7	15.0	41.6
8. Miscellaneous manufactured articles	7.8	16.5	6.8	20.3
Total	12.2	17.4	9.7	18.7

TABLE 8.—*U.S. market share (percent)*

ITALY

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	1.9	2.3	8.5	10.1	20.8	23.6	18.9	20.2	42.4	46.6
1959	3.4	4.0	1.3	1.7	10.7	13.1	13.2	14.3	30.2	33.6
1960	3.9	4.7	17.9	25.0	17.0	20.6	11.9	13.4	17.7	19.3
1961	14.3	16.9	24.3	36.8	17.6	21.3	10.7	11.8	18.8	19.9
1962	7.4	8.9	19.1	24.1	14.7	17.8	10.8	11.7	14.5	15.4
1963	8.8	10.7	24.7	33.7	12.8	15.5	12.9	13.7	9.6	10.2
1964	7.3	9.1	13.9	20.2	14.9	18.2	12.3	12.9	18.0	20.2
1965	11.9	14.9	12.4	22.4	14.1	18.0	11.6	11.9	18.7	21.2
1966	13.1	16.4	7.9	17.7	11.2	14.2	9.0	9.4	17.1	19.5
1967	5.8	7.8	11.2	23.2	11.8	15.0	5.8	6.1	7.7	9.2
1968	9.1	13.2	9.6	26.7	13.0	16.4	4.2	4.4	6.9	8.6
1969	7.1	11.0	17.5	32.9	11.4	14.7	3.8	4.0	6.8	8.1

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	27.1	46.5	8.5	14.6	21.8	41.6	9.3	18.6	16.3	20.8
1959	23.2	42.5	6.0	11.1	16.2	34.9	11.3	23.3	11.2	15.3
1960	25.5	44.2	10.2	18.2	21.0	43.0	13.0	26.7	14.2	19.6
1961	27.1	48.2	11.0	20.8	23.1	46.7	13.8	27.4	16.5	23.4
1962	25.1	48.1	7.9	15.4	23.8	49.1	14.0	28.0	14.5	21.1
1963	21.5	43.8	8.3	16.5	20.8	47.9	12.8	26.5	13.6	20.3
1964	19.2	41.1	9.8	19.0	20.1	48.4	12.3	26.0	13.5	20.1
1965	17.0	38.6	10.5	19.7	18.0	44.6	11.7	24.1	13.5	19.6
1966	14.2	34.7	9.5	18.1	16.7	43.6	14.1	29.0	12.2	18.1
1967	14.1	35.9	8.1	16.6	18.6	47.2	15.8	33.1	10.6	16.3
1968	15.0	39.5	7.3	14.5	20.5	51.1	15.7	34.4	11.6	18.2
1969	12.0	34.0	8.6	16.9	20.6	52.8	14.2	34.0	11.3	18.5

TABLE 8.—*U.S. market share (percent)*—Continued

BELGIUM/LUXEMBOURG

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	16. 2	23. 8	16. 1	28. 4	7. 7	10. 6	9. 3	17. 2	6. 3	8. 5
1959	19. 0	28. 8	15. 3	28. 2	6. 4	9. 0	6. 5	12. 8	9. 5	13. 1
1960	15. 9	24. 3	14. 8	28. 5	8. 9	12. 2	6. 0	12. 2	14. 9	19. 5
1961	14. 8	23. 4	13. 7	27. 8	7. 7	10. 7	5. 2	10. 8	8. 5	12. 8
1962	19. 1	29. 0	11. 7	24. 0	6. 9	10. 0	5. 5	11. 0	5. 4	9. 5
1963	16. 2	25. 6	11. 4	23. 3	7. 1	10. 5	7. 5	12. 7	5. 7	9. 4
1964	15. 6	24. 6	10. 9	22. 3	8. 4	12. 1	6. 2	10. 9	14. 4	22. 4
1965	17. 7	29. 3	11. 5	23. 1	7. 5	10. 9	6. 0	10. 4	9. 9	17. 8
1966	18. 1	30. 3	9. 4	21. 1	7. 1	10. 6	5. 8	10. 4	5. 5	10. 6
1967	13. 5	22. 9	11. 0	23. 2	9. 4	13. 6	4. 2	7. 2	3. 6	7. 7
1968	9. 4	19. 0	9. 2	23. 1	12. 4	17. 5	2. 7	4. 5	3. 0	8. 6
1969	8. 7	19. 3	10. 1	24. 5	10. 2	14. 9	2. 5	4. 2	2. 6	8. 6

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	15. 2	42. 6	4. 0	7. 3	13. 5	38. 6	7. 5	26. 4	9. 9	18. 6
1959	16. 0	43. 9	4. 4	7. 7	11. 5	33. 7	8. 7	32. 0	9. 4	17. 8
1960	15. 7	42. 9	4. 6	8. 3	14. 5	42. 3	6. 2	25. 6	9. 9	19. 0
1961	14. 2	45. 3	4. 1	8. 0	12. 5	39. 2	6. 5	26. 7	8. 8	18. 0
1962	11. 8	38. 2	4. 2	8. 1	15. 4	45. 5	8. 0	31. 8	9. 9	20. 2
1963	12. 4	40. 7	5. 4	11. 0	11. 8	38. 2	6. 6	28. 8	9. 2	19. 4
1964	11. 9	40. 7	5. 4	11. 3	10. 6	36. 6	5. 6	24. 9	8. 9	19. 0
1965	12. 8	41. 9	4. 7	9. 9	9. 7	35. 2	5. 2	22. 9	8. 6	19. 0
1966	12. 2	43. 5	4. 0	8. 1	8. 4	33. 4	5. 2	24. 0	7. 9	18. 0
1967	12. 3	44. 6	4. 6	9. 6	9. 6	36. 3	5. 9	28. 0	8. 2	18. 5
1968	12. 9	46. 9	6. 4	12. 3	9. 2	33. 7	5. 4	27. 5	8. 3	18. 3
1969	13. 1	45. 9	5. 7	11. 3	9. 0	36. 0	5. 4	28. 8	7. 7	18. 0

TABLE 8.—*U.S. market share (percent)*—Continued

GERMANY

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	7. 1	9. 6	29. 7	39. 0	12. 7	14. 0	30. 5	36. 3	28. 9	32. 0
1959	7. 9	11. 0	29. 1	39. 1	10. 1	11. 6	14. 5	17. 5	35. 0	38. 9
1960	8. 1	11. 8	27. 8	39. 4	13. 8	15. 9	11. 5	13. 5	31. 2	35. 7
1961	8. 3	12. 5	29. 0	40. 8	14. 1	16. 3	9. 7	10. 9	22. 4	25. 5
1962	10. 4	15. 3	27. 7	39. 6	11. 1	13. 1	8. 6	10. 0	16. 7	19. 5
1963	8. 7	13. 3	27. 0	39. 6	12. 3	14. 5	8. 1	9. 6	17. 0	19. 4
1964	8. 9	13. 9	25. 6	36. 4	14. 5	17. 2	6. 9	8. 1	21. 1	24. 3
1965	8. 4	13. 5	25. 1	35. 4	12. 9	15. 3	6. 7	8. 0	20. 4	23. 3
1966	9. 3	15. 4	26. 5	37. 4	14. 2	17. 0	6. 2	7. 5	10. 4	12. 1
1967	7. 8	13. 3	32. 2	43. 5	14. 1	17. 2	5. 6	7. 0	5. 8	6. 7
1968	7. 5	13. 6	23. 8	34. 8	13. 2	16. 1	3. 3	4. 1	6. 2	7. 6
1969	6. 0	11. 7	26. 4	39. 1	12. 0	14. 7	3. 0	4. 0	9. 0	11. 6

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	30. 5	42. 5	6. 3	11. 2	23. 1	35. 9	7. 0	10. 7	13. 7	18. 4
1959	29. 3	42. 6	5. 4	10. 1	20. 3	34. 7	34. 0	48. 6	12. 9	18. 1
1960	31. 1	45. 4	8. 5	15. 2	24. 1	40. 1	25. 1	40. 9	14. 1	20. 1
1961	28. 9	44. 2	7. 6	14. 0	24. 6	41. 3	8. 5	16. 5	12. 5	17. 0
1962	27. 1	42. 9	6. 1	11. 5	20. 5	37. 4	7. 4	14. 5	11. 2	16. 4
1963	28. 0	44. 9	6. 1	11. 6	21. 2	36. 8	7. 3	14. 2	10. 7	15. 6
1964	26. 6	44. 8	6. 1	12. 4	21. 4	38. 4	8. 5	16. 3	13. 8	21. 2
1965	23. 9	42. 9	6. 0	12. 5	20. 4	39. 0	7. 2	14. 6	13. 1	21. 2
1966	20. 4	39. 1	5. 1	10. 4	17. 8	37. 0	7. 2	15. 2	12. 7	20. 7
1967	19. 7	39. 3	5. 1	10. 4	19. 8	41. 1	8. 3	18. 1	12. 3	20. 4
1968	20. 2	42. 1	5. 1	10. 6	18. 3	39. 1	7. 7	17. 1	10. 8	18. 4
1969	18. 7	40. 2	5. 5	11. 3	17. 2	37. 2	7. 0	15. 4	10. 5	18. 6

TABLE 8.—*U.S. market share (percent)*—Continued

NETHERLANDS

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	20.8	24.1	23.3	29.7	12.4	14.8	11.1	13.5	23.3	25.6
1959	25.7	29.6	22.1	29.6	11.2	13.6	9.0	11.4	34.5	38.0
1960	26.1	30.3	28.9	43.2	15.2	18.7	7.2	9.1	37.2	39.8
1961	26.9	32.6	18.6	37.6	13.9	17.2	5.1	6.5	17.9	19.7
1962	30.3	35.7	19.1	43.9	12.6	16.0	5.4	6.8	21.7	24.9
1963	31.8	37.1	19.0	42.3	11.3	14.5	7.3	9.4	18.9	21.6
1964	30.6	35.9	18.7	43.9	12.7	15.8	7.1	8.9	27.2	31.7
1965	28.9	35.6	19.4	43.1	11.5	14.5	4.8	6.1	26.5	31.4
1966	30.2	37.8	18.6	43.2	14.6	18.7	4.2	5.4	19.5	23.8
1967	23.5	30.5	20.9	45.5	15.6	20.2	3.6	4.7	16.2	19.7
1968	21.2	29.7	21.2	45.1	17.9	23.3	2.8	3.5	12.9	17.0
1969	14.6	23.4	18.6	39.5	19.4	25.5	4.0	4.7	10.4	14.2

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	12.3	29.2	4.5	14.1	10.7	30.1	6.5	21.1	11.3	19.4
1959	12.7	28.9	3.3	10.9	9.1	26.9	6.7	21.0	11.0	19.8
1960	15.1	34.4	4.6	16.5	16.1	42.0	6.6	21.5	13.2	24.4
1961	13.7	33.3	3.7	13.9	13.0	31.3	5.3	12.9	11.0	20.9
1962	14.3	33.4	2.9	11.6	12.7	32.6	4.8	12.0	11.2	21.6
1963	13.1	31.4	3.3	12.2	9.1	31.0	5.0	18.7	10.9	22.5
1964	14.7	36.2	3.6	14.2	9.1	20.0	5.3	19.7	11.0	21.2
1965	15.8	38.7	3.4	13.6	8.4	28.7	5.3	19.5	10.3	22.0
1966	15.6	39.2	3.4	13.8	11.5	35.6	5.4	20.7	11.4	24.7
1967	14.7	37.8	3.5	14.4	11.2	36.1	5.4	20.7	10.4	22.8
1968	15.9	40.9	3.2	14.2	13.2	40.3	4.6	18.7	10.9	24.5
1969	14.8	40.0	3.5	14.9	11.5	36.7	4.7	21.2	9.7	22.4

TABLE 8.—*U.S. market share (percent)*—Continued

FRANCE

SITC	0		1		2		3		4	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	0.9	1.0	2.0	2.1	10.8	11.5	6.8	9.1	0.6	0.6
1959	1.9	2.2	2.7	2.7	8.6	9.2	3.0	4.1	1.2	1.3
1960	1.8	2.2	2.4	2.5	14.1	15.1	2.3	3.3	5.1	5.5
1961	5.7	6.7	3.9	4.0	12.3	13.3	2.0	2.8	1.0	1.1
1962	6.6	7.9	2.4	2.5	7.9	8.7	2.0	2.7	1.0	1.1
1963	6.7	8.4	4.0	4.2	7.4	8.2	4.4	5.8	1.3	1.5
1964	8.3	10.6	3.1	3.2	9.0	9.9	3.8	4.9	2.6	3.0
1965	9.8	12.8	3.2	3.5	6.9	7.7	2.8	3.5	4.2	5.1
1966	10.1	12.9	3.8	4.2	6.5	7.4	2.7	3.3	2.3	2.9
1967	9.8	13.1	4.2	5.0	6.7	7.7	2.4	2.9	4.3	5.6
1968	9.8	14.3	2.2	2.8	6.2	7.2	1.8	2.2	2.4	3.3
1969	8.9	13.8	2.2	2.6	5.0	5.8	2.0	2.5	1.6	2.4

SITC	5		6		7		8		Total	
	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra	Total	Excluding intra
1958	25.7	39.6	10.5	19.1	27.3	49.7	12.5	27.2	10.0	12.9
1959	22.7	38.6	8.8	19.7	23.9	48.8	10.0	24.3	8.4	11.5
1960	21.1	36.7	9.8	24.1	33.5	61.1	12.4	30.8	11.9	16.8
1961	21.3	38.3	8.1	20.7	24.7	50.5	14.0	35.4	11.0	16.1
1962	20.9	41.0	7.2	18.9	23.9	50.0	12.9	33.2	10.3	15.5
1963	18.9	38.1	7.4	19.5	21.9	47.6	12.1	32.9	10.3	16.1
1964	20.0	41.6	7.9	21.4	23.0	50.4	12.7	33.9	11.3	18.0
1965	19.2	41.1	7.1	19.0	20.7	50.2	11.8	31.8	10.5	17.2
1966	18.1	40.4	7.0	18.8	18.7	48.0	11.0	30.6	10.1	17.2
1967	15.5	37.2	5.3	15.6	19.1	48.9	10.1	29.7	9.9	17.4
1968	13.8	36.8	5.4	15.9	18.1	48.7	8.7	29.0	9.5	18.0
1969	13.5	35.5	5.3	15.7	15.5	45.3	6.6	23.8	8.5	17.2

TABLE 8.—*U.S. market share (percent)*—Continued

EC TOTAL

SITC	0 Total	0 Excluding intra	1 Total	1 Excluding intra	2 Total	2 Excluding intra	3 Total	3 Excluding intra	4 Total	4 Excluding intra
1958	7.6	9.4	10.7	12.1	13.1	14.8	15.1	19.1	22.3	24.5
1959	9.4	12.2	12.9	15.3	9.5	13.3	8.7	11.4	25.3	28.0
1960	9.1	12.0	13.8	16.8	14.1	16.5	7.4	9.8	22.0	24.4
1961	11.5	15.5	14.4	18.3	13.6	16.1	6.3	8.1	15.0	16.9
1962	12.2	16.4	14.3	18.2	10.8	13.0	6.3	8.0	12.1	13.9
1963	11.6	15.8	16.4	22.3	10.6	12.8	7.8	9.7	10.8	12.3
1964	11.7	16.2	14.1	19.2	12.4	15.0	7.0	8.6	30.0	35.1
1965	12.4	17.7	15.1	21.4	11.1	13.6	6.3	7.6	16.3	19.4
1966	13.3	19.0	15.5	22.5	11.1	13.7	5.5	6.7	10.5	12.9
1967	10.2	15.3	19.4	29.2	11.6	14.5	4.4	5.3	7.4	9.3
1968	10.2	16.4	15.7	26.3	12.2	15.3	3.0	3.6	6.3	8.6
1969	8.2	14.3	17.0	27.1	11.1	12.9	3.0	3.7	6.4	9.0

SITC	5 Total	5 Excluding intra	6 Total	6 Excluding intra	7 Total	7 Excluding intra	8 Total	8 Excluding intra	Total Total	Total Excluding intra
1958	22.7	40.7	6.5	12.8	19.0	39.7	7.8	16.5	12.2	17.4
1959	21.4	42.3	5.4	11.1	16.0	36.3	20.7	40.2	10.9	16.4
1960	22.8	41.6	7.7	15.8	22.0	46.3	17.0	35.0	12.9	19.7
1961	22.0	42.4	7.0	14.9	19.7	41.9	8.9	20.9	12.1	18.9
1962	20.9	41.8	5.8	12.7	19.4	42.7	8.8	20.6	11.4	18.1
1963	19.8	40.8	6.1	13.7	17.2	41.1	8.4	21.7	11.0	17.8
1964	19.5	41.7	6.4	14.9	17.1	38.7	8.7	22.5	12.1	20.0
1965	18.7	41.0	6.1	14.2	15.8	40.4	7.9	20.4	11.6	19.9
1966	16.7	39.1	5.6	12.9	15.0	40.0	7.9	21.3	11.2	19.6
1967	15.7	38.4	5.2	12.5	16.2	42.8	8.5	23.7	10.7	19.0
1968	15.9	40.6	5.3	12.7	16.2	43.2	7.7	22.7	10.3	19.0
1969	14.9	38.6	5.6	13.2	15.0	41.6	6.8	20.3	9.7	18.7

TABLE 9.—*U.S. exports of agricultural products (World and European Communities totals)*

[Dollar amounts in millions]

Year	Commercial	Total	Commercial as percent of total	To EC	Percent of commercial to EC	Percent of total to EC
1956	$2,459	$4,170	59.0	$1,101	44.8	26.4
1957	2,970	4,506	65.9	1,094	36.8	24.3
1958	2,622	3,855	68.0	822	31.4	21.3
1959	2,747	3,955	69.5	926	33.7	23.4
1960	3,371	4,832	69.8	1,099	32.7	22.7
1961	3,541	5,024	70.5	1,157	32.7	23.0
1962	3,555	5,034	70.6	1,151	32.4	22.9
1963	4,064	5,584	72.8	1,171	28.8	21.0
1964	4,704	6,348	74.1	1,416	30.1	22.3
1965	4,880	6,229	78.3	1,476	30.2	23.7
1966	5,523	6,881	80.3	1,564	28.3	22.7
1967	5,117	6,380	80.2	1,460	28.5	22.9
1968	5,039	6,228	80.9	1,367	27.1	21.9
1969	4,917	5,936	82.8	1,269	25.8	21.4
1970	6,217	7,174	86.7	1,559	25.1	21.7

TABLE 10.—*U.S. exports of agricultural products to the European Communities*

[In millions of dollars]

	Total	Feedgrains	Soybeans, soybean cake and meal	Other	Variable levy commodities	Nonvariable levy commodities
1956	1,101	159	71	871	402	699
1957	1,094	106	81	907	233	860
1958	822	158	68	596	236	586
1959	926	241	114	571	350	575
1960	1,099	197	139	763	299	800
1961	1,157	186	137	834	443	714
1962	1,151	317	204	630	479	672
1963	1,171	275	218	678	446	725
1964	1,416	326	285	805	525	891
1965	1,476	472	328	676	626	850
1966	1,564	476	419	669	642	922
1967	1,460	374	446	640	529	931
1968	1,367	337	440	590	475	892
1969	1,269	225	460	584	340	929
1970	1,559	324	629	606	454	1,105

TABLE 11.—*U.S. exports to the European Communities of agricultural commodities subject to variable levies*

[In millions of dollars]

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Feed grains	157.5	241.3	197.1	186.0	[1] 317.1	275.3	326.0	471.8	476.4	373.6	336.5	225.0	323.9
Rice	3.0	10.8	6.9	14.8	14.2	13.4	[1] 15.4	10.1	18.8	25.7	27.9	31.0	20.9
Rye	2.4	5.7	3.7	5.7	[1] 18.7	13.7	5.7	1.5	4.4	4.3	1.5	.4	0
Wheat	51.5	44.7	46.3	173.0	[1] 50.6	63.4	59.2	67.7	106.0	95.1	83.0	56.1	77.4
Wheat flour	11.2	8.5	7.3	6.9	[1] 5.6	3.2	1.7	1.2	1.4	1.4	1.0	.9	1.0
Beef and veal					.1	.2	[1] 1.1	1.5	.6	.6	.5	.4	.4
Pork	.5	.7	.4	.6	[1] .3	2.1	8.6	.4	1.3	.4	.2	.3	.1
Lard	1.9	5.1	2.3	3.4	[1] 2.1	2.5	2.5	1.1	1.1	1.6	.3	.2	.4
Dairy products	2.5	10.2	3.0	2.1	3.6	22.6	[1] 54.4	30.5	1.2	1.2	.9	.8	1.1
Poultry and eggs	3.6	19.2	28.6	45.8	[1] 53.5	30.6	31.7	30.7	23.6	18.5	14.4	13.0	13.1
Other	2.3	3.7	3.5	4.2	13.5	19.1	18.9	9.8	7.0	6.7	8.9	11.4	15.4
Total	236.4	349.8	299.1	442.5	479.3	445.9	525.1	626.2	642.0	529.1	475.1	339.6	453.7

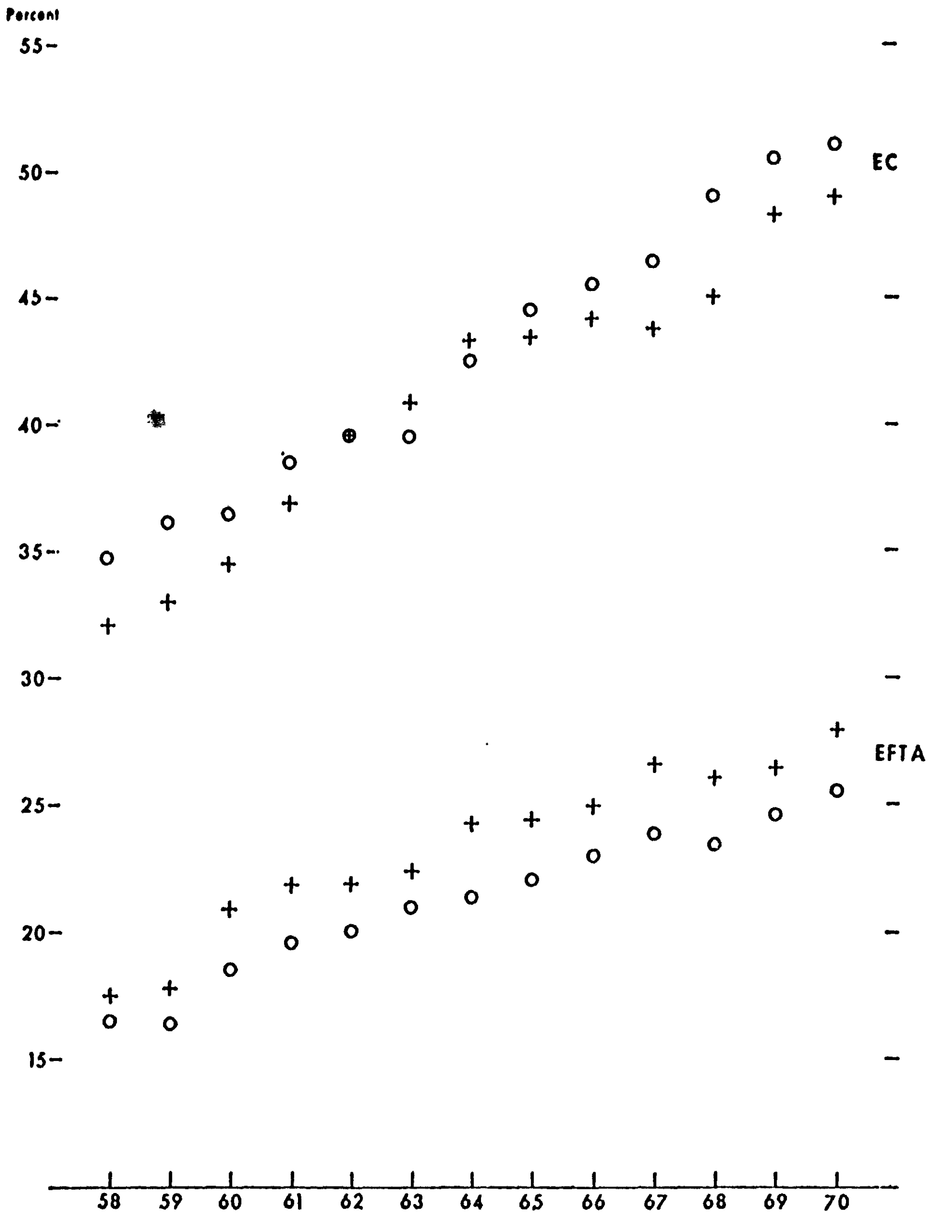
[1] Year during which variable levies were instituted.

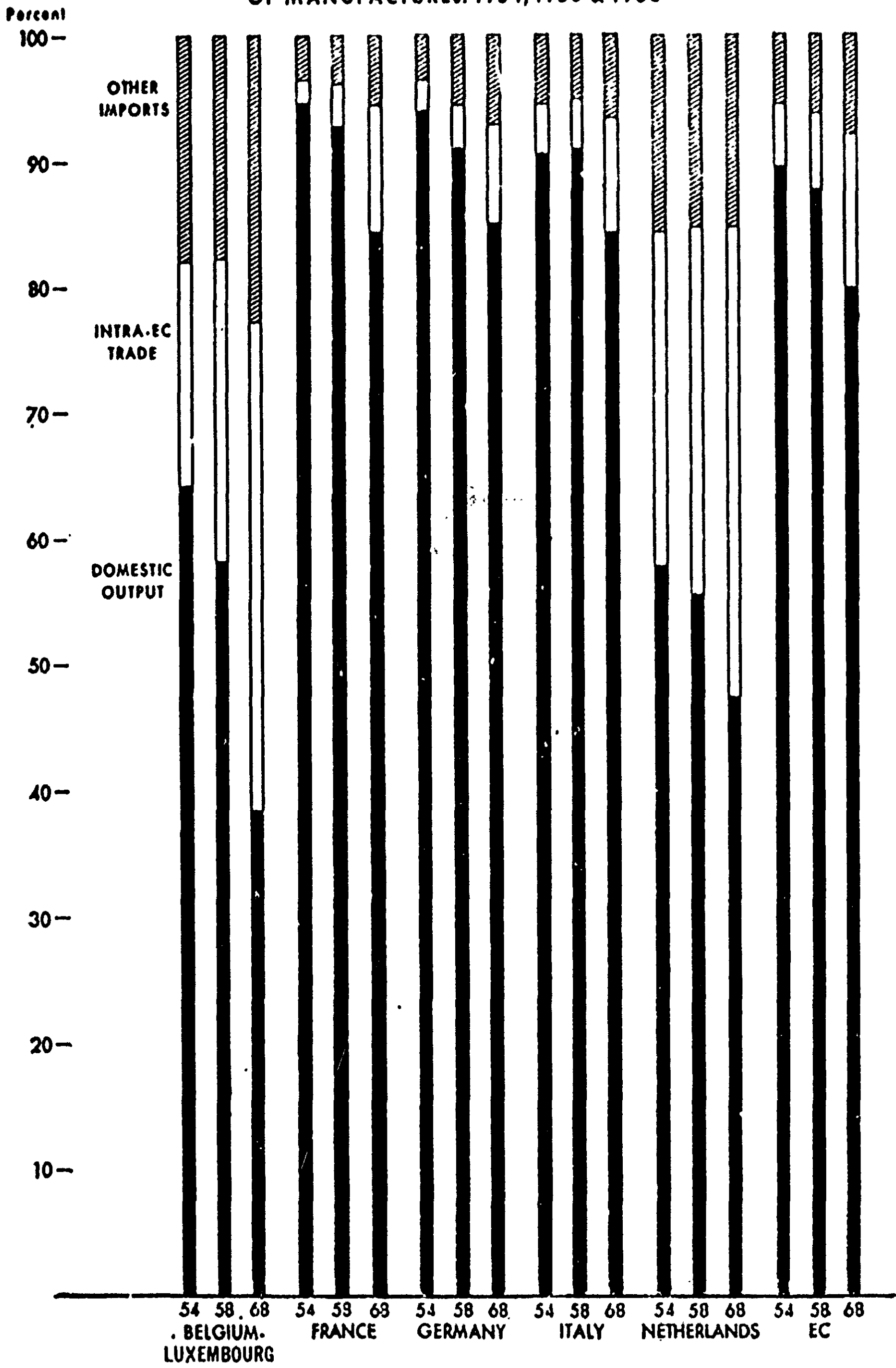
TABLE 12.—*Rates of growth in employment, productivity, and GNP*

	Employment		Output per worker		GNP[1]	
	1950-68	1958-69	1950-58	1958-69	1950-58	1958-69
Belgium	0.3	0.7	2.4	3.7	2.7	4.5
France	.5	.4	3.9	5.3	4.4	5.7
Germany	2.3	.3	6.3	4.9	7.8	6.0
Italy	1.5	-.5	4.0	6.1	5.6	5.7
Netherlands	1.2	1.0	2.9	4.3	4.3	5.3
European Communities	1.3	.2	4.2	5.2	5.7	5.7
United Kingdom	(2)	(2)	(2)	(2)	2.3	3.1
Denmark	(2)	(2)	(2)	(2)	2.5	5.1
Finland	(2)	(2)	(2)	(2)	4.1	5.4
Norway	(2)	(2)	(2)	(2)	3.6	4.8
Sweden	(2)	(2)	(2)	(2)	3.2	4.7
Nordics	(2)	(2)	(2)	(2)	3.2	4.9
Austria	(2)	(2)	(2)	(2)	6.2	4.5
Switzerland	(2)	(2)	(2)	(2)	4.0	4.9
Portugal	(2)	(2)	(2)	(2)	3.6	6.2
EFTA	(2)	(2)	(2)	(2)	3.6	3.9
Other OECD: Europe	.7	.6	2.5	3.7	3.2	4.3
Total OECD	1.1	.9	2.8	4.2	3.9	5.1

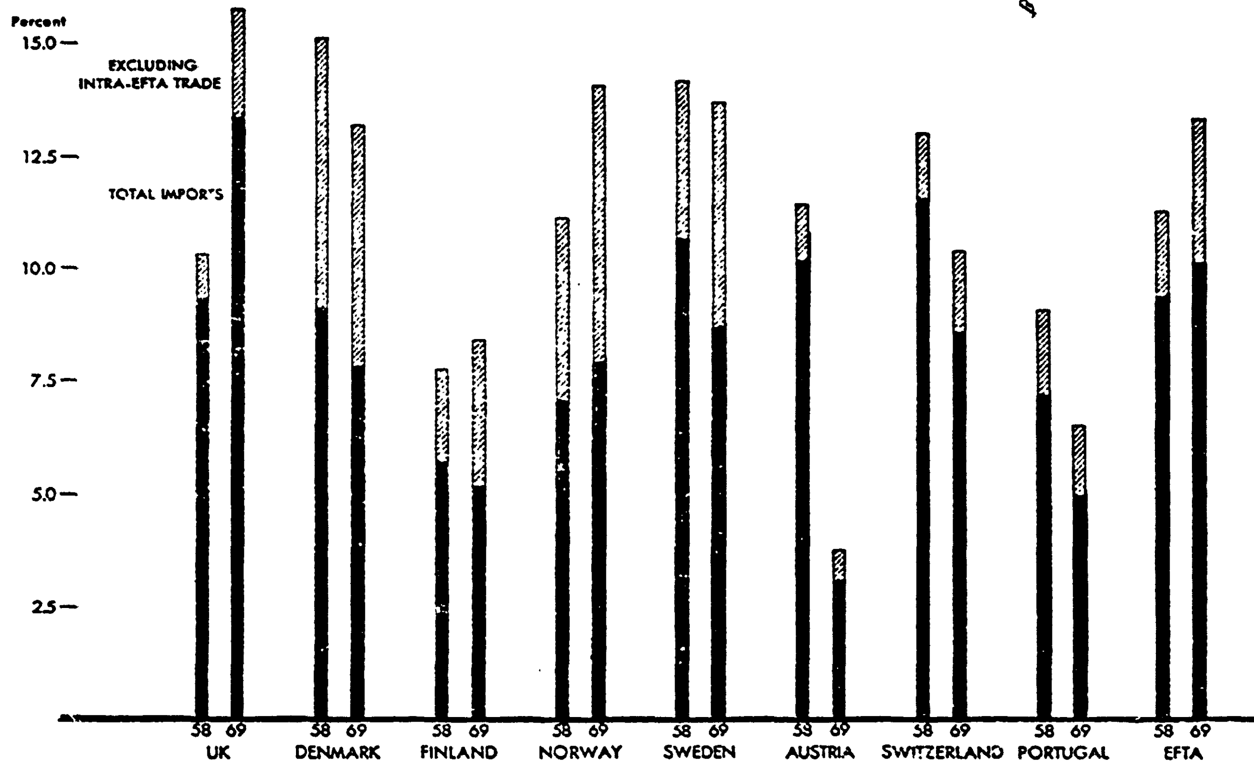
[1] Real GNP.
[2] Not available.

Source: OECD statistics for GNP data, November 1970 issue of National Institute Economic Review for employment and productivity data. GNP growth rate computed from raw data; growth rates for employment and productivity computed by National Institute.

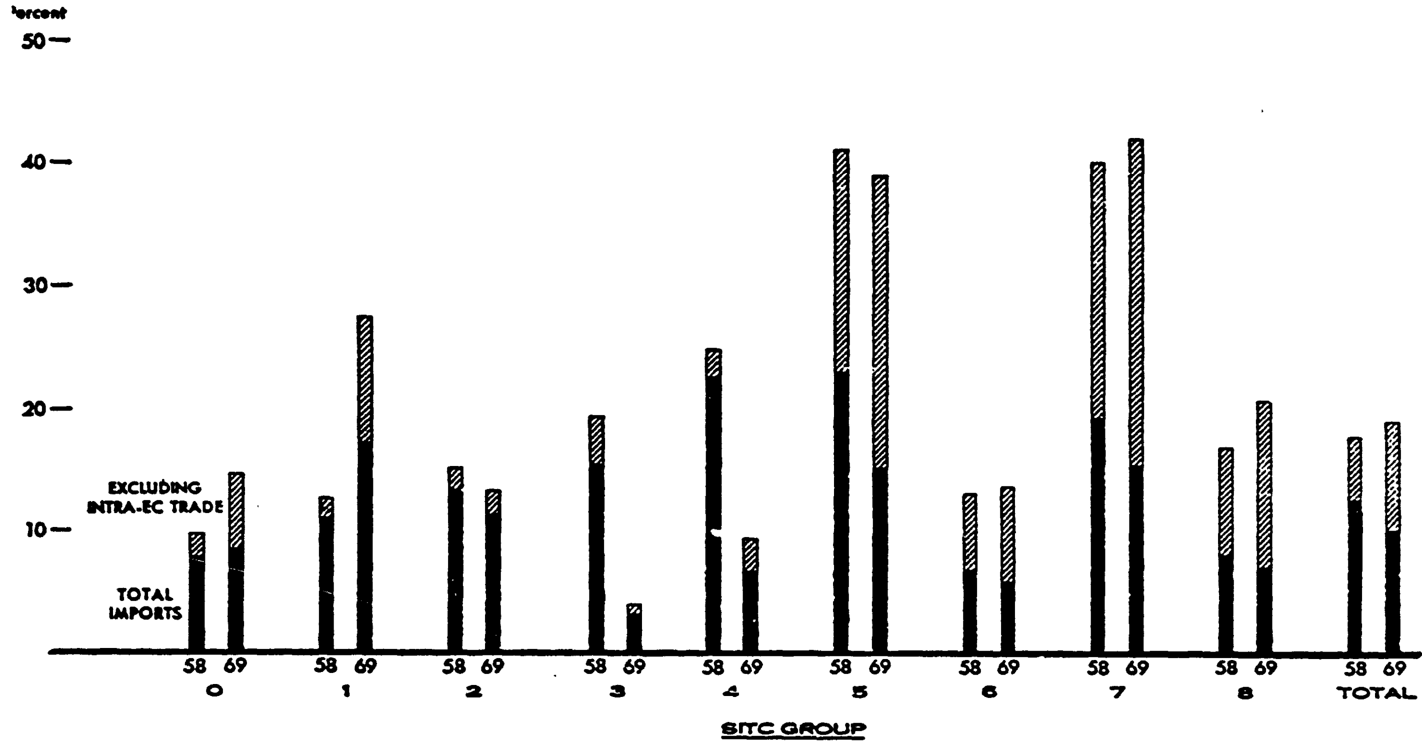

INTRA-AREA TRADE AS A PERCENT OF TOTAL TRADE
+ = EXPORTS TO MEMBER COUNTRIES AS A PERCENT OF TOTAL EXPORTS
O = IMPORTS FROM MEMBER COUNTRIES AS A PERCENT OF TOTAL IMPORTS
Percent
55
50
45
40
35
30
25
20
15
EC
EFTA
58
59
60
61
62
63
64
65
66
67
68
69
70

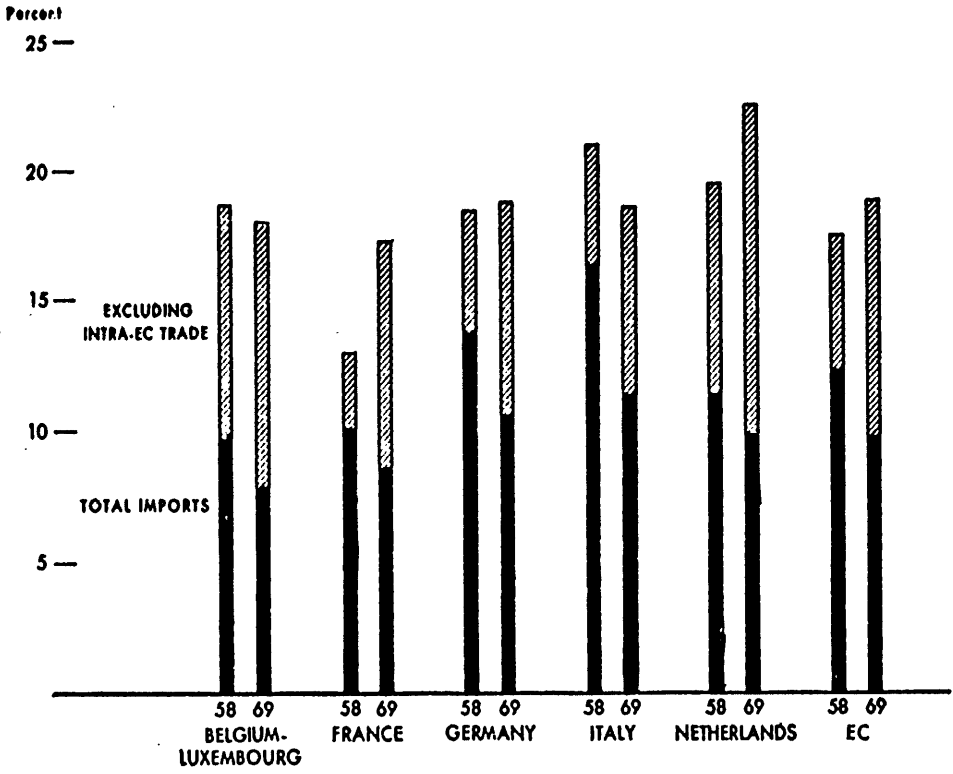

SHARES IN THE EC'S APPARENT CONSUMPTION
OF MANUFACTURES: 1954, 1958 & 1968
Percent
100
90
80
70
60
50
40
30
20
10
OTHER
IMPORTS
INTRA-EC
TRADE
DOMESTIC
OUTPUT
54 58 68
BELGIUM-
LUXEMBOURG
54 58 68
FRANCE
54 58 68
GERMANY
54 58 68
ITALY
54 58 68
NETHERLANDS
54 58 68
EC

US SHARE OF EFTA IMPORTS, BY COUNTRY: 1958 & 1969

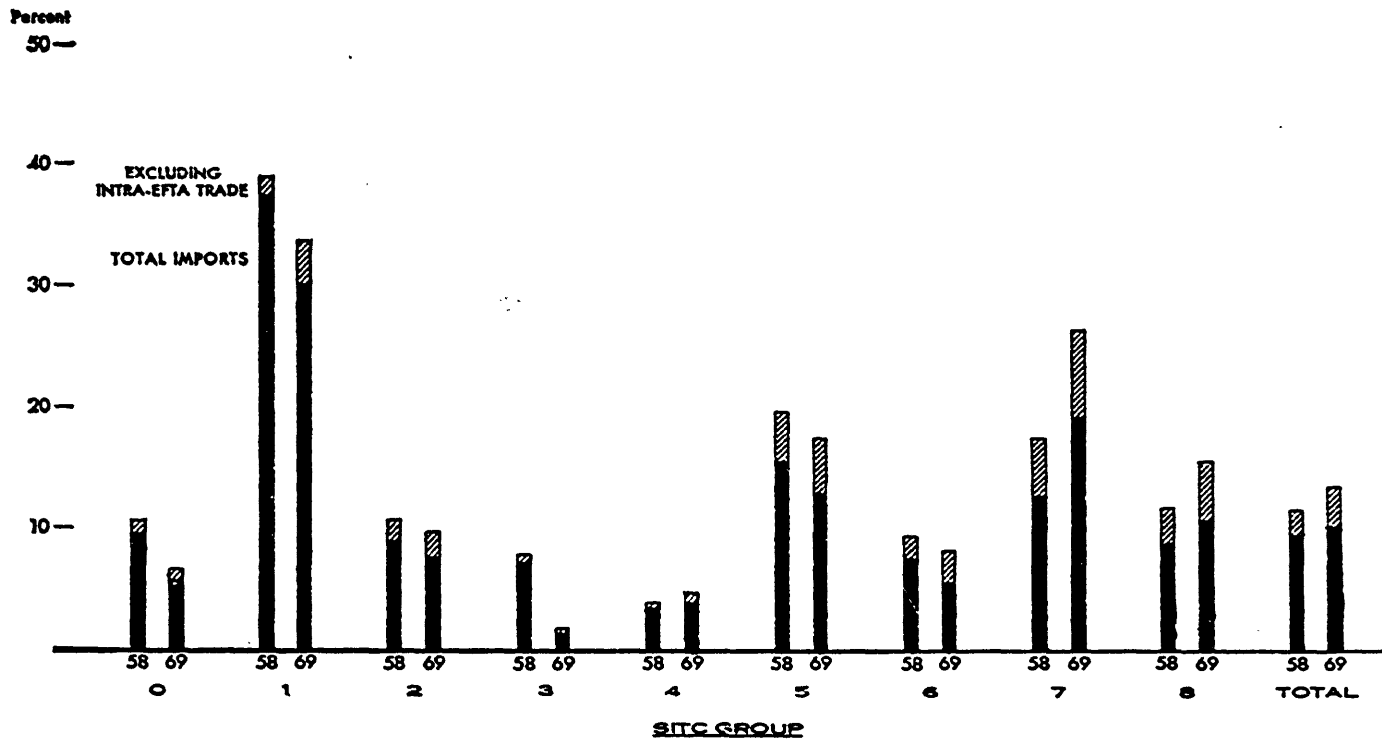


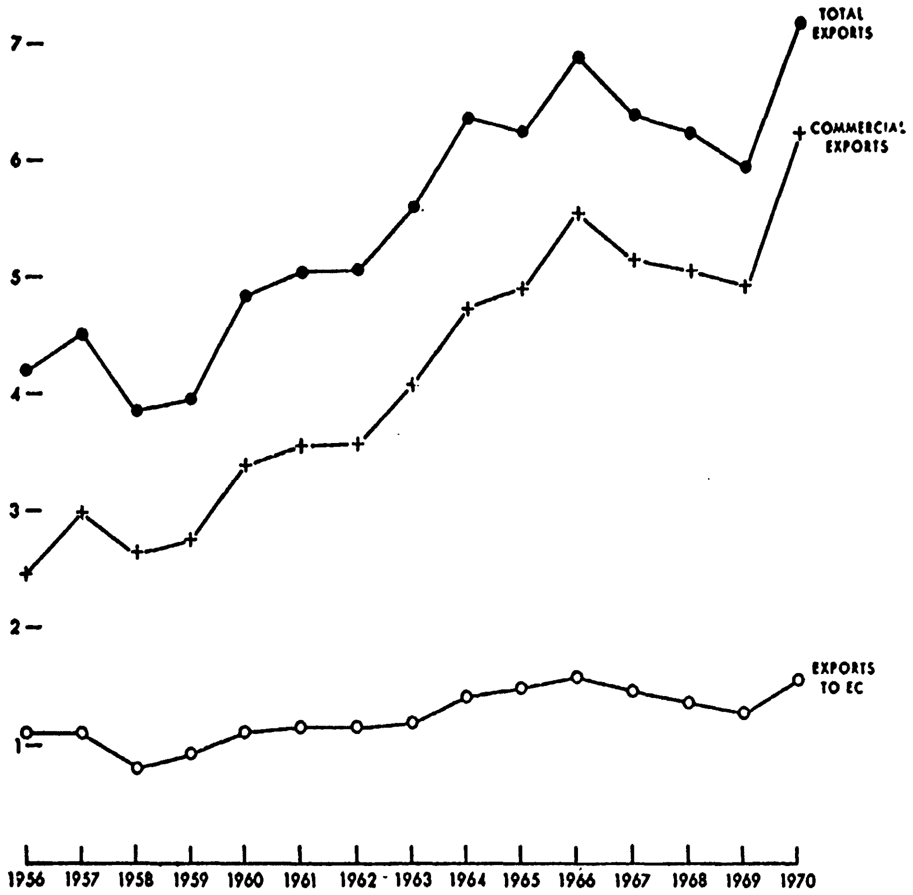
US SHARE OF EC IMPORTS, BY MAJOR COMMODITY GROUP: 1958 & 1969




US SHARE OF EC IMPORTS, BY COUNTRY: 1958 & 1969
Percent
25
20
15
10
5
EXCLUDING INTRA-EC TRADE
TOTAL IMPORTS
58 69
BELGIUM-LUXEMBOURG
58 69
FRANCE
58 69
GERMANY
58 69
ITALY
58 69
NETHERLANDS
58 69
EC

29-617 O - 74 - 6




US EXPORTS OF AGRICULTURAL PRODUCTS
Billions of Dollars
8
7
6
5
4
3
2
1
TOTAL EXPORTS
COMMERCIAL EXPORTS
EXPORTS TO EC
1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970

Study No. 5.—Discriminatory Government Procurement Practices

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Discriminatory Government Procurement Practices

GATT Articles

Government purchases of goods made for its own use and not for commercial resale fall largely outside the GATT trade rules. Countries that were unwilling to accept international obligations on the conduct of their procurement frustrated earlier efforts to formulate trade rules on government procurement paralleling those in the GATT which apply to private trading. In discussions which preceded the entry into force of the GATT, other countries rejected a United States proposal which would have extended the national treatment requirement (Article III) and the Most-Favored-Nation Principle (Article I) to government purchasing.

GATT provisions have limited applicability to government procurement. Article III expressly excludes the application of the national treatment rule to government purchasing and explicitly provides that it does not prevent subsidies to domestic producers, "including the purchase by the government of domestic products at higher prices than those for imported products." The only specific GATT obligation on government purchasing is found in Article XVII dealing with state trading. While excluding the application of the state trading provisions to this activity, the article requires a contracting party to accord "fair and equitable treatment" to the trade of other contracting parties with respect to imports of products "for immediate or ultimate consumption in government use." This provision is generally regarded as a near substitute for the most-favored-nation (MFN) clause.

Foreign Procurement Practices

Despite differences due to institutional and other local conditions, the procurement systems which have evolved under these conditions share in common a buy-national bias. National governments give effect to this propensity mainly through the flexible administration of procurement guidelines, particularly at the bidding and award stages in the procurement process.

Chances for participating in the bidding are circumscribed when advance publicity on prospective purchases is lacking or inadequate or when purchasing entities choose to ignore foreign suppliers in selectively seeking out suppliers of particular products. Criteria for the award of contracts can also be applied in a manner which effectively precludes contract awards to suppliers of foreign goods. The usual commercial considerations are sometimes set aside to buy only domestic products.

These actions are taken, for example, to relieve cyclical unemployment, promote regional economic development, protect domestic industry and establish a domestic industry in a high technology sector. These justifications are additional to those based on safeguarding national security or protecting public health and morals, which are widely recognized exceptions. Governments also resort to using administrative guidance, either formal or informal, to "persuade" purchasing entities to buy only domestic products whenever possible.

Avenues open for the redress of grievances growing out of contract award decisions are limited. The underlying reason for this can be attributed mainly to the absence of agreed international rules on government procurement. There is nothing to prevent an aggrieved party from raising a government procurement issue in the context of the GATT, but the very limited provision in the General Agreement covering trade involving government purchases would severely hamper reaching a firm judgment on the GATT legality of the action. As a consequence, there is virtually no GATT case history in the government purchasing area. Charges of discrimination are also difficult to prove when governments discriminate against foreign supplies through the procurement procedure. In some cases, published government procurement regulations do not exist. The difficulty is compounded when governments are reluctant to reveal information after the fact on considerations ruling in the contract award, the prices quoted in bids, and firms participating in the bidding, a deficiency which is particularly felt when foreign goods are offered in competition with domestic products. The large discretionary element which rests with the national government in procurement activities perhaps also explains the reluctance of some foreign suppliers to press complaints with other governments for fear of jeopardizing chances for future sales.

Selected Foreign Procurement Practices

European Economic Community

Within the European Community member countries follow their own procurement policies and regulations. However, a draft EC Council Directive has been prepared by the Commission on "the coordination of adjudicating procedures for the award of public supply contracts" which is currently under review for possible adoption by the end of 1973. The EC member governments are thus under some constraint to move toward a fairer and more open system of procurement among themselves, but how far it will proceed in this direction is uncertain. Of course, to the extent the member country governments accord national treatment to suppliers in the other EC member countries, outside suppliers—including those in the United States—may face broader discrimination and possibly reduced sales to the EC government procurement market.

The evolving EC industrial policy and the role assigned to government procurement is also likely to have a major impact on future EC procurement policy. Some elements within the EC regard restrictions on procurements of certain products from foreign sources as a means of fostering the development within the EC of industries in the advanced technology sector. The advisability of this course is still being debated. Should the EC adopt the approach of promoting high-technology industries through protectionist government procurement policies, however, U.S. exports of high-value products making up an important part of our trade with industrialized countries could fall off. The treatment which other countries, especially the United States, give to imports under government procurement from the EC will almost certainly have some influence on EC's future procurement policy.

European Free Trade Association (EFTA)

EFTA countries have adopted a common set of procurement rules for observance by "public undertakings" in intra-EFTA trade of products eligible for "area tariff treatment". Public undertakings include central, regional and local government authorities as well as State monopolies, nationalized industries and semi-public enterprises. The twofold objectives of the procurement rules, developed pursuant to the requirements of Article XIV of the EFTA Convention, are to eliminate for the benefit of other EFTA countries protection for domestic producers and discrimination by nationality of suppliers. Guidelines on tendering methods provide that: (a) public tenders shall be adequately publicized and sufficient time for tendering shall be allowed; (b) selective tenders shall allow equal opportunities for domestic and other EFTA suppliers to compete; and (c) the single tender shall be used only when competitive tenders would be clearly impracticable or unreasonable. Elimination of preferences which frustrate the aim of the agreement is required. Use of the general consultation and complaints procedure of the EFTA Convention is prescribed for settling disputes which arise from infractions of the procurement rules. Member countries are free to maintain their existing procurement procedures and practices provided inconsistencies with the EFTA procurement rules are removed. No EFTA procurement rules have been elaborated for trade with third countries. These procurement rules remain in effect even though two former EFTA members—the United Kingdom and Denmark—have in the meantime jointed the EC.

Japan

The Japanese Government buys its supply requirements under general provisions contained in certain laws and regulations introduced during 1946–47.

Procurements are made generally under either the selective automatic tender procedure, where bids are solicited selectively from

certain suppliers and the contract is awarded to the lowest bid, or on the basis of private negotiations involving no competition. Though there is no legislative requirement to buy domestic over foreign goods, a strong tendency exists for buying domestic products.

Canada

The Department of Supply and Services has taken over in large measure the supply procurement activities of all departments of the Federal Government and many Crown Corporations since April 1, 1969, except for certain products essential for the conduct of military operations. The following statement by the Canadian Minister of Supply succinctly describes Canadian policy regarding the purchase of foreign goods:

". . . to the full extent to which they are procurable, consistent with proper economy and the expeditious carrying out of the contract, Canadian labor, parts and materials shall be used. Therefore, the department buys from Canadian firms if practicable and only turns to other sources of supply when procurement from the Canadian sources is deemed to be uneconomical or impractical.

"In addition, it is the government's policy that a modest premium will be paid for a product with higher Canadian content. This premium is calculated at up to 10% of the difference of foreign content.

"In high value equipment such as aircraft, ships, special vehicles, etc. due to agreements for defense production sharing with the U.S. and other NATO countries many components contain an element of foreign content, but on an overall procurement basis, by far the largest proportion is Canadian."

Federal Supply Procurement in the United States

In the U.S. Federal Government purchases of foreign goods are very small relative to total supply procurements. Domestic firms selling to the Federal Government are to a degree insulated from import competition, a condition due largely to the buy national policy of the Buy American Act and Executive Order 10582, its implementing order. Procurements of foreign goods for use in the United States are basically limited to those justified on grounds of nonavailability in sufficient quantity and quality, unreasonable cost of domestic products, or inconsistency with the public interest.

In applying the unreasonable cost criterion, U.S. products are accorded a preference margin when evaluating prices in competitive offers of foreign and domestic products. The Defense Department, which accounts for over 80 percent of total Federal procurement, currently adds a 50 percent price differential, considered as a benchmark, to the price quoted in the lowest responsive bid offering foreign goods for purpose of making price comparisons. The use of the 50 percent preference margin which the Defense Department applies to its

procurements for use in the United States under the "national interest" exception is justified as a temporary measure to alleviate the impact on the U.S. balance of payments of Defense Department spending for goods.

Other Federal agencies generally use either a 6 or 12 percent preference margin in favor of U.S. products, the higher rate applying, under certain conditions, when products are offered by small business firms or concerns located in a labor surplus area. Procurement of goods for use abroad is outside the Buy American Act; all Federal agencies, however, use a 50 percent preference margin in such circumstances for balance-of-payments reasons. Other provisions of the Buy American Act are used to restrict or even prohibit Federal procurements of foreign goods. Considerations of national security ordinarily rule against the purchase of foreign products of a military or paramilitary character.

The Defense Department restricts the purchase of certain products to those of domestic manufacture to maintain a U.S. defense mobilization base. In addition to miniature and instrument ball bearings, Defense Department requirements for jewel bearings and precision components for mechanical timing devices are for this reason procured domestically to the maximum extent possible.

Special provisions are made in domestic legislation to assure that a fair proportion of total purchases for Government use are placed with small business concerns. For suitable purchase transactions Federal agencies, either unilaterally or by joint action with the Small Business Administration, may stipulate that procurements should be made exclusively from small business concerns.

Still other statutory requirements restrict or prohibit the purchase of certain foreign products. For example, the Defense Department Appropriation Act includes a provision, the so-called Berry Amendment, prohibiting the use of appropriated funds for the procurement, with certain exceptions, of any article of food, clothing, cotton, wool or spun silk yarn for cartridge cloth not grown or produced in the United States. A similar restriction applies to buses other than those of U.S. manufacture for use by the Armed Forces and to certain foreign components for the conversion or construction of naval vessels in U.S. shipyards. The purchase of any naval vessel constructed in foreign shipyards is prohibited. For all ship construction on which a Federal subsidy is paid, domestic shipbuilders, subcontractors, materialmen and suppliers are required under the Merchant Marine Act to use, insofar as practicable, only articles, materials and supplies produced or manufactured in the United States.

OECD Work on International Procurement Code

Government procurement policies and practices of the industrialized countries were first reviewed during a country-by-country examination

within the Trade Committee of the OECD in the early 1960's. The OECD's work arose largely from complaints against the Department of Defense's decision in 1962 to apply a 50 percent margin of preference for domestic suppliers in evaluating bids where foreign suppliers were in competition. This examination became the forerunner of current efforts in that forum to develop a set of international guidelines on government procurement. Discussions have been underway for several years looking toward the development of an international code on government procurement which would reduce discrimination against foreign supplies and suppliers, including the phasing out of existing preference margins used to favor domestic over foreign supplies. Apart from conditions set out for the use of general exceptions and special derogations from the provisions of a possible code, the principal provisions deal with purchasing procedures, including advance publicity on planned purchases, conditions applying to the use of various tendering methods, technical characteristics of products, qualification of suppliers, evaluation of bids and award of contracts, and information on contracts awarded. In addition, provisions would be made for notification of significant changes in procurement rules, periodic review of the operation of the code and consultation procedures for resolving government procurement problems. In this effort, which aims at a degree of international harmonization in procurement policy and practice, progress has been slowed by the natural inclination of participating countries to be cautious in accepting departures from customary national practices, particularly where certain policies or procedures are incorporated in national legislation. Major differences remain on some key provisions which must be included in any proposed code.

U.S. Objectives in OECD

Major aims of U.S. participation in the OECD work on procurement guidelines are to safeguard the important stake U.S. suppliers have in sales to foreign governments and improve conditions of access to public sector markets abroad. To this end, the United States has provided the main impetus for this effort, emphasizing particularly the need for published procurement regulations, tightly-drawn rules to discourage discrimination against foreign supplies and suppliers, and minimal exceptions or derogations from the proposed rules. The steady growth over the years of central government expenditures for supplies and services underscores the importance of moving ahead on this work. Of perhaps greater importance, the failure to reach agreement could create the conditions conducive to the development of restrictive provisions applicable to third country interests as a counterpart to measures designed to promote intra-regional trade and to the increased use of government procurement as a policy instrument to achieve national

or regional objectives. An agreement reached on procurement guidelines would represent an important breakthrough in dealing with a major nontariff barrier, and might enhance prospects for negotiating the removal of other nontariff barriers. Major obstacles to agreement nevertheless remain, not the least of which is the insistence of others that the United States eliminate preference margins for domestic goods.

The enactment of additional restrictions by the United States or any other government at this time would make it more difficult to obtain an international consensus with regard to government procurement.

Study No. 6.—The Quantitative Restrictions in the Major Trading Countries

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Study No. 6.—The Quantitative Restrictions in the Major Trading Countries

I. Definition of Quantitative Restrictions

For the purpose of this paper, quantitative restrictions (QRs) are those restrictions which limit the quantity of merchandise permitted to enter or leave a country. They are imposed by means of quotas or licensing systems. QRs can be applied to both imports and exports. They may affect trade in one or more commodities or with one or more countries.

The most stringent form of QR is a complete embargo (zero level quota). The United States, for example, prohibits imports of goods known to be of Cuban or North Korean origin and maintains an embargo on exports to those areas. Trade in most narcotics and obscene literature is almost universally prohibited. The examples need not be so extreme. Less developed countries are prone to protect their industries or their balance of payments positions through the use of QRs. Within the recent past, Mexico, in order to protect a new producer, refused to license imports of printing plates. Some QRs on manufactured goods are also found in industrialized nations. Restraints on computer imports into Japan, and used cars and used aircraft into Canada are examples of this.

One kind of quota is often mistakenly included with QRs—that is the tariff quota. The United States quota on stainless steel table flatware is such a tariff quota. It does not imply complete prohibition once its limit is reached, but only that it requires any further imports to enter on less advantageous duty terms. Thus, when total imports of flatware during a fixed period reach a prescribed level, a higher import duty rate becomes effective for the remainder of the quota period.

In the more industrialized countries QRs on imports for protective purposes are now largely confined to agricultural products. The United States, for example, maintains import restrictions on a small group of agricultural commodities as an adjunct to a price support system which is intended to stabilize or strengthen prices received by farmers for their commodities. Other countries maintaining significant agricultural quotas include Japan, the United Kingdom and France.

Blending or mixing requirements, particularly on agricultural products, often are as effective as QRs on imports. Under such systems firms are required to consume a specified minimum of a domestic product in relation to the same imported product. A typical example of such a "mixing" regulation is the requirement in some countries that a specified percentage of domestic wheat be used in milling flour,

thus effectively cutting down the market potential for imported wheat.

The use of QRs to control imports requires the use of some means of record-keeping to operate and enforce the controls. Records can be kept by requiring formal licenses. These may be required for items for which no QRs are specified. Refusal or approval of license applications allows a government to tailor imports to its requirements. Occasionally, licenses are used to discourage sales which would be paid for with currencies in short supply.

There are similar but less widespread controls on exports. As with imports, QRs on exports may or may not require a formal separate license. U.S. export licensing controls are an example. Under GATT provisions, countries may apply QRs on the export of goods for purposes of national security or for products in short supply. Export controls are also used to bolster world market prices by limiting supply, usually in support of an international commodity agreement.

These restrictions have the same effect as exchange controls although they control movements of merchandise rather than capital. In this context one should note that the United Kingdom restricts imports from the so-called dollar area of certain fresh and preserved citrus, rum, and cigars. Originally they were part of the United Kingdom's post World War II exchange controls. It is now maintained that these are necessary to assist economic development of Commonwealth suppliers in the Caribbean.

II. GATT Provisions

Article XI of the General Agreement on Tariffs and Trade (GATT) provides for the general elimination of QRs. It is applicable to QRs on all of a country's trade with the other Contracting Parties, not merely to tariff concessions bound under GATT. There are, however, a number of exceptions to the general requirement to eliminate QRs. They may be used, on a nondiscriminatory basis, to restrict imports of agricultural and fishery products but only when internal limitations are placed on the production or distribution of like products and when certain other conditions are observed.

QRs are also permitted when necessary to safeguard a country's foreign exchange reserves. Trade restrictions imposed for balance of payments reasons must be designed so that they do not unnecessarily damage the interests of the other GATT members. It is also incumbent on the country applying the restrictions to consult with the other GATT members concerning those restrictions so as to insure their progressive relaxation as conditions improve.

The GATT recognizes special trade problems of developing countries by providing that countries "in the early stages of development" may impose restrictions for balance of payments reasons and take certain other restrictive actions on a temporary basis to meet the

special problems of their development programs. Other exceptions relate for example to national security, and public health and safety. A formal waiver of the restriction against QRs may be obtained by application to, and approval of, the other Contracting Parties to the GATT. The first major use of this procedure was the U.S. waiver for import restrictions on agricultural products.

III. History of the QR Problem

In the period immediately after World War II, most countries maintained rigid import controls that had been erected during the war. With few exceptions these were continued in order to protect their limited supplies of foreign exchange. This was a period of exceptional demand for imports, reduced production capacity and disrupted trade channels. It was the period of the dollar gap when foreign holdings of dollars were released sparingly and only for essential purchases. Most of our trading partners in Europe maintained total governmental control over imports until late in the 1950's.

So long as these countries were recognized by the International Monetary Fund (IMF) to be still in balance of payments difficulties, the use of QRs was permitted under the GATT. Nevertheless, the United States maintained constant pressure bilaterally and in the GATT and the Organization for European Economic Cooperation (now the OECD), for the liberalization of these restrictions as rapidly as the improvement in a country's reserve position permitted.

General recovery of the world economy during the decade of the 1950's culminated in late 1958 when the major trading nations of Western Europe established external currency convertibility. Early in 1960, seven additional countries, including such major trading nations as the United Kingdom, France, Sweden and Australia, announced they were no longer justifying restrictions on balance of payments grounds. Japan maintained controls under a balance of payments justification until 1963.

With the termination of international balance of payments difficulties the situation changed, since the use of QRs was no longer legal under the GATT. Two considerations, however, created difficulty in removing those restrictions that remained. First, most affected politically sensitive agricultural products (e.g. the United States still maintained quotas on various agricultural products under a special provision of the GATT (Article XI, c(1)) and under a waiver it had obtained to permit import restrictions under section 22 of the Agricultural Adjustment Act which might have been inconsistent with the GATT). Second, in the industrial sector, the prolonged period of import restrictions had fostered the survival and growth of a number of uneconomic industries. Governments were under

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extreme pressure to continue to protect these industries, at least until they could adjust to the new circumstances.

During the 1960's, much of the U.S. effort in the GATT and in bilateral contacts was devoted to obtaining the liberalization of this "hard core" of restrictions and obtaining nondiscriminatory treatment for items continuing temporarily under control. For example, at the initiative of the United States the Contracting Parties required West Germany to submit a schedule for the removal of its remaining restrictions and to undergo an annual review of progress. Similar multilateral pressure was applied to Italy. In 1962, the United States submitted a formal complaint in the GATT against the remaining French import restrictions. The Contracting Parties found that these were illegal. France, in consultation with the United States, established a timetable for the accelerated liberalization of many of them.

By pressure of this kind, residual import restrictions had been reduced by 1968 in almost all developed countries to a relatively small list of products, mostly agricultural. The most serious nonagricultural QRs remaining are those of Japan, which still maintains QRs for certain industrial products.

In late 1967, the member countries of the GATT agreed upon a future work program to lay the groundwork for further trade liberalization and expansion. To carry out this work, the GATT members created two new committees, one of which, the Committee on Trade in Industrial Products (CTIP), was directed to draw up an inventory of all important nontariff barriers affecting international trade, including QRs. The CTIP has completed the factual examination of some 800 notifications submitted by individual countries concerning nontariff barriers of GATT member countries. Following the initial review, in October 1969 the Committee agreed to move to its next stage of work—to search for possible solutions to the major barriers. For this purpose it established five subgroups on different barriers, one of which is now addressing itself to specific limitations on imports and exports, such as QRs.

Japan—Following the 1963 IMF finding that Japan was no longer entitled to maintain import restrictions for balance of payments reasons, Japan lost its GATT right to impose them. Several items were liberalized through April 1964, but very few were removed from the restriction list during the following four years.

Since 1968, the United States has concentrated on accelerating the reduction and removal of Japan's restrictions on trade. In the ensuing consultations between the two countries, the United States has made clear to Japan that if complete liberalization is not achieved within a reasonable time the United States will have to consider appropriate countermeasures. This recognition has resulted in significant quota

and license liberalization. Since April 1969, items in 86 Brussels Tariff Nomenclature categories have been liberalized, leaving 33 items currently under restriction. The 11 industrial items remaining under QRs include digital computers, accessories, and components; integrated circuits (with 100 elements or more); leather and leather footwear; coal; and ethyl alcohol. The 22 agricultural items remaining under quota restrictions include beef, pulses, oranges, citrus juices (except lemon), edible peanuts, and certain tomato products. Quotas on most of these products have been increased in recent years.

IV. Summary of Important QRs for U.S. Exports

The following QRs remaining in effect in countries other than Japan have been selected for their importance to U.S. trade:

France—Certain canned and dried fruits and vegetables, certain fruit juices, and semiconductors.

Germany—Certain canned fruits and vegetables.

Italy—Orange juice, essential orange oil.

Denmark, Ireland and the United Kingdom—QRs formerly applied to many agricultural products are being replaced by the protection of the EC Common Agricultural Policy. (These are in addition to the UK dollar area quotas described earlier.)

Canada—Dairy products and grains.

Sweden—Fresh apples and pears.

Switzerland—Meats, grains, fresh fruits and vegetables, and oilseeds.

Appendix

The Quantitative Import Restrictions of the Major Trading Nations (Including the United States)

(Note: This list excludes restrictions on certain items which have been traditionally justified under GATT Article XX (to protect public morals, conservation reasons, monetary reasons, public health reasons, etc.) and GATT Article XXI (national security exceptions).)

TABLE 1.—AUSTRIA

Tariff No.	Commodity description	Type of restriction/remarks
Ex 01.01	Live horses	Imports of horses for butchering are subject to discretionary licensing.
01.02	Live animals of the bovine species	Discretionary licensing.
01.03	Live swine	Do.
Ex 02.01	Horsemeat beef and veal and pig meat	Do.
02.06A	Bacon, ham, and other offals	Do.
02.06B	Other meat and edible meat offals (except poultry liver), salted, in brine, dried, or smoked.	Do.
04.01	Milk and cream, fresh, not concentrated or sweetened.	Do.
04.02	Milk and cream, preserved, concentrated or sweetened.	Do.
04.03	Butter	Do.
	Vegetables, fresh, chilled, or frozen:	
Ex 07.01A	Potatoes, except seed potatoes	Do.
Ex 07.01B	Tomatoes	Imports are restricted during specified month of the year.
07.01C, D, E, F, H, and K.	Other vegetables	Imports are restricted during specified months of the year; discretionary licensing.
Ex 08.04	Dessert grapes in containers up to 15 kgs. gross weight.	Imports are restricted during specified months of the year.
	Other fresh grapes	Discretionary licensing.
08.06A	Apples	Do.
08.06B	Pears	Imports are restricted during specified months of the year.
08.07	Stone fruit, fresh	Do.
08.08A	Strawberries	Do.
Ex 08.08C	Red and black currants	Discretionary licensing.
10.01	Wheat and meslin	Do.
10.02	Rye	Do.
10.03	Barley	Do.
10.04	Oats	Do.
10.05	Maize	Do.
Ex 10.07	Millet, grain sorghum, and durra	Do.
11.01	Cereal flours	Do.
Ex 11.02	Cereal groats and cereal meal; other worked cereals grains (except oat flakes).	Do.
Ex 11.08	Potato, maize, and wheat starches	Global quotas.
Ex 15.01	Lard and other rendered pig fat	Discretionary licensing.
Ex 15.02	Unrendered fats of bovine cattle, sheep, or goats; tallow, etc. (except animal fats for technical purposes).	Global quotas.
16.01	Sausages and the like	Global quota: discretionary licensing.
Ex 16.02	Prepared or preserved meat or offals, except meat and offals of poultry, sheep, and goats.	Do.
Ex 17.01	Sugar, solid, except beet sugar and cane sugar, crude and sugar candy.	Global quotas.
Ex 17.02	Starch sugar with a degree of purity of less than 98 percent.	Do.
Ex 20.07	Apple juice and grape juice	Global quotas; discretionary licensing.
22.04	Grape must in fermentation or with fermentation arrested otherwise than by the addition of alcohol.	Discretionary licensing.
Ex 22.05	Wines of fresh grapes (except sparkling wines in bottles); grape must with fermentation arrested by the addition of alcohol.	Global quotas.
Ex 22.06	Vermouths and other wines of fresh grapes flavored with aromatic extracts, except 22.06A with an alcoholic content of 18 percent or less in bottles.	Do.
Ex 27.01, Ex 27.02	Coal (except bituminous coal), briquettes and lignite.	Discretionary licensing.
Ex 29.44	Penicillin, thyrothrium	Globas quotas, discretionary licensing.
30.03	Medicaments (including veterinary medicaments).	Do.
37.06, 37.07	Cinematographic film, exposed and developed (except film for toy projectors).	Licensing.

TABLE 2.—CANADA

Tariff [1] No.	Commodity description	Type of restriction/remarks
01.01	Live horses, mules	Licensing.
01.05	Live poultry	Do.
04.02	Milk and cream, preserved, condensed, or sweetened:	
	Evaporated and condensed milk	Licensing; de facto prohibition in that only "traditional" trade is permitted.
	Dried buttermilk, skimmed milk, whole milk, and whey.	Licensing; de facto embargo in that import licenses are not issued unless there is a domestic production shortfall.
04.03	Butter	Licensing.
04.04	Cheddar cheese	Licensing; de facto embargo.
	Colby cheese	Do.
	Other natural cheeses for direct consumption	Licensing; open general license.
	Other natural cheeses for processing; processed cheese.	Licensing; issued freely for "traditional" types; other types, including low-priced processed types, are practically embargoed.
09.01	Coffee, in any form, including soluble	Licensing.
10.01	Wheat	Licensing; the Canadian Wheat Board has authority for issuing import licenses for wheat, oats, barley, and the more important grain products. Licenses are infrequently issued, however, for grains, because domestic requirements are met by internal production.
10.03	Barley	Licensing; see "remarks" under wheat, tariff No. 10.01.
10.04	Oats	Do.
11.01	Wheat and barley flours	Do.
11.02	Oats, ground, crimped, crushed, or rolled; oatmeal; barley, ground or crimped, and barley meal.	Do.
11.03	Flour of leguminous vegetables	Licensing.
11.08	Wheat starch	Licensing; see "remarks" under wheat, tariff No. 10.01.
15.13	Oleomargarine, butterine, or other similar substitutes for butter or processed butter.	Embargo.
17.01	Beet and cane sugars; solid	Licensing.
17.02	Liquid sugar and sirups, including edible and fancy molasses.	Do.
23.07	Animal feeds containing over 40 percent nonfat milk solids.	Embargo.
Ex 27.10	Motor gasoline	Discretionary licensing.
Ex 35.01	Animal casein and caseinates	Do.
87.02	Used automobiles	Embargo.
87.03	Used special purpose motor vehicles	Do.
88.02	Used aircraft	Embargo, but generally not applied.

[1] Canada does not use the Brussels Tariff Nomenclature (BTN). Applicable BTN numbers have been assigned, however, for commodities listed herein.

TABLE 3.—EUROPEAN COMMUNITY [13]

Tariff No.	Commodity description	Type of restriction/remarks
02.01AII	Beef and veal, fresh, chilled, frozen	Licenses are required for imports of frozen beef and veal. In the case of imports for processing, licenses limit imports to an annual quota, allocated quarterly.
04.01	Milk and cream, fresh, not concentrated or sweetened.	Licensing.
04.02	Milk and cream, preserved, concentrated or sweetened.	Do.
04.03	Butter	Do.
04.04	Cheese and curd	Do.
07.01N	Olives, fresh or chilled	Do.
07.02A	Olives, cooked or not, frozen	Do.
Ex 07.03A	Olives, preserved in brine or other solutions	Do.
Ex 07.04B	Dried olives	Do.
08.04AII	Fresh grapes for wine production	Do.
10.01	Wheat and meslin	Do.
10.02	Rye	Do.
10.03	Barley	Do.
10.04	Oats	Do.
10.05	Corn	Do.
10.05A	Hybrid seed corn	Do.
10.05B	Other corn	Do.
10.06	Rice	Do.
10.07	Buckwheat, millet, canary seed, grain sorghum, other cereals.	Do.

See footnotes at end of table.

TABLE 3.—EUROPEAN COMMUNITY [1,2]—Continued

Tariff No.	Commodity description	Type of restriction/remarks
11.01	Cereal flours	Licensing.
11.02	Cereal groats and meal, other worked cereal grains except brushed, glazed, polished or broken rice; germs of cereals, including flours thereof.	Do.
15.07A	Olive oil, crude, refined or purified	Do.
15.07 B, C, D	Other vegetable oils	License is required for imports of vegetable oils into Italy because of extra crushing subsidy paid there.
15.17A	Residues containing oil having the characteristics of olive oil.	Licensing.
15.17B	Other residues from the treatment of animals or animals or vegetable fats or waxes.	Do.
17.01	Beet and cane sugar, solid	Do.
17.02A, B, C, D, E, F.	Other sugars, syrups, etc., except maple sugar and sirup.	Do.
17.02C	Maple sugar and sirup	Do.
17.03	Molasses	Do.
17.05	Flavored or colored sugars and molasses	Do.
Ex 20.02C	Tomato concentrates	Licensing; subject to emergency restrictive licensing beginning August 1971.
20.03A	Frozen fruit with added sugar	Licensing.
20.04Bi	Fruit, fruit peel, plants, and parts of plants preserved with sugar, except ginger.	Do.
Ex 20.07	Fruit juice (including grape must) or vegetable juice, not fermented without alcohol, with added sugar.	Do.
22.04	Grape must	Do.
22.05	Wine of fresh grapes; grape must with fermentation stopped by alcohol.	Do.
22.07A	Certain fermented beverages	Do.
Ex 22.09A	Ethyl alcohol under 80°	Do.
22.10A	Wine vinegar	Do.
23.02A	Bran, sharps, and other residues derived from sifting, milling, or other processing of cereal grains.	Do.
23.03AI	Corn starch residues over 40 percent protein	Do.
23.04A	Residues from extraction of olive oil	Do.
23.07B	Animal feeds, other than fish or whale solubles, containing starch, glucose, or dairy products.	Do.

[1] The European Community has not implemented any Community-wide quotas on industrial products, although it does provide for the institution of a licensing procedure should it decide to monitor imports of or establish quotas on specified products. With regard to products not individually specified in current Community regulations, importation is still governed exclusively by the national provisions of the member states.
[2] Licenses are issued freely except as noted, but the importer must make a surety deposit. Emergency restrictive licensing, however, could be applied to almost any product.

TABLE 3A.—EUROPEAN COMMUNITY, BELGIUM-LUXEMBOURG

Tariff No.	Commodity description	Type of restriction/remarks
Ex 06.03	Fresh cut flowers and flower buds suitable for bouquets or ornamental purposes.	Import calendar; applies only to roses and carnations. Imports prohibited Oct. 1 to Mar. 31.
07.01AII	Early potatoes	Import calendar; imports prohibited June 2 to July 31.
07.01AIII	Potatoes, other than seed or early potatoes	Licensing.
07.01M	Tomatoes, fresh May 15 to Dec. 31	Import calendar; does not apply to tomatoes for processing.
08.04A	Table grapes	Import calendar; imports prohibited July 1 to Feb. 1.
12.05	Chicory roots, unroasted	Licensing.
Ex 27.01, Ex 27.02	Coal, briquettes, lignite	Licenses required, but freely granted for U.S. exports.
Ex 27.04	Coke, other than for the manufacture of electrodes	Do.
Ex 31.02	Fertilizers, nitrogenous excluding natural sodium nitrate.	Do.

TABLE 38.—EUROPEAN COMMUNITY, DENMARK[1]

Tariff No.	Commodity description	Type of restriction/remarks
Ex 01.02	Live animals of the bovine species ex. breeding animals.	Discretionary licensing.
Ex 01.05	Live poultry (i.e., fowls, ducks, geese, turkeys, and guinea fowls) except breeding animals.	Do.
Ex 02.01	Meat and edible offals of the animals falling within heading Nos. 01.02, 01.03, or 01.04, fresh, chilled, or frozen.	Global quota; discretionary licensing.
02.02	Dead poultry (i.e., fowls, ducks, geese, turkeys, and guinea fowls) and edible offals thereof (except liver), fresh, chilled, or frozen.	Discretionary licensing.
02.03	Poultry liver, fresh, chilled, frozen, salted, or in brine.	Do.
02.05	Unrendered pig fat free of lean meat and unrendered poultry fat, fresh, chilled, frozen, salted, in brine, dried or smoked.	Do.
Ex 02.06	Meat and edible meat offals of the animals (except poultry liver), salted, in brine, dried, or smoked.	Do.
04.01	Milk and cream, fresh, not concentrated or sweetened.	Do.
04.02	Milk and cream, preserved, concentrated or sweetened.	Do.
04.03	Butter	Do.
04.05	Birds' eggs and egg yolks, fresh, dried, or otherwise preserved, sweetened or not.	Do.
04.06	Natural honey	Global quota; discretionary licensing.
Ex 06.01	Bulbs, dormant, in growth or in flower of the following kinds: hyacinthus, narcissus and tulips	Do.
Ex 06.03	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh.	Discretionary licensing.
Ex 07.01	The following vegetables, fresh or chilled: Cucumbers and gherkins; cauliflowers; other cabbages (except sprouts, and white and red cabbages); onions (except seed onions with a maximum cross section of 21 mm and silver skin onions with a maximum cross section of 23 mm); tomatoes; lettuce (lactuca sativa); potatoes (except seed potatoes); sweet capsicums (sweet peppers); celeriac (except celery); carrots (except small ballshaped carrots with a maximum cross section of 40 mm); leeks; beetroot; and horse-radish.	Imports are prohibited during that portion of the year when the domestic products are marketed.
Ex 07.02	The following vegetables (whether or not cooked), preserved by freezing: Beans, red cabbage, and peas, and mixtures containing any of these vegetables.	Global quotas; discretionary licensing (other than industrial use).
Ex 07.03	The following vegetables, provisionally preserved in brine, in sulfur water, or in other preservative solutions, but not specially prepared for immediate consumption: Gherkins and cucumbers; celeriac (except celery); cauliflower; brussels and other sprouts; carrots (except small carrots); horseradish; beetroot; potatoes; sweet capsicum (capsicum grossum); leeks and onions (except silverskin onions); lettuce (lactuca sativa); tomatoes; and mixtures containing any of these vegetables.	Discretionary licensing (other than industrial use).
Ex 08.06	Apples and pears	Imports are prohibited during specified months of the year. The United States has protested these QR's.
Ex 08.07	Cherries and plums	Do.
Ex 08.08	Strawberries and black currants	Do.
Ex 08.09	Netted melons	Do.
Ex 08.10	The following fruits (whether or not cooked), preserved by freezing, not containing added sugar: Pears; cherries; strawberries; and mixtures containing at least 30 percent by weight of any of these fruits, irrespective of the size of the packings; black currants; and mixtures containing any of these berries in packings with a gross weight of more than 2 kg each.	Global quotas; discretionary licensing.
Ex 08.11	The following fruits, provisionally preserved (for example, by sulfur dioxide gas, in brine, in sulfur water, or in other preservative solutions), but unsuitable in that state for immediate consumption: Apples, pears, plums of all kinds, strawberries, black currants, and mixtures containing any of these fruits.	Discretionary licensing.
10.01	Wheat and meslin (mixed wheat and rye)	Do.
10.02	Rye	Do.
10.03	Barley	Do.
10.04	Oats	Do.
Ex 10.05	Maize except sweet corn on the cob	Licensing.

See footnote at end of table.

TABLE 3B.—EUROPEAN COMMUNITY, DENMARK[1]—Continued

Tariff No.	Commodity description	Type of restriction/remarks
10.07	Millet and grain sorghum; other cereals, except buckwheat and canary seed.	Discretionary licensing.
Ex. 11.02	Cereal flours, except rice flour and buckwheat flour.	Licensing.
Ex 11.02	Cereal groats and cereal meal, except maize grits, groats, and meal of buckwheat and millet; other worked cereal grains (for example, rolled, flaked, polished, pearled, or kibbled, but not further prepared), except husked, glazed, polished or broken rice, and except worked buckwheat and millet; germ of cereals, whole, rolled, flaked, or ground.	Do.
11.05	Flour, meal, and flakes of potato	Global quotas; discretionary licensing.
Ex. 11.06	Flour and meal of sago, manioc root, arrowroot, and other roots and tubers falling within heading No. 07.06, except for animal feeding and except salep.	Licensing.
Ex 11.08	Starches, except salep; inulin	Do.
11.09	Gluten and gluten flour, roasted or not	Do.
Ex 12.01	Rapeseed, whole or broken	Global quota; discretionary licensing.
12.04	Sugar beet, whole or sliced, or sliced, fresh, dried, or powdered; sugarcane.	Discretionary licensing.
Ex 15.01	Lard and other rendered pig fat; rendered poultry fat; except for technical purposes.	Do.
Ex 15.02	Unrendered fats of bovine cattle, sheep or goats; tallow (including "premier jus") produced from fats; except for technical purposes.	Do.
Ex 15.03	Lard stearin, oleostearin and tallow stearin; lard oil, oleo-oil and tallow oil, not emulsified or mixed or prepared in any way; except for technical purposes.	Do.
Ex 15.13	Imitation lard and other prepared edible fats	Do.
16.01	Sausages and the like, of meat, meat offal or animal blood.	Global quotas; discretionary licensing.
Ex 16.02	Other prepared or preserved meat or meat offal of animals falling within heading Nos. 01.02, 01.03, and 01.05, except pate de foie gras.	Do.
17.01	Beet sugar and cane sugar, solid	Discretionary licensing.
Ex 17.02	Others sugars, except milk sugar (lactose); sugar sirups, except lactose sirup, artificial honey (whether or not mixed with natural honey); caramel.	Licensing.
Ex 17.03	Molasses, whether or not decolorized, except for animal feeding.	Do.
Ex 17.04	Fondant, pastes, creams and similar intermediate products, in bulk, containing 80 percent or more by weight of added sweetening matter.	Do.
Ex 17.05	Flavored or colored sugars, sirups and molasses, but not including fruit juices containing added sugar in any proportion, except vanilla sugar and vanillin sugar.	Do.
Ex 19.04	Tapioca and sago; tapioca and sago substitutes obtained from potato or other starches, except salep grain and flakes.	Discretionary licensing.
Ex 20.02	The following vegetables prepared or preserved otherwise than by vinegar or acetic acid: Beans, potatoes, red cabbage and peas and mixtures containing any of these vegetables.	Global quotas (nonindustrial use); discretionary licensing.
Ex 20.03	The following fruits, preserved by freezing, containing added sugar: Pears, cherries, strawberries and mixtures containing at least 30 percent by weight of any of these fruits—irrespective of the size of the packings. Black currants and mixtures containing any of these berries—in packing with a gross weight of more than 2 kg each.	Do.
Ex 20.06	The following fruits, otherwise prepared or preserved, whether or not containing added sugar or spirit: Pears, cherries, strawberries and mixtures containing at least 30 percent by weight of any of these fruits—irrespective of the size of the packings. Black currants and mixtures containing any of these berries—in packings with a gross weight of more than 2 kg each.	Do.
Ex 20.07	The following fruit juices whether or not containing added sugar, but unfermented and not containing added spirit: Of apples, cherries, raspberries, strawberries, red and white currants and black currants, and mixtures containing juices of these fruits.	Global quotas; liberal licensing. Separate quota for baby food.

See footnote at end of table.

TABLE 3B.—EUROPEAN COMMUNITY, DENMARK [1]—Continued

Tariff No.	Commodity description	Type of restriction/remarks
Ex 21.07	Sweetfat (mixtures of edible fats and sugar)	Discretionary licensing.
22.08	Ethyl alcohol or neutral spirits, undenatured, of a strength of 80° or higher; denatured spirits (including ethyl alcohol and neutral spirits) of any strength.	Do.
Ex 22.09	Ethyl alcohol, undenatured, of a strength under 80°.	Do.
23.02	Bran, sharps, and other residues derived from the sifting, milling, or working of cereals or of leguminous vegetables.	Licensing.
Ex 23.03	Maizegluten feed	Do.

[1] A certain continuation of the present Danish liberalization of agricultural QR's is expected due to Denmark's accession to the European Community and its adoption of the Common Agriculture Policy (CAP). It is not presently possible to indicate the exact nature of any modifications of Danish QR's, as such modifications await Danish Government decisions.

TABLE 3C.—EUROPEAN COMMUNITY, FRANCE

Tariff No.	Commodity description	Type of restriction/remarks
Ex 01.01AII	Live horses	Imports prohibited from Sept. 1–Dec. 31 inclusive.
01.04AIb	Live sheep, other than purebred, for breeding	Licensing.
02.01AI	Fresh, refrigerated, or frozen meats of horses, asses, and mules, except fresh and refrigerated horsemeat.	Quota.
02.01AIV	Mutton fresh, chilled, or frozen	Do.
04.01	Milk and cream, fresh, not concentrated or sweetened.	Do.
Ex 05.15exB	Animal sperm	Do.
Ex 06.01B	Bulbs, onions, tubers, etc. in growth or in flower	Do.
Ex 06.02AI	Vine slips, not rooted, and grafts	Prohibited.
Ex 06.02B	Vine slips, grafted or rooted	Do.
Ex 06.02D	Hot or cold greenhouse plants, flowering or budding.	Quota.
06.02exD	Chestnut tree plants	Prohibited.
06.03	Cut flowers and flower buds suitable for bouquets or ornamental purposes.	Quota.
07.01AII	Early potatoes	Quota and prohibition of imports at certain times of the year.
07.01AIII	Other potatoes	Do.
07.01BI	Cauliflower	Prohibition of imports at certain times of the year.
07.01D	Lettuce and endives	Do.
07.01FII	Beans	Do.
07.01L	Artichokes	Prohibition of imports from Mar. 15 to June 30.
07.01M	Tomatoes	Prohibition of imports from May 15 to Dec. 31.
Ex 07.02	Vegetables, frozen	Licensing.
Ex 07.02B	Vegetables and edible plants cooked or not frozen: Others.	Quota.
Ex 07.03C	Dried and dehydrated vegetables	Quota: In process of phasing out quota as the result of negotiations.
Ex 07.04A	Dried onions	Quota.
Ex 07.04B	Other dried vegetables except truffles	Total ban on dried and dehydrated potato products.
08.01B	Bananas	Quota.
08.01C	Pineapples	Do.
Ex 08.04A	Table grapes	Prohibition of imports at certain times of the year.
08.07A	Apricots	Do.
Ex 08.09	Melons	Do.
08.10	Fruit preserved by freezing, without sugar	Quota.
08.11	Fruits (except cherries) provisionally preserved in brine or other preservative solutions.	Do.
08.12C	Prunes, packaged for retail	Quota: In process of phasing out quota as the result of negotiations.
Ex 08.12FII	Fruit mixtures more than 20 percent prunes	Quota.
09.01	Coffee, whether or not roasted or caffeine-free; coffee husks and skins, coffee substitutes, etc.	Do.
12.05	Chicory roots, unroasted	Licensing; quota.
12.06	Hop cones and lupulin	Licensing.
Ex 13.01	Chestnut tree wood and waste, wood bark and bark wastes of resinous wood.	Quota.
Ex 13.03AIV	Vegetable saps and extracts; of hops, pectin	Do.
Ex 17.04	Licorice extract	Do.
20.01	Vegetables and fruits, prepared or preserved by vinegar or acetic acid.	Licensing; quota.

TABLE 3C.—EUROPEAN COMMUNITY, FRANCE—Continued

Tariff No.	Commodity description	Type of restriction/remarks
Ex 20.01	Other prepared fruits and vegetables in airtight containers, except other preserved in vinegar.	Quota.
Ex 20.02	Mushrooms, other than those grown in woods	Do.
ExC	Canned tomatoes	Quota: In process of phasing out quota as the result of negotiations.
20.03	Frozen fruit with add 1 sugar	Licensing.
20.04	Fruit, fruit peel, plants, and parts of plants preserved with sugar, except ginger.	Quota. Quota.
Ex 20.05	Fruit purees and pastes, etc., whether or not containing added sugar.	Do.
Ex 20.06BII	Canned fruit, without alcohol added, but with sugar added, except grapefruit in slices or pieces.	Quota: In process of phasing out quotas (except on canned pineapple) as the result of negotiations.
Ex 20.07	Certain fruit juices, etc., whether or not containing added sugar.	Licensing.
Ex 20.07A	Fruit juice with a density greater than 1.33 to 15° C.	Quota.
Ex 20.07BI	Grape juice with a density equal to or less than 1.33 to 15° C., put up in bulk.	Do.
ExBI	Mixture of apple and pear juice	Do.
ExBII	Tomato juice	Quota: In process of phasing out quota as the result of negotiations.
Ex 20.07BV	Tomato juice of certain densities	Quota.
Ex 21.01	Roasted chicory	Do.
Ex 21.07	Food preparations, nes, containing sugar, milk products, cereals or cereal products (including saccharine).	Licensing.
Ex 22.05IVa and b	Wines, turned sour, stagnated, etc., unfit for human consumption.	Prohibited.
Ex 22.05 Va and b	Wines of liquor, made of a standard solution of more than 18 percent acquired alcohol (aperitifs).	Do.
Ex 22.05	Sparkling wines, other than liqueur and those assimilated to the system to controlled means of origin.	Unspecified restriction.
Ex 22.06B and C	Vermouths and other wines containing more than 18 percent of acquired alcohol.	Prohibited.
Ex 22.09	Rum and tafice, vodka, other spiritous beverages which are not in conformity with French laws, ethyl alcohol of less than 80°.	Do.
Ex 22.10	Vinegars and substitutes for vinegars, other than edible vinegars made from wine.	Unspecified restrictions.
Ex 24.01	Unmanufactured tobacco made up for a private account and tobacco refuse made up for private account other than destined for the manufacture of nicotine.	Prohibited.
E 24.02A, B, C, D	Cigarettes, cigars and cigarillos, smoking tobacco, etc., for a private account and imported outside of conditions indicated.	Do.
Ex 27.01, DEX 27.02	Coal, briquettes, lignite	Discretionary licensing.
Ex 27.04	Coke and semicoke	Discretionary licensing (other than for manufacture of electrodes or of lignite).
Ex 27.07	Toluols, xylols	Discretionary licensing.
Ex 27.09-27.10	Petroleum oils and oils obtained from bituminous materials.	Do.
Ex 27.11	Petroleum gases (other than pure methane)	Do.
27.12	Petroleum jelly, other than crude	Do.
Ex 27.13	Paraffin and certain other waxes	Do.
Ex 34.03	Lubricating preparation of petroleum or bituminous materials.	Do.
38.14	Antiknock preparations and similar prepared additives for mineral oils.	Do.
Ex 48.01	Newsprint and paper for periodicals	Do.
Ex 49.02	Certain French-language newspapers, journals, and periodicals.	Do.
51.04	Woven fabrics of man-made fibers	Do.
53.07	Worsted yarn	Do.
53.11	Woven fabrics of sheep's or lamb's wool	Do.
56.07	Woven fabrics of manmade fibers	Do.
Ex 60.05	Outer garments . . . knitted or crocheted . . . not of cotton, other than accessories.	Do.
Ex 61.01	Men's and boys' outer garments not of cotton	Do.
Ex 61.02	Women's, girls', and infants' outer garments, not of cotton.	Do.
Ex 61.03	Men's and boys' under garments, not of cotton	Do.
Ex 62.02	Bed linen, table linen, not of cotton	Do.
Ex 62.03	Sacks and bags for packing, not of cotton	Do.
66.01	Umbrellas and sunshades	Do.
69.07-69.08	Ceramic tiles	Do.
69.11-69.12	Tableware, of porcelain and other kinds of pottery.	Do.
73.01	Pig iron, cast iron	Do.
73.02	Certain ferroalloys	Do.
82.09	Knives	Do.

TABLE 3C.—EUROPEAN COMMUNITY, FRANCE—Continued

Tariff No.	Commodity description	Type of restriction/remarks
85.15	Microassemblies and certain other parts for radio and television apparatus.	Do.
Ex 85.21	Transistors and similar mounted devices incorporating semiconductors and parts.	Do.
Ex 85.25	Insulators, other than of hardened rubber	Do.
Ex 88.02	Gliders and aircraft, except helicopters of certain weights.	Do.
Ex 89.01	Pleasure and sports boats, not exceeding 250 tons	Do.
Ex 89.02	Tug boats of more than 700 hp and tugboat hulls	Generally prohibited.
90.12	Compound optical microscopes	Discretionary licensing.
Ex 90.28	Certain electrical measuring instruments and apparatus.	Do.
97.03	Certain toys	Do.

TABLE 3D.—EUROPEAN COMMUNITY, IRELAND

Tariff No.	Commodity description	Type of restriction/remarks
01.01	Horses, asses, and mules, live	Discretionary licensing.
01.02	Bovine animals, live	Do.
01.04	Sheep and goats, live	Do.
01.06	Other live animals	Do.
Ex 02.01	Meat and offals of bovine animals or sheep, capable of use as human consumption, fresh, chilled, or frozen.	Discretionary licensing; licensing not applicable to intra-Community trade under terms of Ireland's accession to European Community.
Ex 05.04	Guts, bladders, and stomachs of bovine animals or sheep, capable of use for human consumption.	Discretionary licensing.
Ex 05.15	Fish products not elsewhere specified	Do.
07.01B	Tomatoes, fresh	Licenses are granted only during specified months of year.
Ex 08.11	Apples, pears, plums, cherries, strawberries, raspberries, loganberries, currants, and gooseberries preserved in water without added sweetener.	Discretionary licensing.
11.03	Flours of leguminous vegetables	Do.
Ex 12.01	Oilseeds—rape and turnip seed	Do.
12.03	Seeds of sugar beet, tobacco fodder beet, kale, mangel, rape, turnip, tomato.	Do.
Ex 12.09	Straw	Do.
Ex 12.10	Hay	Do.
Ex 16.01, Ex 16.02	Products from horses, mules, asses, bovine animals, sheep, and goats.	Discretionary licensing; licensing not applicable to intra-Community trade under terms of Ireland's accession to European Community.
Ex 20.02	Canned vegetables, prepared or preserved otherwise than by vinegar or acetic acid.	Discretionary licensing.
Ex 20.05, Ex 20.06, and Ex 20.07.	Apples, pears, plums, cherries, loganberries, raspberries, strawberries, currants, and gooseberries (preserved in water without added sweetener) or any pulp or juice wholly or partly derived from such fruits.	Discretionary licensing; licensing on items Ex 20.06 and Ex 20.07 not applicable to intra-Community trade under terms of Ireland's accession to European Community.
24.01	Unmanufactured tobacco; tobacco reuse	Discretionary licensing.
24.02	Manufactured tobacco; tobacco extracts and essences.	Do.
Ex 31.03	Superphosphates	Global quota.
Ex 35.02	Egg albumen	Discretionary licensing.
Ex 60.03	Stockings, socks . . . not elastic, not of cotton	Global quota.
Ex 73.35	Laminated springs for vehicles, and their leaves	Do.
Ex 85.08	Sparking . . . and metal components	Do.
Ex 85.20	Certain electric filament lamps	Do.
96.01	Brooms and brushes	Do.
96.02	Certain other brooms and brushes	Do.

TABLE 3E.—EUROPEAN COMMUNITY, ITALY

Tariff No.	Commodity description	Type of restriction/remarks
04.01	Milk and cream, fresh, not concentrated or sweetened.	Licensing.
08.01B	Bananas	Quota; licensing.
08.04exB	Grapes for wine production	Licensing.
09.01	Coffee, whether or not roasted or caffeine-free; coffee husks and skins; coffee substitutes, etc.	Do.
Ex 12.08	Carobs (horse beans)	Do.
Ex 15.10	Acid oils from refining	Quota; licensing.
Ex 20.05	Date, dried fig, and grape pastes, whether mixed or not.	Licensing.
Ex 20.07	Certain fruit juices, etc., whether containing added sugar.	Licensing; notably orange juice.
22.10B	Vinegars other than wine vinegar and substitutes for vinegars.	Licensing.
29.34	Tetraethyl lead	Bilateral quota with United States, but is generally unfilled so it does not inhibit U.S. exports.
33.01	Essential oils other than terpeneless, of citrus	Do.
37.06-37.07	Cinematograph film	Screen-time quota.
38.14	Antiknock preparations based on tetraethyl lead	See comment under item 29.34.
45.02	Natural cork in blocks	Discretionary licensing.
50.01-50.09	Silk worm cocoons, raw silk, silk yarn and woven silk fabrics.	Do.
66.03	Parts for umbrellas, sunshades, walking stocks, canes and the like.	Do.

TABLE 3F.—EUROPEAN COMMUNITIES, NETHERLANDS

Tariff No.	Commodity description	Type of restriction/remarks
18.06	Choclate and other food preparations containing cocoa.	The Netherlands prohibits the sale of food products if they contain corn sirup as an additive, or if they contain certain other additives such as artificial colors preservatives, etc.
19.02	Foodstuffs (for children or cooking) made from flour, starch, or malt extract.	See remarks, tariff No. 18.06.
20.05	Jams, fruit jellies, marmalades, fruit puree, and fruit pastes.	Do.
20.06	Fruit, prepared or preserved	Do.
20.07	Fruit and vegetable juices	Do.
Ex. 27.01	Coal, briquettes	Licenses required, but freely granted for U.S. exports.
27.02	Lignite	Do.
27.04	Coke and semicoke, other than for manufacture of electrodes.	Do.

TABLE 3G.—EUROPEAN COMMUNITY, UNITED KINGDOM

Tariff No.	Commodity description	Type of restriction/remarks
Ex 08.01	Bananas	Global quotas from dollar area sources.
Ex 08.02	Fresh grapefruit	Global quota from dollar area sources. Scheduled for removal 1-31-75 as result of United Kingdom accession to European Community.
Ex. 08.10	Frozen grapefruit, not containing added sugar	Global quota from dollar area sources.
Ex 20.03	Frozen graepfruit, containing added sugar	Global quota from dollar area sources. Scheduled for removal 1-31-75 as result of Kingdom accession to European Community.
Ex 12.06	Lupulin	Licensing controls except from Commonwealth.
Ex 20.05	Fruit jams and jellies	Global quota from dollar area sources.
Ex 20.07	Grapefruit and orange juice, except frozen concentrates.	Do.
Ex 22.09	Rum	Do.
Ex 24.02	Cigars	Do.
Ex 27.01, .02, .04	Coal, coke, solid fuels, manufacturers of coal or coke.	Licensing; requirement temporarily suspended since December 1970 due to coal shortage.
29.23	Sodium glutamate	Embargo.
37.06, 37.07	Motion picture and TV films	Screen-time quota.
57.06	Yarn and jute	Global quota.
62.03	Certain sacks and bags	Do.

TABLE 3H.—EUROPEAN COMMUNITY, WEST GERMANY

Tariff No.	Commodity description	Type of restriction/remarks
01.04AIb	Live sheep, for slaughter	Licensing.
02.01AIV	Mutton, fresh, chilled, or frozen	Do.
06.02	Other live plants and roots, etc., apple trees and all forms coming from seedlings or seeds, budding or flowering indica azalea, other budding or flowering azalea.	
06.03	Cut flowers and flower buds: Dianthers, roses, onion flowers, other.	Do.
07.01AI	Seed potatoes	Do.
07.01AII	Early potatoes	Do.
07.01AIII	Other potatoes	Do.
07.01D	Cabbage and endives	Do.
07.01FI	Peas	Do.
07.01FII	Green beans	Do.
07.01GI	Celeriac	Do.
07.01GII	Carrots and turnips	Do.
07.01M	Tomatoes, fresh (May 15 to Dec. 31)	Do.
07.01P	Cucumbers	Do.
Ex 07.05A	Beans and peas for sowing	Do.
11.05	Flour, meal, and flakes of potato (including potato granules, flour for dumplings, mashed potatoes; excluding preparations with egg powder, milk powder, and other ingredients for dumplings, excluding starch).	Licensing; not required within European Community. Potato flakes for feed are de facto liberalized
EX 12.10	Alfalfa meal	Licensing; scheduled to be liberalized.
EX 16.02BIIIb	Prepared or preserved sheep meat or offals	Licensing.
19.02	Preparations for flour, starch, or malt extract of a kind used as infant food or for dietetic or culinary purposes, containing less than 50 percent, by weight, of cocoa.	Licensing; applicable only to potato flour (including potato preparations for kitchen use containing other ingredients; e.g., milk powder, egg powder, graining starch, spices, etc.). No license required within European Community.
19.03	Macaroni, spaghetti, and similar products	Licensing.
Ex 19.05	Prepared foods obtained by the swelling or roasting of cereal and cereal products.	Licensing; popcorn and cornflakes for nonfood use.
Ex 20.01	Cucumbers with vinegar in airtight containers	Licensing; imports containing alum are prohibited.
Ex 20.02D	Asparagus with heads	Licensing.
Ex 20.02E	Sauerkraut in containers under 5 kg	Do.
Ex 20.02G	Green peas and beans, mixed vegetables in containers under 5 kg	Do.
Ex 20.02H	Potatoes, prepared in containers of less than 5 kg (such as French fried, chips, sticks, pancakes, and frozen peeled potatoes).	Licensing; not required within European Community.
Ex 20.04	Fruit, preserved by sugar (drained, glace, or crystallized), except peel.	Licensing.
Ex 02.05	Applesauce, whether or not containing sugar added; also all jams, etc., except orange marmalade and quince jelly.	Do.
20.06BI	Fruit containing alcohol in immediate packages of net weight under 4.5 kg, except citrus fruit, apricots, pineapples, figs, fruit salad, fruit cocktail, tropical fruit and including mixtures.	Do.
22.08	Ethyl alcohol of a strength 80° or more	Do.
Ex 22.09	Other spiritous beverages containing sugar, of a strength of less than 80°.	Licensing; except for rum, arrack, cognac, and liqueurs.
22.10	Vinegar and vinegar substitutes	Discretionary licensing.
Ex 27.01	Coal, and briquettes	Global quotas.
51.04	Certain woven fabrics of manmade fabrics	Global quota; discretionary licensing.
53.07	Worsted yarn	Discretionary licensing.
53.10–53.11	Certain sheep's wool yarn and fabrics	Discretionary licensing and global quota.
Ex 56.07	Woven fabrics of manmade fibers, except fabrics for padding.	Do.
57.10	Woven fabrics of jute	Global quota.
Ex 60.05	Certain outergarments	Discretionary licensing and/or global quota.
Ex 61.02	Women's, girls' and infants' outer garments	Discretionary licensing and global quotas.
69.11–69.12	Tableware and household articles of porcelain and other ceramic materials.	Global quota.
69.13	Statuettes, fancy articles, etc., of porcelain and other ceramic materials.	Do.
85.25	Ceramic insulators	Do.

TABLE 4.—FINLAND

Tariff No.	Commodity description	Type of restriction/remarks
Ch. 1	Live animals	Discretionary licensing.
Ex ch. 2	Meat and edible meat offals	All items covered by ch. 2 except whale meat are subject to individual discretionary licensing.
Ex 2.01	Meat of bovine species, fresh, chilled or frozen	Discretionary licensing.
Ex 2.01	Pigmeat, fresh, chilled, or frozen	Do.
Ex 2.01	Mutton, fresh, chilled, or frozen	Do.
Ex 2.06	Pigmeat, salted, in brine dried or smoked	Do.
04.01	Milk and cream, fresh, not concentrated or sweetened.	Do.
Ex 04.02	Milk and cream, preserved, or sweetened	Do.
Ex 04.02	Milk and cream, dried	Global quotas; licensing.
04.03	Butter	Discretionary licensing.
04.04	Cheese	Do.
04.05	Eggs	Do.
04.06	Honey	Do.
Ex 06.03	Cut flowers and buds for ornamental purposes	Licensing; imports restricted during specified months of the year.
07.01.101	Potatoes	Do.
07.01.109, 07.01.211	Potatoes, other	Discretionary licensing.
07.01.219	Carrots	Do.
07.01.292, .293	Celeriac	Do.
07.01.294	Beetroot	Do.
07.01.410	White and red cabbages	Do.
Ex 07.01.420	Cauliflowers	Discretionary licensing; imports restricted during specified months of the year.
Ex 07.01.491	Brussel sprouts	Discretionary licensing; imports restricted to specified months of the year.
07.01.499	Other cabbages	Discretionary licensing.
07.01.510, .520, .590	Leguminous vegetables	Do.
07.01.704, .705, .709	Tomatoes	Do.
07.01.801, Ex 07.01.809	Cucumbers	Discretionary licensing; imports restricted to specified months of the year.
Ex 07.01.851, .859	Endives and other salad vegetables	Do.
07.01.905, .909	Other vegetables	Discretionary licensing.
Ex 07.05	Dried leguminous peas (not stained or dyed) and beans.	Do.
08.01.213	Fresh bananas, not cut. Fresh bananas, cut	Discretionary licensing; imports restricted during specified months of the year.
Ex 08.02	Oranges, mandarins and clementines	Do.
Ex 08.07	Stone fruit, fresh	Global quotas; licensing; imports are restricted during specified months of the year.
08.08	Berries, fresh	Imports are restricted during specified months of the year.
Ex 08.09	Other melons, fresh (except honeydew, ogen, and water melons).	Discretionary licensing.
Ex 08.11	Fruit provisionally preserved but not specially prepared for immediate consumption except pulped apples, citrus fruits, and other fruits nspf.	Do.
10.01	Wheat and meslin	Do.
10.02	Rye	Do.
10.03	Barley	Do.
10.04	Oats	Do.
10.05	Maize	Do.
11.01	Cereal flours, groats and meal, other flours, malt	Do.
11.08.400	Potato starch	Global quotas; licensing.
Ex 11.08	Starches (except potato)	Discretionary licensing.
12.01	Oilseeds	Do.
12.02	Flours or meals of oilseed, nondefatted	Do.
12.04	Sugar beet and sugarcane	Do.
12.10	Fodder roots; hay, lucerne, clover, etc., and similar forage products.	Do.
15.01	Lard; tallow; stearin, lard	Do.
15.03	Oil, etc	Do.
Ex 15.06	Other animal fats and oils (excluding neat's foot oil for technical purposes).	Do.
Ex 15.07	Soybean, colza, rape, and turnip oils	Global quotas; licensing.
Ex 15.07	Other vegetable oils ex. tung, seamum, mustard, and oiticia oils, olive oil for technical purposes, castor oil, and bleached linseed oil, inedible.	Discretionary licensing.
Ex 15.12	Animal and vegetable oils, hydrogenated ex. marine oils.	Do.
15.13	Margarine, imitation lard, etc	Do.
16.01	Sausages	Do.
16.02	Other prepared meat or offal	Do.
17.01	Beet sugar and cane sugar, solid	Do

TABLE 4.—FINLAND—Continued

Tariff No.	Commodity description	Type of restriction/remarks
Ex 17.02	Grape sugar and sirups and other sugar solutions (except for glucose).	Global quotas; licensing.
Ex 17.02	Glucose sugar and sirups; other sugars; artificial honey (not include caramel).	Discretionary licensing.
17.03	Molasses	Do.
17.04.110	"Fondant" pastes, creams, etc., with 80 percent or more added sweetning content.	Do.
19.02	Preparations of flour, starch, etc., for dietetic purposes.	Do.
19.03	Macaroni, spaghetti, etc	Do.
19.04	Tapioca and sago and substitutes	Global quotas; licensing.
19.07.100, .900	Bread and other ordinary bakers' wares, excluding ships biscuits, crumbs, and rusks.	Discretionary licensing.
19.08.901	Pastry and other fine bakers' wares other than biscuits, wafers, rusks, cakes, and Danish pastry.	Do.
Ex 20.01	Tomatoes in airtight containers or other packings, preserved by vinegar or acetic acid.	Global quotas; licensing.
Ex 20.01	Other vegetables, prepared in vinegar or acetic acid except olives, capers, and asparagus.	Discretionary licensing.
Ex 20.02	Other tomato preparations not in airtight containers.	Global quotas; licensing.
Ex 20.02	Other vegetables, otherwise prepared or preserved excluding tomato puree and tomato preparations, olives, capers, and asparagus.	Discretionary licensing.
20.03	Fruit preserved by freezing, with added sugar	Do.
20.05	Jams, jellies, and other cooked preparations	Do.
Ex 20.06	Fruit otherwise prepared or preserved (excluding unsweetened apple puree, roasted groundnuts and nuts).	Do.
Ex 20.07	Fruit juices	Global quotas; licensing.
Ex 20.07	Vegetable juices (other than tomato)	Discretionary licensing.
23.02	Bran, sharps, and other cereal residues	Do.
23.03	Beet pulp, bagasse, dregs, etc	Do.
23.04	Oilcake and other residues	Do.
23.06	Vegetable products of a kind used for food, nes	Do.
Ex 23.07	Sweetened forage; other preparations of a kind used for feeding, except fish solubles.	Do.
Ex 27.01, .02	Coal, briquettes, lignite	Global quotas; licensing.
Ex 27.04	Coal tar	Do.
Ex 27.09	Petroleum oils, crude	Global quotas; discretionary licensing.
Ex 27.10	Petroleum oils, other than crude	Do.
Ex 27.13	Paraffin wax	Discretionary licensing.
27.14	Petroleum bitumen	Global quotas; discretionary licensing.
71.12, .13, .14	Semimanufactured or manufactured items of silver and gold.	Global quotas; licensing.

TABLE 5.—JAPAN [1]

Tariff No.	Commodity description	Type of restriction/remarks
Ex 02.01.1	Meat and offals of bovine animals, fresh chilled, or frozen.	Quota.
Ex 03.01.22	Herring, cod, yellow tail—fresh, chilled frozen	Do.
Ex 03.02.21	Cod, herring, yellow tail—salted, in brine, or dried.	Do.
Ex 03.02.22	Cod, herring—smoked	Do.
Ex 03.03.21	Scallops and cuttlefish—fresh, chilled, frozen	Do.
Ex 03.03.22	Scallops and cuttlefish—salted in brine	Do.
Ex 04.01	Sterilized milk and cream with fat content of 13 percent or more, fresh, not concentrated or sweetened.	Do.
04.02	Milk and cream, preserved, concentrated, or sweetened (excluding sugared, condensed whole milk; sugared condensed skimmed milk powder, whole milk powder, buttermilk powder and whey powder).	Quota; the Livestock Industry Promotion Corp. imports on a nondiscriminatory basis to keep domestic prices from going above the guarantee price by more than a given amount.
04.04.1	Processed cheese	Quota.
Ex 04.04.2	Other cheese (excluding natural cheese) and curd.	Do.
07.05.1	Small red beans	Do.
Ex 07.05.2	Broad beans and peas, excluding seeds (including dried peas).	Do.
Ex 07.05.4	Other dried leguminous vegetables, excluding seeds (including kidney type beans).	Do.
Ex 08.02.2	Oranges, fresh	Do.
Ex 08.02.4	Tangerines, fresh	Do.
Ex 08.11.2	Oranges, provisionally preserved by sulphur dioxide gas or other preservative gasses.	Do.

See footnote at end of table.

TABLE 5.—JAPAN [1]—Continued

Tariff No.	Commodity description	Type of restriction/remarks
Ex 08.11.3	Grapefruit and tangerines provisionally preserved by sulphur dioxide gas or other preservative gases.	Do.
11.01.1	Wheat flour	Do.
Ex 11.01.2	Rice flour, barley flour (including naked barley flour) and flours of Kao-Liang and other grain sorghums.	Do.
11.02.1	Groats and meal of wheat and rice, excluding germ thereof; other milled wheat and rice, except husked, glazed, polished or broken rice, excluding germ thereof.	Do.
11.02.2	Groats and meal of barley (including naked barley) and Kao-Liang and other grain sorghums.	Do.
11.07	Malt, roasted or not	Do.
11.08	Starches, inulin	Do.
12.01.2	Peanuts, whole or broken	Quota; does not apply to peanuts for oil extraction.
Ex 14.05.4	Dates, denatured	Do.
16.02.3	Other prepared or preserved meat and offals of bovine animals or pigs; other preparations chiefly consisting of meat and offals of bovine animals and pigs.	Do.
17.02.100	Grape sugar, not containing added sugar	Do.
17.02.200	Malt sugar, not containing added sugar	Do.
Ex 17.02.300	Milk sugar, not containing added sugar, less than 90 percent pure milk sugar content.	Do.
17.02.410	Rock candy, cube sugar, loaf sugar, and similar sugar.	Do.
17.02.42B	Other sugar	Do.
17.02.500	Sugar sirup	Do.
17.02.600	Caramel	Do.
17.02.700	Artificial honey	Do.
17.02.800	Sugar and sirups, other	Do.
Ex 20.05.000	Fruit puree and fruit pastes	Do.
20.06.110	Pineapples, containing added sugar or spirit	Do.
Ex 20.06.120	Fruit pulps containing added sugar or spirt	Do.
20.06.210	Pineapples, other	Do.
Ex 20.06.220	Other fruit pulps and roasted peanuts	Do.
20.07.110	Fruit juices, containing added sugar, excluding lemon juice.	Do.
Ex 20.07.120	Other fruit juices, excluding sloe bases and lemon juice.	Do.
Ex 20.07.200	Tomato juice, the dry weight content of which is less than 7 percent.	Do.
21.04.110	Tomato ketchup and tomato sauce	Do.
Ex 21.04.220	Mixed seasonings, chiefly containing sodium glutamate.	Do.
21.07.100	Food preparations containing added sugar, excluding rations, peanut butter, sweet corn, and Korean ginseng tea.	Do.
Ex 21.07.220	Ice cream powder, prepared milk powder for infants, and other preparations, chiefly consisting of milk; food preparations of seaweed; "mochi" (rice cake), cooked rice, roasted rice flours, rice enriched with vitamin and other similar food preparations of rice, wheat, and barley.	Do.
27.01	Coal, briquettes	Do.
Ez 30.02.1	Microbial vaccines and immune seums	Embargo; GOJ claims restriction maintained for health reasons.
41.02	Cattle and horse leather	Quota.
41.03.1	Sheep and lambskin leather	Do.
41.04.1	Goat and kidskin leather	Do.
Ex. 64.02.1	Footwear—with upper of whole leather	Do.
71.12	Articles of jewelry, of precious metal	Discretionary licensing.
71.13, 71.14	Articles of precious metal	Do.
84.08.11	Aircraft engines and motors	Quota; GOJ claims restrictions maintained for national security reasons.
84.08.21	Parts of aircraft engines and motors	Do.
84.52, 84.53, Ex. 84.54	Digital computers and accessories; peripheral equipment.	Quotas.
84.55	Parts for computers	Quota.
Ex. 85.21.2	Integrated circuits with not less than 200 elements in circuit.	Do.
88.03	Aircraft parts	Discretionary licensing; GOJ claims restrictions maintained for national security reasons.

[1] Until recently, all imports into Japan required a license; for most items, these licenses were granted automatically. Effective Dec. 20, 1972, all planned imports must be reported to a foreign exchange bank instead of applying for an import license from the bank.

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TABLE 6.—NORWAY

Tariff No.	Commodity description	Type of restriction/remarks
01.01-01.06	All live animals (except asses, mules, hinnies)	Licensing; quota.
02.01	Meat and edible offals	Licensing.
02.02	Poultry meant and edible offals (except liver)	Do.
02.03	Poultry liver	Do.
Ex 02.04	Reindeer meat, fresh, chilled, or frozen	Do.
02.05	Unrendered pig fat and unrendered poultry fat, fresh, chilled, frozen, salted, in brine, dried or smoked.	Do.
02.06	Meat and edible meat offals (except poultry liver), salted in brine, dried or smoked.	Do.
04.01	Milk and cream, fresh, not concentrated or sweetened.	Do.
04.02	Milk and cream, preserved, concentrated or sweetened.	Do.
04.03	Butter	Do.
04.04	Cheese and curd	Licensing; global quota.
Ex 04.05	Bird's eggs fit for human consumption	Licensing.
	Other chicken's eggs and egg yolks	Do.
04.06	Natural honey	Do.
06.01	Bulbs, tubers, tuberous roots, corms, crowns, and rhizomes, dormant, in growth or in flower.	Licensing; global quota.
06.02	Other live plants, including trees, shrubs, bushes, roots, cuttings and slips.	Do.
06.03	Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated, or otherwise dried, dyed, bleached, impregnated, or otherwise prepared.	Do.
06.04	Foliage, branches and other parts (other than flowers or buds) of trees, shrubs, bushes and other plants and mosses, lichens and grasses, being goods of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impreganted or otherwise prepared.	Do.
Ex 07.01	Vegetables, fresh or chilled (except artichokes, Spanish hops, capers, paprika) cabbage, potatoes, radishes, celeriac.	Licensing.
	Cauliflower, beans, peas chives, lettuce, parsley, leek.	Do.
	Carrots, cucumbers, tomatoes	Do.
	Mushrooms	Do.
	Broccoli, dill, spinach	Do.
	Onions	Licensing; quota.
	Others	Licensing.
Ex 07.02	Vegetables, preserved by freezing (other than corn).	Do.
	Fried onions	Licensing; quota.
Ex 07.03	Vegetables, provisionally preserved in brine or other solutions, excpet olives and capers.	Licensing.
Ex 07.04	Vegetables, dried (except garlic)	Do.
Ex 07.06	Salep, Jerusalem artichokes, sweet potatoes and other similar roots or tubers with higher starch or inulin content, fresh or dried, whole or sliced; sago pith.	Do.
Ex 08.06	Apples	Licensing; quota. United States has protested these restrictions. The matter is not resolved.
	Pears	Licensing.
Ex 08.07A	Cherries of all kinds	Do.
Ex 08.08	Gooseberries, red and black currants	Do.
	Raspberries and strawberries	Do.
Ex 08.09	Melons, other than honey dew and ogen melons	Do.
08.10	Fruit, preserved by freezing	Do.
Ex 08.11	Fruit, provisionally preserved in brine or other preparations (except citrus fruit, apricots and peaches).	Do.
Ex 08.12	Dried fruit, except apricots, peaches, prunes, and blueberries.	Do.
11.05	Flour, meal and flakes of potato	Licensing; United States has protested this restriction. The matter is not yet resolved.
Ex 11.06	Flour and meal of sago, arrowroot, and salep	Licensing.
Ex 11.08	Potato starch	Do.
11.09	Gluten and gluten flour	Do.
15.01	Lard and other rendered pig fat; rendered poultry fat.	Do.
16.01	Sausages and the like of meat and meat offals, blood.	Do.
16.02	Other preserved meat or offals	Do.

TABLE 6.—NORWAY—Continued

Tariff No.	Commodity description	Type of restriction/remarks
Ex 16.02	Turkey rolls	Licensing; quota. United States has protested restriction and quota was established as a result of the article XXII consultations Matter is not yet resolved.
16.03	Meat extracts and juices (except whale meat extracts).	Licensing.
Ex 17.02	Glucose	Licensing; quota.
19.02	Preparations of flour, starch or malt extract, of the kind used as inafnt food or food dietetic or culinary purposes, containing less than 50 percent by weight of cocoa.	Licensing.
19.04	Tapioca and sago obtained from potato or other starches.	Do.
Ex 20.01	Vegetable and fruit, prepared or preserved by vinegar or ascetic acid, except capers and olives.	Do.
Ex 20.02	Vegetables, otherwise prepared or preserved except asparagus, olives, artichokes, and tomato puree.	Discretionary licensing; global quota on onions, fried.
Ex 20.02	Tomato puree in airtight containers with dry tomato content of less than 25 percent by weight and in other containers.	Licensing; does not apply to imports in containers of less than 5 kg gross weight.
20.03	Fruit, preserved by freezing containing added sugar.	Licensing.
Ex 20.04	Fruit, fruit peel and parts of plants, preserved by sugar, except ginger.	Do.
Ex 20.05	Jams, fruits, jellies, marmalades, fruit puree and pastes, being cooked preparations, except those made from citrus fruit and cherry pie filling.	Do.
Ex 20.06	Fruit otherwise prepared or preserved, except the following in airtight containers: pineapples, citrus fruit, apricots, peaches, nuts, ginger, sour cherries, and mixed fruits (including fruit cocktail).	Licensing; United States has protested these restrictions. As a result, certain of them were liberalized. The matter has not been resolved.
Ex 20.07	Fruit juices including (grape must) and vegetable juices, unfermented and not containing spirit except citrus, pineapple, peaches, and apricot juices or mixture of these.	Licensing; global quota.
Ex 21.07	Food preparations, nes: ice cream containing fat, not containing cocoa.	Licensing.
Ex 21.07	Fat emulsions and similar preparations used in manufacturing bakers wares, other than those with less than 10 percent fat by weight.	Licensing; global quota.
Ex 89.01	Fishing vessels more than 10 years old	Discretionary licensing.

TABLE 7.—SWEDEN [1]

Tariff No.	Commodity description	Type of restriction/remarks
02.01	Meat and edible offals of animals falling under BTN 01.01 through 01.04, fresh or frozen:	
	Horsemeat	Licensing.
	Pork	Do.
02.02	Poultry meat and edible offal	Do.
02.03	Poultry liver (except goose liver)	Do.
Ex 02.06	Meat and edible meat offals, pork, salted, dried, or smoked.	Do.
04.02	Milk and cream preserved, concentrated, or sweetened.	Do.
Ex 04.05	Eggs not in shell, egg yolks	Do.
08.06A	Fresh apples	Do.
	Fresh pears	Do.
Ex 11.08	Starches	Do.
Ex 16.02	Pork and poultry meat, preserved or prepared in airtight containers.	Do.
17.01	Beet and cane sugar, solid	Do.
Ex 17.02	Other sugar, excluding inverted sugar, malt sugar; sirup and other sugar solutions; sugar coloring.	Do.
17.03	Molasses, also decolored	Do.

[1] No industrial quotas are applied.

TABLE 8.—SWITZERLAND

Tariff No.	Commodity description	Type of restriction/remarks
Ex 01.01	Live horses, for slaughter	Discretionary licensing; global quotas.
Ex 01.02	Live animals of the bovine species, for slaughter	Do.
Ex 01.03	Live swine, for slaughter	Do.
Ex 01.04	Live sheep and goats, for slaughter	Discretionary licensing.
02.01	Meat and edible offals of the animals listed in 01.01–01.04, fresh, chilled, or frozen.	Do.
02.06.10	Meat and edible meat offals of the animals falling within heading Nos. 01.01–01.04, salted, dried, or smoked.	Discretionary licensing; global quotas.
Ex 06.02	Young fruit trees and vine stock	Discretionary licensing.
Ex 06.03	Fresh cut flowers	Licensing; imports restricted during specified months of the year.
Ex 07.01	Vegetables, fresh or chilled—Tomatoes, onions (other than seed onions), asparagus, spanish pepper, artichokes, eggplant, broccoli, greenhouse chicory, green salads, spinach, cauliflower, brussels sprouts, kale, celery roots, chives, parsley, carrots, and red beets.	Discretionary licensing; global quotas; imports restricted during specified months of the year.
07.01.32	Seed onions	Imports restricted during specified months of the year.
07.01.40–07.01.42	Seed potatoes and potatoes for food	Discretionary licensing.
08.06.10	Apples and pears for cider manufacturing	Discretionary licensing; imports restricted during specified months of the year.
Ex 08.06	Other apples and pears, fresh	Do.
Ex 08.07	Apricots, plums, and cherries, fresh	Do.
Ex 08.08	Strawberries, raspberries, blackberries, and currants.	Do.
10.01.12	Wheat and meslin, denatured	Global quota for feed grain and other feedstuffs.
10.02.12	Rye denatured	Do.
10.03	Barley, for feed and seed	Do.
10.04	Oats, for feed and seed	Do.
10.05	Maize, for feed and seed	Do.
10.06	Rice, except husked, whether or not polished or glazed, undenatured broken rice, for animal consumption.	Do.
10.07	Buckwheat, millet, canary seed, and grain sorghum; other cereals.	Do.
Ex 11.01	Undernatured rice and maize Tour and denatured flour.	Global quota only for feed use.
Ex 11.02	Maize, groated, peeled, split; pearled barley, semoline, groats.	Do.
11.05	Flour, meal and flakes of potato for human consumption.	Global quota.
Ex 12.01	Oilseeds, oleaginous fruits, walnut kernels, for animal consumption.	Global quota for feed grain and other feed stuffs.
Ex 12.03	Seed for sowing	Global quotas apply only for a part of the seed species.
12.04.01	Sugar beets, beet chips	Global quota for feed grain and other feed stuffs.
16.02	Other prepared and preserved meat or meat offal except those based on liver.	Bilateral quota on preparations of pork; global quota on corned beef.
20.07	Grape juice, in casks, sweet cider and other, completely clarified and preserved.	Discretionary licensing.
22.04	Grape must	Global quota.
Ex 22.05	Red wine, in casks	Do.
	White wine, in casks	Prohibited.
22.07.10	Cider of apples and pears	Discretionary licensing.
Ex 23.02	Bran	Global quota for feed grain and other feed stuffs.
23.03	Waste in sugar and maize manufactured draff	Do.
23.04	Oil cakes, and oil cake meal, carob bean meal, for animal consumption.	Do.

TABLE 9.—UNITED STATES

Tariff No.	Commodity description	Type of restriction and remarks
	Meats (except meat offal), fresh, chilled, or frozen:	Absolute quotas may be imposed by Presidential proclamation if yearly ratio of imports to production exceeds same ratio for the 1959–63 period.
106.10	Cattle.	
106.20	Goats and sheep (except lambs).	
115.20, 115.25	Fluid milk and cream, fresh or sour: Containing over 5.5 percent but not over 45 percent of butterfat.	Absolute quotas.
115.30, 115.35, 115.40	Milk and cream, condensed or evaporated	Do.
115.45, 115.50, 115.55, 115.60.	Dried milk and cream	Do.
116.00–116.25	Butter, and fresh or sour cream containing over 45 percent of butterfat.	Do.

TABLE 9.—UNITED STATES—Continued

Tariff No.	Commodity description	Type of restriction and remarks
116.30 pt	Butter substitutes containing 45 percent of butterfat.	Absolute quota.
117.00, 117.05, 117.15, 117.20, 117.25, 117.40 pt., 117.55, 117.60, 117.75, 117.81, 117.85.	Cheeses: Blue mold, cheddar, edam and gouda, sbrinz, romano, reggiano, parmesano, provoloni, provolette, Swiss or emmenthaler with eye formation and other cheeses and substitutes for cheese (not made from sheep's milk).	Do.
118.05	Other milk products (dried whey)	Do.
118.25	Ice cream	Do.
118.30	Malted milk; and articles not specially provided for, of milk or cream.	Do.
123.50 pt., 124.10 pt., 124.20 pt., 124.25 pt., 124.40 pt., 124.60 pt., 124.65 pt., 124.80 pt.	Certain furskins, which are the product of the U.S.S.R. or Communist China.	Embargo.
	Wheat:	
130.70	Fit for human consumption: Milled wheat products, fit for human consumption.	Absolute quotas.
145.20, 145.48	Peanuts (except peanut butter)	Do.
	Sugars, sirups, and molasses, derived from sugar cane or sugar beets:	Do.
155.20	Principally of crystalline structure or in dry amorphous form.	
155.30	Not principally of crystalline and not in dry amorphous form (with 6 percent or less by weight of the total soluble solids).	
156.30	Sweetened chocolate (in forms weighing less than 10 pounds each).	Absolute quota.
157.10	Candy and other confectionery, not specially provided for.	Do.
177.67	Other edible animal oils, fats, and greases, derived from milk.	Do.
182.92 pt., 182.95 pt.	Edible preparations, not specially provided for, not of gelatin (if contain butterfat).	Do.
184.75 pt	Animal feeds, and ingredients thereof, not specially provided for (if contain milk products).	Do.
270.05 pt., 270.2560, 270.63 pt., 273.60 pt.	Books and periodicals, in the English language	Quotas linked to copyright protection.
300.10 to 300.20	Cotton, not carded, not combed, and not similarly processed.	Absolute quotas.
300.40 pt., 300.45 pt., 300.50 pt.	Certain waste and advanced waste of cotton, and fibers of cotton processed but not spun.	Do.
315.20 pt., 315.25 pt., 315.30 pt., 315.35 pt., 315.40 pt., 315.45 pt., 315.50 pt., 315.55 pt., 315.60 pt.	Cordage, of hard (leaf) fibers, which is the product of the Philippines.	Do.
475.05, 475.10	Crude petroleum (including reconstituted crude petroleum); topped crude petroleum; crude shale oil; and distillate and residual fuel oils (including blended fuel oils) derived from petroleum ,shale, or both, with or without additives.	Licensing fee system modifies QR allocations: There are no longer absolute quotas.
475.25	Motor fuel	Do.
475.30	Kerosene, derived from petroleum, shale oil, or both (except motor fuel).	Do.
475.35	Naphthas derived from petroleum, shale oil, natural gas, or combinations thereof (except motor fuel).	Do.
475.45, 475.55, 475.60	Lubricating oils and greases, derived from petroleum, shale oil, or both, with or without additives.	Do.
475.65	Mixtures of hydrocarbons, not specially provided for, derived wholly from petroleum, shale oil, natural gas, or combinations thereof, which contain by weight not over 50 percent of any single hydrocarbon compound—in liquid form.	Do.
Vessels, except yachts and pleasure boats, are not subject to the provisions of the TSUS. Accordingly, a classification for such vessels is not provided in the TSUS.	Foreign-built dredges and hovercraft in coastwise trade.	Embargo

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Study No. 7.—The GATT Balance of Payments Safeguard Provision: Article XII

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The GATT Balance of Payments Safeguard Provision: Article XII

Article XII of the General Agreement on Tariffs and Trade (GATT) permits a contracting party to the GATT to restrict the quantity or value of imports to safeguard its external financial position and its balance of payments under certain conditions.[1] The criteria for use of import restrictions by a Contracting Party are that they shall not exceed those necessary:

(i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a Contracting Party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

The Role of the International Monetary Fund (IMF)

Article XV provides that, in cases involving problems concerning monetary reserves, balance of payments or foreign exchange arrangements, the Contracting Parties shall consult fully with the IMF and shall, in such consultations, accept all findings of statistical and other facts presented by the Fund relating to these monetary questions. In reaching a decision in cases involving the criteria for use of import restrictions under Article XII, the Contracting Parties are required by Article XV to accept the determination of the Fund as to what constitutes a serious decline, a very low level, or a reasonable rate of increase of reserves, and as to the financial aspects of other matters covered in consultations in Article XII cases.

Notwithstanding the requirement to "accept" the findings of the Fund on monetary and financial matters in Article XII situations, Article XV specifically recognizes that the "final decision" concerning whether the criteria of Article XII have been met rests with the GATT Contracting Parties. The relationship between the GATT and the Fund in this area has been described as follows:

> The over-all "final" decision as to whether and to what extent a Contracting Party's import restrictions are necessary, and the over-all considerations concerning the commercial effects of such restrictions, are exclusively in the province of Contracting Parties, although in reaching such "final decision" the determination of the Fund will be, no doubt, a very weighty element. (IMF, 2 *Staff Papers*, 450, 1951)

[1] This paper does not address itself to Article XVIII: 2, 6 which permits developing countries to apply quantitative restrictions for balance of payments purposes, in light of the high demand for imports likely to be generated by their economic development programs.

Various Contracting Parties to the GATT have on occasion viewed the Fund role as being very narrow and confined essentially to statistical findings as to a Contracting Party's balance of payments and reserve position. This view was expressed by some countries, for example, during the discussions of whether the U.S. surcharge was appropriate.

Surcharges and Article XII

Article II justifies the use of quantitative import restrictions that otherwise would be prohibited by Article XI when necessary for balance of payments purposes.

Several countries have resorted to import surcharges or import deposit schemes rather than quotas in situations which they considered met the balance of payments criteria for recourse to Article XII. In some of these cases, the country imposing the surcharge obtained a GATT waiver of its Article II obligations not to increase bound rates of duty. In each case the surcharge has been tolerated by the Contracting Parties although in some instances the report of the Working Party examining the balance of payments measures has expressed the view that the surcharge was inconsistent with the country's Article II obligations.

The problems that have been brought before the Contracting Parties under Article XII have not proved susceptible to easy solution. Generally cases have been handled on an ad hoc approach as is illustrated in the following cases.

French 1954 Case

In 1954, France adopted a special temporary import surcharge on certain imports. In response to a complaint filed by Italy against this action, the Government of France explained that the import tax was intended to serve as a temporary and transitional device to facilitate removal of quantitative import restrictions that had been imposed pursuant to Article XII. The Contracting Parties, in a decision taken in 1955, concluded that, whatever the motivation of the tax, it increased the incidence of duties beyond the rates bound under Article II and that the situation justified resort by affected countries to the compensation and retaliation provisions of Article XXIII. France agreed to remove the import surcharge as soon as possible and did so on August 10, 1957. (France replaced the surcharge with a system of import levies and export subsidies, which was later removed.) No action was taken by other countries.

Canadian 1962 Surcharge

On June 24, 1962, Canada imposed an import surcharge on the ground that such action was necessary to safeguard Canada's external financial position and balance of payments. A GATT decision of

November 15, 1962 expressed regret that the Canadian Government found it necessary "to introduce temporary measures inconsistent with Article II of the General Agreement" and recommended that the remaining surcharges be removed expeditiously. No waiver was either requested or granted, and the decision referred only obliquely to Article XII ("Having . . . heard the Canadian Government's explanation of the reasons why it took action through the introduction of temporary import surcharges rather than through the introduction of alternative measures. . . .") Canada removed the import surcharges on March 31, 1963.

United Kingdom 1964 Surcharge and 1968 Import Deposit Scheme

The largest trading nation to resort to an import surcharge during the 1960's was the United Kingdom. Article XII was invoked by the United Kingdom on October 27, 1964 with the recognition that this provision assumed that quotas and not a surcharge would be used. The GATT established a Working Party to consult with the British. The Working Party report stated that it was not disputed that bound rates were increased by the United Kingdom inconsistently with its GATT Article II obligations. No other GATT action was taken. The United Kingdom removed the surcharge on November 30, 1966.

On November 27, 1968, the United Kingdom imposed an import deposit scheme. A Working Party was formed to examine the United Kingdom's measure. It concluded that the deposits were not more restrictive than measures which the application of the provisions of Article XII permits. No other action was taken. When the United Kingdom terminated its import deposit scheme on December 4, 1970, the Working Party considered its work terminated. The two British cases indicate clearly that the GATT membership has been willing to accept special trade measures (without a waiver) as an alternative to quotas.

French 1968 Measures

The above cases have not been the only examples of the use of trade measures other than quotas for balance of payments reasons. In July 1968, following major civil disturbances, France cited the language of Articles XII, XIX (escape clause) and XXIII (in a novel reference to what is a complaint provision rather than a remedial clause to be used in economic difficulties) to justify the imposition of import quotas and the granting of export rebates on certain products as a partial compensation for wage increases.

A Working Party was established to examine the measure. Certain members of the Working Party expressed the view that given the reserve position of France, the necessary balance of payments need had not been demonstrated. There was particular objection to the export subsidy related to wage increases, which some Working Party

members contended might prove an unfortunate precedent. There was agreement among the developed countries represented (other than France) that the measures were not measures permitted by Article XII. France announced the progressive elimination of the import restrictions in October 1968, and the reduction of the subsidy. The subsidy was eliminated in January 1969. The GATT made no decision on the French action.

The United States, as required by domestic law, in August 1968 imposed countervailing duties on dutiable French imports into the United States which benefited from the new French subsidy.

United States 1971 Surcharge

On August 15, 1971, the United States imposed an import surcharge for balance of payments reasons. The United States did not seek to justify its measure under any particular GATT Article but stated that it felt itself entitled under Article XII to apply quantitative restrictions on imports—a harsher action than the surcharge—and cited the precedents of use of other measures. A Working Party was formed to consider the U.S. measure. The countries (other than the United States) which were members of the Working Party expressed the view that the surcharge raised tariff rates above bound levels in violation of Article II of the GATT. They also held that the surcharge, as a trade restrictive measure, was inappropriate given the nature of the United States balance of payments situation and the undue burden of adjustment placed upon the import account with consequent serious effects on the trade of other Contracting Parties.

The United States terminated the surcharge effective December 20, 1971.

Danish 1971 Surcharge

On October 21, 1971, Denmark imposed a temporary import surcharge scheduled to terminate in staged reductions by April 1, 1973. Denmark did not claim that an import surcharge was explicitly covered by any provision of the GATT but that its action had been within the spirit of Article XII and that quantitative restrictions would have had a more serious effect on other countries. The Working Party noted that to the extent that it raised the incidence of customs charges beyond the maximum rates bound under Article II, the surcharge was not compatible with the provisions of the General Agreement. The membership was divided as to whether the surcharge was appropriate.

Amendment of Article XII

A dilemma does exist between Article XII of the GATT and the use of surcharges and other nonquota trade measures by Contracting Parties in balance of payments emergencies. The drafters of the

GATT clearly had quotas in mind in the article, perhaps because they are the hardest trade measures to put into effect and because they were the device most commonly used when the GATT was drafted. However, it has become less and less feasible as time passed, for administrative and other reasons, to establish quota systems during balance of payments emergencies. When countries have resorted to trade measures in balance of payments emergencies, they have found import surcharges or deposits more acceptable because they are less onerous, and more practical. In addition, countries have favored use of surcharges rather than quotas since the former are less trade diverting, less likely to discriminate among domestic importers and among foreign suppliers, and thus politically more acceptable at home and abroad.

Article XII should be amended to reflect the current collective judgment of GATT members by explicitly allowing trade measures other than quotas to be resorted to for balance of payments reasons. Although, generally, governments recognize the extreme severity of quotas and the stigma attached to their use and are reluctant to use them, it is important that the agreed rules be workable, and authorize measures which are most acceptable and economically justifiable.

It has been argued that opening Article XII for amendment could have results adverse to U.S. interests and those of world trade generally. To revise Article XII to enumerate such nonquota restrictive measures as import surcharges and deposit schemes as acceptable balance of payments measures would make their use more respectable and countries might be likely to resort to them more frequently. The ability of the United States and other GATT Contracting Parties to control or modify their imposition and duration through GATT pressure could be lessened.

On the other hand, on the economic issues involved, surcharges are preferable because they do not isolate a country from the forces of international competition as quotas do and are therefore less objectionable than quotas.

A suggested alternative has been that consideration might be given to pressing for resort to waivers under Article XXV where trade measures other than quotas are employed. It has been urged that this approach would have the advantage of making resort to trade measures other than quotas subject to the approval of and conditions imposed by the Contracting Parties. However, the application of Article XII procedures whenever balance of payments measures have been taken can offer the GATT Contracting Parties a measure of control at least equal to the more formal waiver procedure.

At the meeting of the International Monetary Fund in September, 1972, the United States proposed a variety of changes in the rules governing the operation of the international monetary system. As stated by Secretary Shultz, "if trade controls are permitted temporarily in extreme cases on balance of payments grounds, they should be in the form of surcharges or across-the-board taxes." These and other changes in rules are currently under discussion in the IMF's Committee of 20.

Study No. 8.—GATT Provisions on Relief from Injurious Imports

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Introduction

The reciprocal reduction of duties on imports—a central purpose of the GATT—is based on the expectation that two-way trade will expand if the theory of comparative advantage and international market forces are permitted to operate more freely. By the same token, there is recognition in GATT that trade liberalizations can cause dislocations and injury to less efficient producers. In the long run, these producers in importing countries are expected to shift to more efficient and profitable activities. Overall, the export increases growing out of this shift are expected to offset the dislocations created by the increase in imports. In practice, however, financial and human resources cannot be shifted easily into alternative lines of production, particularly in the face of very rapid import increases.

The need to deal realistically with the injurious impact of imports resulting from trade liberalization measures was taken into account by the drafters of the GATT. They did not intend, however, to make it easy for GATT countries to free themselves from their negotiated commitments to reduce tariffs and other barriers to trade. The United States was a prime mover in having incorporated in the GATT an "escape clause" patterned after the language of the escape clause first introduced by the United States in its bilateral trade agreement with Mexico in 1943.

The problems which arise from increased imports, however, are varied and complex and no single solution has proven adequate for dealing with every situation.[1] Therefore, GATT countries confronted with substantial import penetration have not only turned to the standard escape clause contained in Article XIX but also to solutions which lie outside any of the GATT provisions.

GATT Provisions on Relief from Injurious Imports

Article XIX

Article XIX sets forth conditions which must be present before escape clause action can be taken and procedures to be followed in taking an action which meets those conditions. Member countries are permitted to suspend an obligation, in whole or in part, or withdraw or modify a concession if as a result of unforeseen developments and the effects of obligations incurred under GATT, including tariff concessions, there is such an increase in imports of a product as to cause or threaten to cause serious injury to producers of like or directly competitive goods.[2]

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[1] Unfair trade practices such as dumping and export subsidies are discussed in another of these papers.

[2] Although not discussed in this paper, the major GATT trading countries have adopted some form of adjustment assistance program to facilitate the adaptation of domestic industries to economic changes, including those resulting from increased imports. No provision is made in the General Agreement, however, for this type of assistance. In the United States, conditions under which firms and workers may qualify for adjustment assistance are set forth in the TEA of 1962.

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Formal GATT consideration of specific cases under Article XIX has not substantially clarified the meaning of such terms as import increase, unforeseen developments or serious injury. An early precedent was set by a GATT Working Party which examined a complaint by Czechoslovakia against a U.S. escape clause action. In effect, the Working Party held that the burden of proof is on the complainant to show that the suspension of a concession or obligation under Article XIX is not justified. The interpretation of the conditions justifying escape clause action has been shaped, therefore, in large part by the actions countries have taken pursuant to their own domestic law.

The remedy for serious injury or threat of serious injury is to suspend the obligation, in whole or in part (including the obligation not to resort to quantitative restrictions), or to withdraw or modify a tariff concession on the imported product causing the injury, but only to the extent and for such time as may be necessary to prevent or remedy injury. The suspension of the obligation or the withdrawal of the concession must relate causally to the increase in imports, and according to GATT practice, be made on a non-discriminatory basis.

Import relief measures are permitted only "to the extent and for such time as may be necessary" to prevent or remedy injury. A country proposing to suspend or modify concessions must consult with the affected member countries. While GATT contains no express provisions for compensation, under GATT practice countries having a substantial interest in the concession which is being modified or suspended may request substantially equivalent compensatory concessions. If agreement is not reached, the affected countries may suspend, with respect to the country taking the action, substantially equivalent concessions in their own schedules or other GATT obligations provided the GATT member countries, acting jointly, do not disapprove. The fact that retaliation is authorized on a discriminatory basis serves further to discourage countries from taking unjustified escape clause action.

Use of Article XIX by the United States and Other Countries

GATT member countries on the whole have invoked the Article XIX escape clause provision infrequently (see attachment). Since the inception of GATT, 13 member countries, either individually or as members of a regional group, have used the Article a total of 61 times. The United States has invoked it 16 times, and Australia, 16. France, Germany and Italy each invoked the Article twice; and EC has used it twice. Canada used it 8 times, 5 of them for farm products imported mainly from the United States.[3]

Other Forms of Import Relief Under the GATT

In some circumstances, member countries have preferred to act under GATT provisions other than Article XIX. For instance, member countries may withdraw a tariff concession permanently by entering into renegotiations under regular Article XXVIII procedures. A case in point is the use of this Article by the United States with respect to low-priced stainless steel table flatware.

[3] Precautions must be taken in interpreting this record of usage of Article XIX in view of the many alternative forms of relief available both within and outside the provisions of the General Agreement (see attachment).

Member countries may also take any action, under Article XXI of the GATT, which they consider "necessary for the protection of . . . essential security interests." The Mandatory Oil Import Program of the United States, authorized domestically by Section 232 of the Trade Expansion Act, could be justified under this provision of GATT. Although not widely used, other countries have justified certain import restrictions on national security grounds.

Article XXXV permits a country to withhold the application of its schedule of tariff concessions, or of its obligations under the entire agreement, from another country with which it has not entered into tariff negotiations. A number of member countries have invoked this Article on joining the GATT because of their fear that acceptance of GATT obligations would lead to serious market disruption at home from competitive imports. Developed and developing countries alike have singled out Japan as the primary target of these actions since that country joined the GATT in 1955. For the most part, major trading countries have disinvoked Article XXXV against Japan, but only after obtaining trading commitments from that country in bilateral negotiations. For example, Japan has agreed to restrain exports of selected products to those countries and, in some cases, to consult whenever Japanese exports threaten market disruption in the importing country.

Alternative Measures To Provide Relief From Injurious Imports

Tariffs can be increased unilaterally on items which are not bound under the GATT, that is, products on which tariff concessions have not been granted. Many countries have taken steps to avoid import injury by raising duties on unbound items.

Developing countries are largely insulated from competitive imports which might be injurious to domestic industry through import restrictions. Some of these may be justified on balance-of-payments or economic development grounds. Apart from residual import restrictions, some developed countries maintain discriminatory import restrictions on selected imports. Import restrictions of this type—primarily directed against imports from Japan—are widespread in Western Europe.

Export Restraints

The use of export restraints has also reduced the need for countries to resort to Article XIX. Export restraints affect shipments of selected goods which are ordinarily free of import restriction but pose a threat to production in the importing country. While such actions might be considered inconsistent with the requirements of GATT Article XI, complaints under that article against such procedures are unlikely to arise, since the controls are imposed at the request of the importing country that would be principally affected by the export restraints.

The most comprehensive example of an export control arrangement is the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) negotiated under the auspices of the GATT. This arrangement affects much of the free world trade in cotton textiles by providing the mechanisms that enable exporting and importing countries to control the growth of trade in cotton textiles through a

network of bilateral agreements and by unilateral action. The LTA also assures that exports from participating countries will not be restrained more severely than exports from nonparticipating countries causing market disruption. More recently, export controls aimed at avoiding market disruption have been extended to woolen and man-made fibers in some cases.

Less formal export restraints are also imposed by some countries, particularly Japan. These restraints may or may not result from bilateral negotiations between the United States and the country imposing the controls. While they are reflected, in some cases, in written "understandings," they are not embodied in international agreements. These restraints often are imposed by the exporting country to forestall the imposition of import quotas by the importi g country. Japanese and EC steel producers, for example, restrain exports of steel products to the United Sta'es under such an arrangement.

Export restraints are also maintained by major suppliers of fresh, chilled, or frozen beef, veal, mutton and goat meat to the U.S. market. New control levels are agreed upon with the supplying countries each year and contained in bilateral agreements, which provide for both export and import controls. Because of the control of imports provided by these agreements, the President has suspended the quotas on meat imports that otherwise would be required by Public Law 88-482 of 1964.

Japan maintains voluntary or official controls covering a wide range of items to restrain the growth of exports to the United States and other countries. During the fall of 1972, the Japanese Government announced a new program to restrict exports to the world of 20 products or product groups, including passenger cars, trucks, motorcycles, radios and cameras. These controls are to remain in effect for one year from September 1972 to August 1973. The objective is to hold the export growth of controlled items, which will vary by product, to an average rate of increase of about 29 percent over the August 1971-July 1972 base period. A percentage increase of this magnitude would be slightly less than the average rate of increase over the preceding five years.

EC Surveillance and Safeguard Measures

Another approach to avoiding import injury has been taken by the EC in developing a common commercial policy (Council Regulation 1025/70 of May 25, 1970).

Products which are free of import restriction are placed under surveillance whenever there are indications that imports from third countries threaten injury to Community producers of like or competitive products and the interest of the Community requires such action. Surveillance is exercised mainly in conjunction with the processing of import documents by the member states. The member states report monthly to the Commission on imports of these items, and the Commission, in turn, informs the member states of these developments.

The safeguard measures are to be implemented when criteria similar to those contained in GATT Article XIX are met, that is "when a product is being imported into the Community in such

increased quantities and/or under such conditions as to cause or threaten serious injury to Community producers of similar or directly competitive products". The Commission, Council, and the member states each have an assigned role in carrying out the application of the safeguard measures. In critical circumstances when a delay in restraining imports of particular products would result in irreparable injury to a Community producer, the Commission on its own or at the request of a member state can, for example, shorten the validity period of import documents and require an import authorization.

Conclusion

The current problem of market disruption and injurious import growth is not a new one. The rapid growth of low-cost Japanese exports in the 1950's together with a jump in exports of cotton textiles from developing countries in the latter part of the decade caused deep concern in a number of import markets. In 1959 the GATT took up the question of the avoidance of market disruption and established a Working Party to conduct a study. The Working Party concluded that there were political and psychological elements to the problem which made it doubtful that GATT members would rely solely on the standard GATT safeguards and give up the special methods they had been using to dampen the rise in certain imports from Japan and the developing countries. The Working Party urged an approach which would provide for multilateral consultations aimed at "constructive solutions" containing procedures for the orderly expansion of international trade. The GATT subsequently adopted a decision which, in effect, defined market disruption but failed to agree on specific measures to deal with the problem. The GATT did not follow up its decision with any practical steps in part because, as decribed above, Japanese suppliers entered increasingly into agreements to restrict exports and because order was brought into international trade in cotton textiles through the Short-Term and later the Long-Term Agreement.

While import restraints may at times be necessary, they do run counter to an important objective, a freer allocation of resources worldwide from which all countries would benefit. As the GATT Working Party pointed out, however, the resons for these restraints are often psychological and political, rather than economic. Every country attempts to strike a reasonable balance between conflicting goals.

Beyond an improvement in U.S. escape clause procedures, ways should be found to meet the twin goals of trade expansion and a healthy domestic economy. Discussions both in and outside the GATT have been initiated aimed at finding better ways to deal with disruptive changes in trade patterns and to allow for a more orderly adjustment by domestic firms to rapidly increasing imports resulting from international market forces.

Use of Article XIX by GATT Members

Australia

Alloy steels
Antibiotics
Casual footwear
Copper brass sheet and strip
Forged steel flanges
Four-wheel-drive vehicles (used)
Heat resisting glassware
Knitted coats, jumpers, cardigans, sweaters and the like
Knitted shirts
Linseed oil
Motor mowers
Piece goods, woollen
Polyethylene and polypropylene twine, cordage, rope and cable
Printed cotton textiles
Refrigerating appliances, appliances, parts of
Timber

Austria

Chicken eggs
Matches
Oilcakes
Porcelain

Canada

Corn
Frozen peas
Men's and boys' shirts
Motor gasoline
Potatoes
Strawberries (1957)
Strawberries (1971)
Turkeys
Woven fabric shirts

EEC

Tomato concentrates
Table apples

France

Foundry pig iron
Horse meat

Germany, Federal Republic of

Hard coal and hard coal products
Petroleum and shale oil

Greece

Apples
Electric refrigerators
Tires

Israel

Radiotelegraphic and radiotelephone transmission and reception apparatus

Italy

Foundry pig iron
Raw silk

Nigeria

Cement

Peru

Lead arsenate and valves for industrial purposes

Rhodesia and Nyasaland

Cotton and rayon piecegoods

Spain

Cheese
Synthetic rubber

United States

Alsike clover seed
Bicycles
Ceramic table articles
Clinical thermometers
Cotton typewriter ribbon cloth
Dried figs
Hatters' fur
Lead and zinc
Pianos
Safety pins
Sheet glass
Spring clothes pins
Stainless steel flatware
Towelling of flax, hemp or ramie
Wilton and velvet carpets
Women's fur felt hats and hat bodies

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Study No. 9.—The Most-Favored-Nation Provision

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Study No. 9.—The Most-Favored-Nation Provision

The unconditional most-favored-nation (MFN) provision is the cornerstone of the international trade rules embodied in the General Agreement on Tariffs and Trade (GATT).

The basic rationale for MFN is that if every country observes the principle, all countries will benefit in the long run through the resulting more efficient use of resources. Furthermore, if the principle is observed, there is less likelihood of trade disputes.

In essence the most important GATT provision on MFN requires a GATT contracting party to grant the products of all other GATT contracting parties the same treatment on importation that it grants to any one of them. A given product of one GATT member will not be placed at a competitive disadvantage as compared with the like product of any third country.

History

The concept embodied in the MFN clause has been traced to the 12th century, although the phrase "most-favored-nation" did not appear until the end of the 17th century. The emergence of the MFN provision is largely attributable to the growth of world commerce in the 15th and 16th centuries. At that time England and Holland were competing with Spain and Portugal, and the French and the Scandinavians were challenging the Hanseatic League and the Italian Republics. Each country, seeking maximum advantage for its trade, found itself compelled to grant concessions in return. The role of the MFN provision was to link commercial treaties through time and between states. At first the MFN provision applied to concessions granted only to specified states, but gradually the clause became generalized to apply to concessions granted to all countries.

The trend toward wide use of the MFN clause necessarily coincided with the decline of mercantilism. The mercantilist view that in any commercial exchange one nation wins and the other loses does not mix with the concept of reciprocal arrangements implicit in the MFN principle.

The unconditional form of the MFN clause—guaranteed equal treatment without requiring directly reciprocal compensation—was used exclusively until the late 18th century. In fact, conditional MFN—equal treatment conditional upon adequate compensation—was inaugurated in 1778 by the United States. During the first half of the 19th century, the conditional form was common in treaties in Europe and

elsewhere. The wave of liberalism that swept Europe in the second half of the 19th century brought a return to use of the unconditional MFN clause in keeping with the free trade sentiment of the time. While European countries ultimately returned to the unconditional form, the United States was consistent until 1923 in its adherence to the conditional form. It should be noted, however, that in practice only a limited amount of United States trade was affected by reciprocal treaties involving conditional MFN. The United States consistently applied a single-schedule tariff to imports from all countries. Reciprocal treaties granting reductions from the general tariff rates were few in number at any given time.

The United States began granting conditional MFN with its first treaty after independence, the United States-France treaty of 1778. Article II provided that, "The Most Christian King and the United States engage mutually not to grant any particular favor to other nations in respect of commerce and navigation, which shall not immediately become common to the other party, who shall enjoy the same favor, Freely, If The Compensation Was Freely Made, Or On Allowing The Same Compensation, If The Concession Was Conditional" (caps added). Similar provisions in treaties with Prussia (1785) and Sweden (1793) served to establish the "American interpretation" that special favors must be specifically bought.

The position of the United States as a newcomer to world commerce largely accounts for its novel interpretation of the MFN clause. With the colonial ties to the British Empire broken, the United States had difficulty establishing an equal footing for trade with other nations. France and Spain, as well as Britain, attempted to exclude the Americans from trading with their overseas possessions. At the same time, these countries sought to penetrate the American market. Given European reluctance to grant initial reciprocity, the United States policy was to establish high duties and grant access to the American market only in return for access to markets controlled by Europe. Under the circumstances then prevailing, the conditional MFN clause enabled the United States to maximize its bargaining leverage by offering no gratuitous access privileges.

The American principle of conditional MFN had a growing effect on commercial policy abroad, reaching its peak roughly between 1830 and 1860. The year 1810 marked the first conditional MFN clause in a treaty between European states (Great Britain and Portugal). In 1824 the clause was introduced to South America, where it remained dominant for the next 25 years. Of all European states, England was the most consistent in adhering to the unconditional MFN form through the first half of the 19th century, although the conditional clause was not uncommon in its treaties during that period.

Beginning with the Cobden treaty between France and England in 1860, the unconditional form of the MFN clause again prevailed in European commercial treaties. The benefits of the Cobden treaty were conditionally extended to other countries by France and unconditionally extended to others by England. It soon became apparent to England that under this arrangement the balance of advantages was in favor of France. To compensate for this, England launched a successful drive to conclude unconditional MFN treaties with other countries. The unconditional MFN clause was used exclusively in Europe after that time, in spite of a return to protectionism on the Continent after 1875.

While the United States and Europe were consistent in following their respective interpretations of the MFN clause during the latter 19th century, practice in other parts of the trading world varied. In South and Central America, for example, both forms of the clause were used with no clear-cut pattern, although the conditional form was used consistently in treaties between American states. Japan also used both forms.

The divergent interpretations of the MFN principle during the late 19th century were largely a manifestation of the economic relationship between the United States and Europe. World War I altered this relationship dramatically. Following the war, the United States no longer stood to Europe as an underdeveloped nation, dependent upon Europe for industrial goods and capital, content to export to Europe its raw materials. American products were now much in demand in Europe and American capital financed European factories. Therefore, in the 1920's United States policy changed, reflecting its broader and more important export interests. By offering complete and continuous nondiscriminatory treatment the United States sought to obtain the same treatment from other countries, thus reducing discrimination against United States exports. Authority for the United States to offer unconditional MFN was included in the Tariff Act of 1922 and implemented in 1923. The Trade Agreements Act of 1934 included an unconditional MFN provision and made it a requirement of United States domestic law.

The GATT Provision

The main GATT provision on MFN, Article I:1 is a direct descendent of the MFN clauses in bilateral trade agreements between the United States and other countries. The provision reads as follows:

"With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with

respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

There are other MFN provisions in GATT in addition to Article I. They apply to such matters as transit, marks of origin, state trading, quotas, the allocation of quotas, and nontariff prohibitions and restrictions. They all require nondiscrimination in these areas.

The benefits to the United States and that part of the world following the MFN principle, particularly since World War II, have been impressive. World trade in 1948 amounted to $54 billion; by 1958, it had reached $95 billion, and by 1970, $280 billion. United States exports expanded from $13 billion in 1948 to $43 billion in 1970. A number of other factors were, of course, involved, but adherence to MFN, however qualified as time passed, deserves a good deal of the credit.

Exceptions to the GATT Provision

The GATT recognizes, however, that MFN remains a goal which cannot, in all cases, be achieved. It provides for a number of exceptions. Many are required for practical reasons and, in fact, serve to reinforce the GATT rules. Others were required for political and economic reasons. For example, Article XIV permits discrimination in the application of quotas justified on balance of payments grounds. Article VI allows imposition of countervailing and antidumping duties on subsidized exports or imports sold at less than domestic prices, resulting in injury to domestic industries. Paragraph 2 of Article XXIII allows a country to retaliate against another contracting party which has nullified or impaired benefits under the GATT. Article XXI deviations from MFN are permitted for national security reasons.

The most significant GATT exceptions to MFN are found in two Articles related in one way or another to the issue of preferential trade arrangements. These are Article I: 2 dealing with tariff preferences in force when the GATT was drafted and Article XXIV which provides for the formation of customs unions and free trade areas.

Article I (Paragraph 2)

Article I: 2 permits contracting parties which, prior to the GATT, granted or received preferences under a variety of arrangements to continue to do so. It also prohibits any increase in the margins of preference granted or received. United States preferences for the Philippines fall under the provisions of this article, as do Common-

wealth preferences. The provision was written into the GATT when it became clear that the persistent efforts of the United States to bring an end to historical preferences would not succeed. The countries concerned argued that their historic obligations made it impossible for them to accede to an agreement which did not allow them to continue to meet these obligations.

Developed countries have often sought preferences from or granted preferences to their dependent territories or areas over which they exercised political control. These preferences usually have taken the form of preferential tariff rates. They have usually been specifically excepted from unconditional MFN clauses.

The GATT provisions represented an effort to shift away from such preferential arrangements. However, there has been, since 1958 particularly, a proliferation of such arrangements. Some of these do not fall under the historic exceptions, but are in part a reflection of the traditional aid and trade relations that existed before 1948; others do not fall in this category. Most of these arrangements have been justified by the parties as constituting customs unions or free trade areas. In general, however, the United States has contended that they do not conform with the relevant GATT provisions. These arrangements have thus given rise to the controversy between the United States and its trading partners over the most significant exception to the MFN principle, Article XXIV, which allows the formation of customs unions and free trade areas. As far as preferential relationships of the United States are concerned, the one with the Philippines is being phased out, the arrangement with Cuba is inoperative, and the United States obtained a GATT waiver for the auto pact with Canada.

Article XXIV—Customs Unions and Free Trade Areas

Article XXIV permits GATT contracting parties to form customs unions or free trade areas from which other contracting parties may be excluded, provided the customs union or free trade area meets the conditions set forth in that Article. A customs union is understood to mean an area in which duties and other trade restrictions are eliminated on substantially all trade between the participants in the customs union. It also permits interim arrangements which lead to customs unions or free trade areas within the meaning of Article XXIV. In addition, substantially the same duties and other trade restrictions must be applied by the members of the customs union to those countries not members of the customs union. A free trade area must meet the first of these two criteria. The Article also contains provisions which were intended to result in as little adverse effect as possible, as a result of the formation of a customs union, on the exports of countries not participating in the customs union. In short, the negotiators intended that GATT contracting parties, which became or were members of a customs union or free trade area meeting the criteria

of Article XXIV, be permitted to apply to the products of the other members of such union or area treatment more favorable than that applied to products of other contracting parties. None of the negotiators could have foreseen the potential for controversy that would arise as a result of the uses to which Article XXIV has been put. The problems which arose were to some extent related to imprecision of language, and to some extent to historical developments.

The customs union exception to MFN treatment was "usual" in commercial treaties by 1933. The rationale at the time was primarily, if not exclusively, a practical one. Customs unions existed, would continue to exist, and the parties to them would not grant MFN to third countries if this meant termination of the customs union. When the GATT was negotiated, customs unions and free trade areas were, for various reasons, considered to be desirable and were put in one category. Preferential arrangements short of a customs union or free trade area were placed in the other category—undesirable. Two negotiating objectives were therefore sought: to tie down the conditions which these desirable agreements would have to fulfill in order to qualify for an exception to MFN, and to eliminate or at least freeze undesirable agreements.

No distinction seems to have been drawn between what were regarded as the beneficial aspects of customs unions and free trade areas. Both were seen as contributing to the movement toward freer trade in that they removed obstacles to competition and made possible a more economic allocation of resources. Governments backing European integration together with certain less developed countries interested in regional arrangements supported this view. The United States position was to insist that Article XXIV contain language to assure the highest possible degree of economic integration. It was believed that otherwise the increased trade with outside countries anticipated as a result of integration would not take place.

But the attempt at precise language to tie down the conditions customs unions and free trade areas would have to meet was not wholly successful. The language of the Article is subject to many interpretations. Almost from the outset, there has been a dispute as to when a proposed customs union or free trade area fully meets the criteria to qualify under Article XXIV. Central to this dispute have been the requirements that acceptable arrangements for free trade areas and customs unions must encompass "substantially all" trade and that the duties and other regulations of commerce applicable to the trade of contracting parties outside the arrangement must not be "higher or more restrictive" than those existing prior to the formation of the free trade area or customs union. Another key issue was how to determine whether interim agreements leading to the eventual formation

of free trade areas or customs unions met the requirement in Article XXIV of a "plan and schedule" for their formation.

Theoretical Basis for the Exception for Customs Unions and Free Trade Areas

Customs union theory states that the elimination of trade barriers between trading partners will improve world efficiency if the trade creation effect outweighs the trade diversion effects. If the trade diversion effect is paramount, the result will be a decrease in world welfare. Trade creation occurs when the elimination of trade barriers causes a country to shift from its domestic higher cost producers to its partner's cheaper production sources. Trade diversion occurs if the elimination of barriers results in a shift from cheaper output of third countries to the more expensive output of the partner.

Trade creation and trade diversion are inevitable effects of economic integration. Dynamic factors such as improved economies of scale, the stimulus of competition and the influence on investment can result in important gains to customs union members.

Attempts to analyze the experience of viable customs unions such as the European Community in terms of static and dynamic factors have proved inconclusive. The net effect on world welfare as a whole is particularly difficult to determine.

GATT Practice—Customs Unions and Free Trade Areas

Apart from the existing regional arrangements explicitly excepted from MFN when the text of the GATT was drafted, such as trade between India and Pakistan (Article XXIV:11), thirty-four others have been notified to GATT, not all of them under Article XXIV. Eleven of those operate under waivers granted in accordance with Article XXV:5. In none of the remaining cases did the Contracting Parties take the action under Article XXIV which would have meant disapproval of the agreements; namely that of making recommendations to the parties as to how to bring the agreement in question into conformity with its provisions. In this respect, one of the weaknesses of Article XXIV is that there is no provision requiring approval of such arrangements. Nor did the parties to these agreements seek waivers for the agreements under Article XXV or XXIV:10. Waivers under Article XXV would have permitted the agreements to continue with the sanction of the Contracting Parties without being brought into conformity with Article XXIV. Article XXIV:10 states that the Contracting Parties may by a two-thirds majority approve proposals which do not meet certain Article XXIV criteria provided the proposals lead to formation of a customs union or a free trade area as defined in Article XXIV.

Several types of agreements have been involved. Many of them are regional arrangements between less developed countries. Others cover

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relations between former colonies and the metropolitan power which continue or expand traditional trade and aid relationships. Several are agreements between industrialized countries. A few, such as the Greek and Turkish association agreements with the European Community, do not fit any of these categories.

The United States considers that most agreements notified to date under Article XXIV do not meet the requirements of that Article. Although the United States has received some support from other countries its efforts to persuade the majority that this view is correct have generally not been successful. The result of a GATT consideration of such agreements has typically been a disagreed Working Party report on the issue of whether the agreement met Article XXIV criteria for an exception. In some cases the agreements have been made subject to periodic reviews.

The first major agreement presented under Article XXIV was that covering the formation of the European Community. This agreement, unlike many later agreements, contained a schedule for movement toward a customs union as defined in Article XXIV. A series of negotiating sessions took place over tariff levels, particularly on agricultural products. The results were unsatisfactory to the United States. Attempts to use these and later negotiations to deal with agricultural problems were not successful. For many years the European Community reported annually on progress toward a customs union.

In 1968, at the 25th Session of the Contracting Parties, the European Community notified the Contracting Parties that it would not submit any further reports since the customs union had been achieved. The matter was referred to the GATT Council and at the 26th Session in February 1970, the Contracting Parties adopted the Council's report which noted the statement of the Council Chairman that any contracting party could raise any issue on the formation of the customs union on the agenda of the Council or of the Contracting Parties.

The next important exception to undergo examination was the European Free Trade Area (EFTA) agreement. The GATT Working Party reached no conclusion on the compatibility of this arrangement with GATT rules. The EFTA participants took the position that the agreement was fully consistent with Article XXIV requirements. Others, the United States included, argued that the participants had not been able to substantiate this contention. These differing views were recorded at the 17th Session of the GATT in November 1960, when agreement was reached that:

"The Contracting Parties have taken note of the provisions of the Stockholm Convention as well as of the statements made by the representatives of the parties to the Convention to the effect that their governments are firmly determined to establish, within the time-limit

provided for in the Convention, a free-trade area in the sense of Article XXIV.

"The Contracting Parties feel that there remain some legal and pratical issues which would not be fruitfully discussed further at this stage. Accordingly, the Contracting Parties do not find it appropriate to make recommendations to the parties to the Convention pursuant to paragraph 7(b) of Article XXIV.

"This conclusion clearly does not prejudice the rights of the Contracting Parties under Article XXIV."

The examination of the EFTA agreement was followed by GATT consideration of the European Community's agreement with Greece and Turkey. The United States position on these agreements was that, although inconsistent with the provisions of Article XXIV at the time they were entered into, the agreements could be expected at some later date to lead to full membership (and at that point they would be consistent with Article XXIV). As NATO allies, closer ties with Europe were very desirable. Furthermore, the effect on United States exports was expected to be very small.

During GATT consideration of these two agreements the United States did not press the issue of consistency with Article XXIV, but did see that concern on this score was reflected in the record. The GATT documents on these agreements contain conflicting views on their compatibility with Article XXIV. The GATT Council noted these views, and no further action other than periodic reviews of the agreements was undertaken.

GATT consideration of other arrangements involving the European Community has also ended in disagreement on the issue of their compatibility with Article XXIV. Included in such arrangements are the agreements of the Community with 18 African countries which are parties to the Yaounde Convention, the agreement with the associated (nonindependent) overseas territories, and the agreements with Morocco, Tunisia, Spain and Israel. GATT discussions of other arrangements of the Community, such as the ones with Malta, Cyprus, Mauritius, and the East African Economic Community (comprising Tanzania, Uganda and Kenya) are still underway. The Community and Turkey have agreed to a major revision of their arrangements, which has not yet been discussed in GATT. The Community has negotiated agreements with the United Arab Republic and with Lebanon.

The problem has been compounded by the enlargement of the Community. Enlargement involves three candidates for full membership (the United Kingdom, Ireland, and Denmark) aligning over a 5-year period their tariffs with the common external tariff of the Community and the elimination of most trade barriers among themselves and between the other members of the Community.

The Community has concluded agreements with those EFTA countries which did not want to become full members, namely Iceland, Norway, Portugal, Sweden, Switzerland, Austria and Finland.

In addition, agreements will be worked out with those developing countries which have historically benefited from preferences, and in some cases have granted reverse preferences, to one or another of the Six or the more recent members of the Community. Reverse preferences are granted by some countries with which the Community already has arrangements and some of the less developed Commonwealth countries.

The existing series of preferential agreements covering relations between the Community and Mediterranean countries were to be applied to the four acceding countries as of January 1973. The United States has made it clear that it does not consider the agreements between Spain and Israel and the Community to be consistent with the GATT, and has expressed its intention to request early consultations, in accordance with appropriate GATT procedures, with the parties to these agreements on their impact on United States exports.

Intra-LDC Regional and Non-Regional Preferential Agreements

There have been a number of agreements among groupings of LDCs to form common markets, free trade areas or preferential trading associations. Most of these groups have been made up of contiguous states, but more recently, an agreement for preferential tariff reductions was concluded among 16 LDCs located on five continents.

United States policy has been to encourage regional economic integration among LDCs as a means of achieving economic development by lowering barriers and broadening internal markets. The United States has recognized the difficulties for LDCs to adhere to agreements that would fully conform to the requirements of GATT Article XXIV but has nevertheless pointed out that the benefits of integration are most likely to be realized if the associations conform. The United States has, however, adopted a pragmatic approach to this issue. GATT working parties typically have been unable to reach agreed conclusions as to whether the agreements met the criteria of Article XXIV and have required the parties to report annually on developments. The United States has pressed the participants to consider the interests of third parties.

The case of the Central American Common Market (CACM) is illustrative. When Nicaragua, the only CACM country which is also a party to the GATT, reported the signing of an agreement to form CACM in 1960, it was evident that CACM did not conform to Article XXIV criteria. Therefore, Nicaragua requested and was granted a waiver under Article XXV to participate in the agreement and raise some GATT bound tariffs. The terms of the waiver required that Nica-

ragua report annually on the formation of the common market and that the entire Nicaragua GATT schedule would be renegotiated when the formation of a CACM common external tariff is complete. In the meantime, contracting parties could pursue rights to compensation if their trade is damaged.

GATT consideration of the Latin American Free Trade Association (LAFTA), an agreement between 7 (now 11) Latin American countries to establish a free trade area, signed in Montevideo in 1960 followed a pattern similar to CACM. After an examination of the Montevideo Treaty by a working party and the GATT Council, the Contracting Parties at their 17th Session concluded that no decision could be made on the compatibility of the agreement with Article XXIV, that the parties should continue to report developments and that the rights of all contracting parties were not impaired. The decision was not taken in the form of a waiver as was the CACM decision. The United States has consistently supported the establishment and development of LAFTA.

Other intra-LDC regional arrangements reported to the GATT include the Central African Economic and Customs Union, the Arab Common Market and the Caribbean Free Trade Area.

In 1968 India, Egypt and Yugoslavia put into effect an agreement granting each other preferential treatment on about 500 tariff items. The agreement among the three grew out of negotiations among about 20 LDCs initiated in the GATT during the Kennedy Round. Since at the conclusion of the Kennedy Round these negotiations had not produced any agreed concessions among the participants, the three countries decided to conduct separate talks of their own. They hoped that their agreement would serve as a model which the other countries could follow or join. GATT consideration of the agreement, the first case of a preferential arrangement that was nonregional, set an important precedent for further arrangements. In GATT committees the United States took the position that the examination of this agreement should be thorough, to include a study of its consistency with the General Agreement, the contribution that it could be expected to make to the economic development of the participants and the effect it would have on third countries. The GATT Contracting Parties, at the 25th Session, taking into account, among other things, that the agreement was experimental, decided to allow the three countries to implement it, subject to review by subsequent sessions of the Contracting Parties. The United States concurred in this decision.

The three-nation agreement was subsumed into an arrangement among the 16 developing countries in 1971. In that year 16 LDCs completed negotiations held under the auspices of the GATT to exchange preferential tariff reductions among themselves. This agreement was not designed to conform to the requirements of Article

XXIV. Rather, it was an effort to liberalize trade among developing countries. At the 27th Session of the GATT Contracting Parties, the participating countries asked the Contracting Parties for a waiver under Article XXV to allow them to put the agreement into effect. Since the documentation and waiver request was received only immediately before the Session, the United States took the position that the agreement should be examined in a working party, on the grounds that the arrangement did not appear satisfactory in all respects and that not all the terms of the proposed waiver were clear. Furthermore, the matter involved certain new principles and some potential trade problems.

There was no support for this position. A vote was taken and the other contracting parties approved the waiver. The United States abstained.

MFN and Communist Countries

The United States imposes the statutory (column 2) tariff rates on all Communist countries other than Poland and Yugoslavia. Products of those two countries are assessed at the MFN rates. The denial to Communist countries of tariff reductions stemming from trade negotiations since 1934 originated with Section 5 of the Trade Agreements Extension Act of 1951. The Section directed the President to

> "suspend, withdraw, or prevent the application of any reduction in any rate of duty, or binding of any existing customs or excise treatment, or other concession contained in any trade agreement . . . to imports from the Union of Soviet Socialist Republics and to imports from any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement."

As directed by the statute, the President withdrew all tariff concessions from all Communist countries, except Yugoslavia, which was deemed not included in the statute. In 1960, the President determined that Poland had shown the requisite independence of the international Communist movement required by the statute, and MFN tariff treatment was restored to that country.

Section 5 was superseded by the Trade Expansion Act of 1962 (TEA). Section 231 of the Act required the President to withhold MFN from "any country or area dominated or controlled by Communism." Subsequent to enactment of the TEA, Section 231(b) was added to the TEA to permit exceptions for those countries already accorded MFN treatment if the President determined that the continuance thereof was important to the national interest and would promote the independence of such countries from international Communism. The President determined that such was the case with respect

to Yugoslavia and Poland. The legal effect of Section 231, as amended, was to include among the countries denied MFN treatment, Cuba, the products of which were already denied such treatment under Section 401 of the Tariff Classification Act of 1962.

Since 1963, there have been no legislative changes with respect to MFN treatment for Communist countries. The proposed Trade Reform Act of 1973 contains provisions which would authorize the President to (a) enter into bilateral commercial arrangements to extend MFN treatment to countries now subject to Column 2 rates and (b) extend MFN treatment to countries which become a party to a multilateral agreement to which the United States is also a party, e.g. the GATT. The implementation of such agreements or orders under the proposed Act would be subject to a Congressional veto procedure.

Eastern European countries have shown increasing interest in participation in the GATT. Poland acceded in 1967, Romania in 1971, and Hungary is presently negotiating to join. The accession of Poland did not pose a legal problem for the United States since MFN treatment was authorized for Polish goods. However, when Romania acceded, inability of the United States to extend MFN treatment required it to invoke Article XXXV, which provides that at the time when either of two countries becomes a party to the GATT, either may declare that it does not consent to application of the provisions of the GATT between the two. If Hungary accedes the United States will be obliged to invoke Article XXXV again unless Congress meanwhile authorizes extension of MFN.

MFN and Non-GATT Members

The United States, as required by law, grants MFN treatment to all free world countries, whether members of GATT or not. Most Western countries follow the same practice.

While a number of countries are not GATT members, some among them have accepted GATT obligations, including MFN. Together with the members of GATT, these countries number 96 and their trade accounts for between 80 and 90 percent of total world trade.

The Generalized Preferences Waiver

A recent important derogation from the MFN principle is the generalized preferences waiver, which was approved by the GATT Contracting Parties on June 25, 1971.

Mutually acceptable arrangements to grant nonreciprocal trade preferences to LDCs were drawn up over a period of years in the Organization for Economic Cooperation and Development and in the United Nations Conference on Trade and Development. Congressional author-

ization is required in order for the United States to participate, and this has been requested in the proposed Trade Reform Act of 1973. The Government of Canada has obtained Parliamentary approval but has not yet implemented a general preference system. All other major trading countries have put their systems into effect. These systems result in discrimination in favor of the LDCs, as opposed to the industrialized countries, and therefore are inconsistent with the MFN obligations of the contracting parties contained in GATT Article I. Through GATT action these obligations were waived for a period of ten years in order to permit the granting of generalized preferences.

Recent Developments

Because of concern over the proliferation of preferential arrangements, the United States proposed at the 27th Session of the Contracting Parties in November 1971, that: (1) a schedule be established for the Council to examine reports of countries participating in customs unions, free trade area arrangements and interim arrangements; and (2) the Contracting Parties establish a working party to examine existing and prospective preferential and special trading arrangements to determine the total imports at MFN and at preferential rates for each GATT member and for GATT countries as a whole in the 1955–1970 period. The United States also proposed that the working party analyze and evaluate the trends and the implications of the trade flows at MFN and preferential rates based on this data.

On the first United States proposal the Contracting Parties instructed the Council to establish a calendar fixing dates for the examination, every two years, of preferential arrangements. The Council subsequently approved a timetable for reporting dates.

On the second United States proposal, the Contracting Parties decided that the Director General of the GATT, with guidance from a working party, would undertake the statistical study but would limit it to representative years in the 1955–1970 period. Preliminary statistical findings by the GATT Secretariat were released in June 1972 on a restricted basis. The data confirm the U.S. contention that a significant percentage of world trade is now subject to preferential duty rates—about 25 percent if intra-EC trade is included. Further analysis has been temporarily deferred because of the heavy workload of the Secretariat in the context of the forthcoming multilateral trade negotiations.

Study No. 10.—The Effect of Foreign Exchange Rate Changes on U.S. Trade and Tariff Concessions

Exchange rate changes and tariff reductions are related in that both affect the prices of internationally traded goods. An exchange rate change affects the entire range of a country's commercial and financial relationship with the rest of the world by altering the relationship between its currency and foreign currencies. In the case of a country's merchandise trade, exchange rate adjustment usually implies an across-the-board price effect on all traded goods. In contrast to exchange rate changes, tariff reductions, whether undertaken unilaterally or granted in trade negotiations, apply to imported goods to varying degrees since the level of the original tariff and the depth of the tariff reduction is not uniform for all products.

The effect of exchange rate changes on U.S. trade and tariff concessions is difficult to measure. The effect depends on the magnitude of the change, on the extent to which the change is reflected in the selling price of the traded item, and on the responsiveness of the traded items to price changes. These factors can be expected to vary for every country and every product, and also for every exchange rate adjustment. Moreover, in periods of rapid change in the internal economy, changes in consumer demand and in domestic price levels may be so pronounced as to obscure the effects of the exchange rate factor.

It is apparent that the exchange rate changes made by our foreign trading partners have had mixed effects on U.S. exports. U.S. exports were made more expensive relative to British goods by the United Kingdom's devaluation of November 1967 and relative to French goods by the French devaluation of August 1969. On the other hand, the German revaluation of October 1969 tended to make U.S. exports less expensive relative to German goods. Of even more importance, of course, the general exchange rate realignments agreed to on December 18, 1971 and February 13, 1973 should have a positive effect on U.S. exports, as well as on the trade and overall payments balance. The new exchange rate structure will make U.S. exports cheaper to foreign buyers in many countries and make imports into the United States more expensive compared to domestic production for products of countries whose currencies became more expensive in relation to the dollar.

While exchange rate changes and/or appropriate domestic policies have generally been the methods used in the past to correct payments disequilibria, tariff and other trade measures have on occasion been used to aid in restoring external equilibrium. Examples include Germany's unilateral tariff reductions in 1955 and 1956, as well as the temporary import surcharges employed by the U.K., U.S., and Denmark (among others). The schedule for staged implementation of Kennedy Round tariff reductions was accelerated by Canada and Switzerland for similar reasons. Recent policy statements by U.S. officials, and certain provisions of the Administration's proposed

Trade Bill, indicate the need for a closer linkage between trade and monetary policies, given the present structure of the world's monetary and trading system. For example, in exceptional circumstances and for limited periods of time, deficit countries may need to have recourse to commercial policy measures to protect their overall external position. One use of such measures would be to enable a country to get through a period during which more fundamental corrective measures would take effect.

Depending on how exchange rate changes and tariff reductions are used as policy measures, they can either complement or offset each other in their effect on the trade account. For example, a currency devaluation by a trading partner of the United States will tend to discourage U.S. exports to and promote U.S. imports from that country. A similar bilateral effect could be accomplished by a decrease in U.S. tariff rates and an increase in the other country's tariff rates. Unlike an exchange rate change, of course, an adjustment in tariff rates would directly affect only the trade account in commodities whose duties are changed, not duty free trade, or other aspects of the country's payments accounts such as its international investment flow and tourist expenditures.

The attached chronological listing of GATT tariff negotiations and exchange rate changes by the major trading countries does not suggest any direct relationship between exchange rate changes and tariff negotiations.

In particular, it will be observed that while various rounds of tariff negotiations were reducing tariffs multilaterally, there is no clear indication to suggest that exchange rate changes were used by particular countries to systematically offset tariff concessions. In fact, the number of devaluations equals the number of revaluations. Thus while in some instances particular countries' tariff concessions may have been offset to a degree by exchange rate devaluation, in an equal number of cases they were enhanced by exchange rate revaluation.

Chronological listing of trade negotiations and exchange rate changes, 1947–70

	GATT tariff negotiations	Major exchange rate changes
1947	Geneva, 1947	
1948		French devaluation.
1949	Annecy, 1949	United Kingdom devaluation.
1950	Torquay, 1950	Canadian float (revaluation).
1951		
1952		
1953		German revaluation.
1954		
1955	Geneva, 1955 (Japan)	
1956	Geneva, 1956	
1957		
1958		French devaluation.
1959		
1960	Geneva, 1960–61 (Dillon round).	
1961		German revaluation.
1962		Canadian peg (devaluation).
1963		
1964	Geneva, 1964–67 (Kennedy round).	
1965		
1966		
1967		United Kingdom devaluation.
1968		
1969		German revaluation; French devaluation.
1970		Canadian float (revaluation).
1971		U.S. devaluation; German revaluation; Japanese revaluation.
1973		General realignment (U.S. devaluation); (German revaluation); (Japanese float); (float by major European countries).

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Study No. 11.—The GATT Provisions on Compensation and Retaliation

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Study No. 11.—The GATT Provisions on Compensation and Retaliation

Introduction

Among the broad objectives of the General Agreement on Tariffs and Trade (GATT) is the expansion of trade among its contracting parties (hereinafter referred to as member countries) through the reduction of tariff and other trade barriers. To this end, the GATT was drafted to embody trade rules banning, as far as was then considered possible, nontariff barriers, with the goal of leaving tariffs as the only legitimate form of protection. The GATT also provides a means for the mutual reduction of tariffs. In adhering to the trade rules, GATT members have, in effect, agreed to an equivalence of commitment to specific obligations. In entering into multilateral tariff negotiations, member countries have had as a common objective the reduction of tariffs on a basis of reciprocity.

The uses of compensation and retaliation under the GATT have their roots in the overall balance of these reciprocal benefits and obligations. This paper examines how compensation or retaliation may be used to restore a balance of trade advantages when it has been upset. An unbalancing of trade advantages develops between members when a country takes an escape clause action under article XIX or when it withdraws tariff concessions under article XXVIII. The balance may also be disrupted through other actions, whether or not consistent with GATT, which undermine the value of a country's tariff concessions or their commitment to the rules. In these cases, the provisions of GATT articles XXII and XXIII apply.

Many factors in practice condition and complicate the carrying out of these GATT procedures. A quick settlement can be reached if a member country agrees to rescind an offending action. Whether as a temporary expedient or as a more permanent change, however, countries may attempt to justify their actions without regard to their consistency with GATT provisions. In some cases, efforts are made to legitimatize the action by seeking a waiver of their GATT obligations, by invoking exceptions provided for in GATT, such as those for national security, or by interpreting GATT provisions in a manner favorable to the case in point.

Considerations external to the immediate issue can also delay or frustrate the resolution of trade disputes. Overriding political or security requirements may complicate finding solutions to a particular trade problem. A member country may be inhibited from pressing for the settlement of a dispute arising from foreign practices because they are essentially similar to its own. Efforts to resolve some disputes may be deferred because raising them would likely jeopardize chances for settling other more important issues. Individual member countries also take into account the cost-benefit relationship in deciding on a course of action to correct an impairment or nullification of its GATT

rights. The resources required to rectify the balance of trade advantages in some cases might better be directed elsewhere, particularly when the benefits are inconsequential in trade terms, or when the political cost would outweigh the economic benefits.

The GATT sets forth broad procedures to be followed in settling disagreements. Underlying these is the principle of consultation. When informal consultations fail, the parties at issue may refer a problem to the GATT member countries acting jointly. The primary role of the other member countries is such cases, however, is to serve as a catalyst in facilitating the resolution of a dispute between the parties concerned. Safeguards are also built into the procedures to discourage intemperate actions, reflecting the strong desire of the GATT drafters to avoid the trade retaliation and counterretaliation which contributed to the sharp decline in world trade in the period before World War II.

Articles XIX and XXVIII—Maintaining the Balance of Tariff Concessions

Article XIX authorizes member countries to suspend obligations or withdraw tariff concessions when unforeseen developments consequent to these obligations or concessions lead to an increase in imports that cause or threaten to cause serious injury to domestic producers. Though these actions are to be taken on a nondiscriminatory basis, the impact of the restrictive measures falls most heavily on principal suppliers of affected products. A country taking emergency action under this article is required to afford countries having a substantial export interest in the products concerned an opportunity to consult. Ordinarily, the consultations take place after, rather than before, the action is taken. No express provision is made in the GATT for payment of compensation, although in practice compensation has been used to reestablish the balance of concessions.

The United States, for example, consulted with Canada during June 1971 after a temporary surtax was imposed on imports of frozen and fresh strawberries into that country. Canada justified its action under article XIX as necessary to meet the "threat of serious injury to growers from imports at disruptively low prices." During the consultations, Canada agreed to remove the levy on fresh and processed strawberries by certain dates acceptable to the United States. Canada also offered certain compensatory concessions which the United States accepted. This issue is now considered closed.

If no agreement can be reached during consultations with respect to the action taken under article XIX, countries which have a substantial interest in the products concerned are free to suspend substantially equivalent concessions or other obligations (the suspension of which the member countries do not disapprove) with respect "to the trade of the contracting party taking such action," that is, to suspend concessions only with respect to the offending party. The European Communities (EC) in taking action in 1962 against the United States provides an example of the use of this provision. The United States increased its customs duties on imports of sheet glass and Wilton carpets under article XIX. The EC consulted with the United States on this action, but no satisfactory settlement materialized. The EC then retaliated by raising its customs duties on imports from the

United States of polyethylene, polystyrene and its copolymers; woven fabrics of synthetic fibers; woven fabrics of artificial fibers, varnishes, lacquers and an assortment of other paints and enamels. The EC also withheld Kennedy Round tariff cuts on imports from the United States of the affected items, thereby increasing the severity of its retaliatory action. Subsequently the EC reduced the duty rates on these items coming from the United States as a counterpart to the restoration by the United States of customs duties in effect prior to the escape clause action for some of the products covered in its article XIX action.

Article XXVIII allows member countries to withdraw or modify tariff rates bound in the GATT schedules at agreed 3-year intervals (so-called "open season") and at other times under specified special circumstances. Negotiations to effect these changes are normally held at the beginning of each 3-year period with countries having a substantial interest in the tariff concession. The "renegotiation" sessions concern essentially the replacement of concessions withdrawn or modified with concessions of equivalent value so that the general level of reciprocal tariff concessions which existed prior to the negotiations is maintained. A party whose trade is adversely affected may find, however, that the compensatory offer is unacceptable. When this happens, the original modifications in the tariff schedules are allowed to stand, but the parties affected by this action are then free to withdraw or modify equivalent concessions in their own tariff schedules to restore the balance of concessions. Such changes are generalized under the GATT's MFN principle and thus affect the trade of all member countries of GATT and not just the offending party.

In the so-called chicken war, the United States suspended tariff concessions thereby raising its tariff on selected items of trade interest to the EC under article XXVIII in reaction to a Community action. The Community announced in 1960 its plan to apply variable levies in place of the separate tariff schedules of the member states to imports of poultry—among other agricultural products. The United States had further talks with the Community after the common agricultural policy for poultry went into effect in July 1962, but these efforts to reach an acceptable solution also failed. The United States then announced its intention to suspend equivalent concessions negotiated with the Community. However, parties at interest were far apart in the estimates of trade impaired. Consequently, a special GATT panel met and decided that the value of the tariff unbindings resulting from the CAP on poultry was $26 million, a judgment which both the United States and the Community accepted. In December 1963, the United States announced the suspension of trade agreement rates and the return to higher statutory rates, effective January 7, 1964, for trucks valued over $1,000, brandy valued over $9 per gallon, potato starch, and dextrine.

Articles XXII and XXIII—Resolving Trade Disputes

Article XXII provides for consultation on any matter affecting the operation of GATT and for each member country to give sympathetic consideration to such representation as other countries may make. The article also provides that the member countries acting jointly may,

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at the request of any country, consult with any contracting party or parties regarding any matter not satisfactorily resolved between the parties to a dispute.

Recourse to article XXIII represents a more serious step. A country may resort to this procedure when (1) benefits accruing to it under the agreement are nullified or impaired or (2) the attainment of an objective of the agreement is impeded. Such impediments may arise from various situations, including the failure of another country to carry out its obligations under the agreement, or as a result of an action by that country, whether or not it conflicts with the provisions of the agreement. The first step in article XXIII actions is essentially the same as that in article XXII. At this stage (article XXIII:1), consultations are held directly between the concerned parties with a view to the satisfactory adjustment of the matter, but based on written representations or proposals from the aggrieved party.

If the consultations do not lead to a satisfactory adjustment between the parties concerned within a reasonable period, the problem may be referred under article XXIII:2 to the member countries acting jointly for investigation and appropriate recommendation or ruling. The term "ruling" in this context refers to determinations regarding differences on points of interpretation of GATT provisions or facts. (An immediate move from article XXII to article XXIII:2 is permitted because consultations under article XXII are considered as fulfilling the requirements of article XXIII:1.)

The member countries acting jointly, for example, may rule that a particular measure at issue is inconsistent with GATT and recommend its removal. If the situation is considered serious enough to justify such action, the member countries may authorize one party to suspend the application to any other party—and that party alone—of such concessions or obligations under the agreement as the member countries jointly determine to be appropriate.

Use of Articles XXII and XXIII

By Other Countries

GATT member countries have agreed only once to the use of the authorization contained in article XXIII:2 to suspend concessions or obligations. Although the measure was not actually implemented, the Netherlands was authorized in 1953 to impose a specific import quota on U.S. wheat flour to offset the harmful effects on Dutch exports of dairy products resulting from U.S. restrictions on cheese imports under the Defense Production Act. Notwithstanding the fact that a formal authorization has been granted only one time, foreign governments have on a number of occasions openly declared their intention of having recourse to article XXIII to underscore their concern over particular actions by another country or to mount pressures on the offending country for an accommodating response.

Recourse to these procedures by foreign governments has generally fallen short, in practice, of seeking authorization to suspend concessions or obligations. For example, at the request of Malawi, the United States in 1967 consulted under article XXII:1 and XXII:2 with respect to a U.S. subsidy of 5 cents per pound on exports of unmanufactured tobacco. Malawi and other countries with a trade

interest, however, were unable to demonstrate conclusively that the U.S. subsidy had adversely affected their trade. The United States also agreed to consult in 1968 and 1969 with the EC, first under article XXII and subsequently under article XXIII: 1, on the alleged impairment of U.S. tariff concessions to the EC arising from legislative changes affecting the U.S. duty on imports of reprocessed wool fabric. Settlement of this issue is still pending.

The United States agreed to hold initial consultations with the EC in April 1970 and with Spain in February 1971 under article XXIII: 1 on the U.S. import prohibition applicable to all firearms "not suitable for sporting purposes" under the U.S. Gun Control Act of 1968 and its implementing regulations Spain and the EC noted that the U.S. action nullified a U.S. tariff concession to that country. The case is still pending. Meanwhile, the U.S. Government has been studying results of tests to establish objective standards for firearms preparatory to submitting legislative proposals applicable to both the importation and interstate sales of guns.

At the request of the European Communities, the United States in July 1972 consulted under article XXIII: 1 regarding the EC allegation that the Domestic International Sales Corporation (DISC) provisions of the Internal Revenue Code of 1954, as amended, are in violation of the GATT and damage EC interests. The United States maintained that the DISC is not a prohibited subsidy under the terms of GATT article XVI and, in fact, yields less benefits to exporters than the tax practices of our major trading partners. The 1972 consultations failed to resolve the issue. (See below, U.S. request for consultation on certain tax practices of three EC countries.) With respect to the trade effects of income tax systems, the United States has taken the position that existing GATT rules are not adequate, and a negotiating forum should be established to arrive at new rules rather than attempting to extend the old rules to cover the DISC.

By the United States

To date the United States has not suspended concessions or obligations with respect to any country under article XXIII. However, the United States has invoked article XXIII on a number of occasions to dissuade other countries from imposing new import restrictions or to obtain removal of existing restrictions that are inconsistent with the GATT. The concern of foreign governments over the consequences to their trade should the United States retaliate in accordance with article XXIII: 2 has no doubt been a major factor contributing to the settlement of trade disputes on which the United States has consulted with other countries under article XXII or XXIII: 1. Article XXIII has also served as a deterrant to new restrictions. This occurred when the EC Commission proposed a tax on oilseeds, including soybeans and soybean products. This measure, if implemented, would have cut back imports of these products from the United States. The United States warned publicly that the proposed measure, if carried out would bring swift retaliatory action against EC products. Similar warnings have been conveyed privately to head off anticipated EC restrictions on other U.S. exports.

Following article XXII consultations with Norway several years ago, that country reduced or removed a number of restrictions which were burdensome to selected U.S. agricultural exports. Austria re-

duced sharply the number of items subject to quantitative import restrictions after a series of article XXII consultations held during 1963-64 which the United States initiated.

Japan has long maintained import quotas on some of our exports. These restrictions were carried over into the GATT by Japan at the time of its accession in 1955 and became illegal under that GATT during 1963 when it renounced the balance-of-payments justification for their retention. In 1968 bilateral representations, the United States gave clear indication to Japan of our intention to press article XXIII: 2 action against it in GATT unless the pace of its liberalization program was accelerated. Subsequently, Japan reduced the number of its illegal quotas and announced a schedule for the elimination of additional restrictions. More recently, the United States has continued to press Japan to remove unjustifiable import restrictions, particularly in the wake of the large deficit in U.S. trade with that country. In response to representations from the United States and from other countries, Japan reduced the number of items subject to residual import restrictions from 120 in April 1969 to 90 at the end of 1970 to 40 at the end of 1971 and to 33 as of April 1973. The United States is continuing to press Japan on further reducing its import restrictions.

In late 1970, the United States consulted with Denmark under article XXIII concerning an embargo on corn imports announced for the 1970-71 season. Denmark agreed to eliminate the restriction and gave assurances that no new measures would be adopted during the crop year. The United States accordingly agreed to drop its GATT case.

Directly following the July 1972 consultations with the EC on DISC (noted above) consultations under article XXIII: 1 were held at U.S. request with France, Belgium, and the Netherlands regarding certain of their tax practices and the relationship of such practices to exports. These countries denied the U.S. claim that their tax systems result in prohibited subsidies. Since no agreement was reached, the United States has kept under consideration what future action may be appropriate.

In the past year, the United States has used article XXIII: 2 procedures in three cases. These are with respect to certain quota restrictions maintained by France, with respect to quotas maintained by the United Kingdom on certain products from dollar area countries: and with respect to compensatory taxes charged by the European Community in excess of GATT bindings.

In the case of the United Kingdom: The United Kingdom continues to apply quotas on certain products imported from 18 so-called dollar area countries, primarily Caribbean countries. Following unsatisfactory conclusion of article XXIII: 1 bilateral consultations, the United States requested the GATT Council to consider the problem under article XXIII: 2, to rule on the legality of the quotas, to recommend their removal, and to authorize U.S. withdrawal of concessions on products of United Kingdom origin. An impartial panel was formed to consider the matter under article XXIII: 2. The panel issued an interim report to the contracting parties and recommended that the United States and the United Kingdom consult bilaterally once more in an effort to resolve the matter. It promised to issue a final recom-

mendation within 30 days if bilateral agreement on a solution could not be reached.[1]

In the case of France: In September 1972, the United States referred to the GATT Council, under article XXIII: 2, the matter of quota restrictions applied against U.S. products in contravention of the general agreement. The United States requested authorization to withdraw concessions on products of French origin. Following U.S. referral of the problem to the GATT, France entered bilateral consultations concerning the amount of withdrawals to be made. During the course of these consultations, the United States was able to negotiate an agreement with the Government of France to phase out quota restrictions on all but one of the products on which we desired solutions. On six products liberalization will occur on January 1, 1975. One other product will be liberalized on January 1, 1978. During the interim period, quotas will be increased by 35 percent each year. Each yearly increase will be based on the previous year's enlarged quota. Discussions continue on one remaining product. Since withdrawals do not help producers of items subject to quotas, the Government of France's agreement on liberalization is very important to U.S. exporters of the products in question.

In the case of the European Community: The European Community (EC) authorized the imposition of compensatory taxes on agricultural products to offset the effect of exchange rate changes, made by some of the member states, on the operation of the EC's common agricultural policy. In many cases the addition of a compensatory tax to the duty caused the charge collected on the import to exceed the bound rate. Informal representations to the EC by the United States and a formal written representation under article XXIII: 1 failed to resolve the problem. Thus the United States requested for contracting parties to investigate the matter and take appropriate action. Some $40 million of U.S. exports appeared to be affected. Following our request and before the contracting parties could consider the matter, the EC agreed to stop collecting the compensatory taxes on at least 98 percent of those products that the United States complained about. The EC also committed itself to rescind the remaining taxes as soon as feasible.

Conclusion

The GATT lays great stress on consultation and conciliation for the resolution of trade disputes. It does, however, envisage circumstances under which retaliation would be permitted. This gives force to the procedures for consultation to help solve bilateral trade problems and to keep at a minimum the instances when the injured country finds it necessary to resort to the sterner measures possible under article XXIII: 2 to protect its trade interests.

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[1] Subsequent to the completion of this paper, the United States and United Kingdom reached agreement on a program for elimination of the quotas and the United States withdrew its complaint against the United Kingdom.

Study No. 12.—The Common Agricultural Policy of the European Community

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Study No. 12.—The Common Agricultural Policy of the European Community

Summary

When the European Community (EC) was established in 1958, it was apparent that a single system of farm support and protection would be necessary to create the conditions of competition that would permit trade between the Member States (Germany, France, Italy, Belgium, the Netherlands, and Luxembourg) to develop, and duties and restrictions between the Member States to be removed. The system which the EC then devised is known as the Common Agricultural Policy (CAP). In joining the EC in 1973, the United Kingdom, Denmark, and Ireland agreed to implement the CAP beginning in 1973, and to adjust their price levels and customs charges to common levels over 5 years ending in 1978.

The first CAP regulations were established in 1962 and covered grains, poultry, pork, eggs, and fruits and vegetables. Regulations for beef, milk, and rice followed in 1964; fats and oils in 1966 and 1967; sugar in 1967 and 1968; and more recently tobacco, wine, hops, seeds, flax, silk, and fish.

The CAP is perhaps most easily understood in terms of three principles: common pricing, Community preference, and common financing of unlimited support. Common pricing is the regulation of prices, Community-wide but not necessarily at a single level, in order to permit and promote free trade between members. No restraint is placed on production. Community preference is the organization of Community markets so that domestic products will always be cheaper than the corresponding import. The two most common devices employed to this end are minimum import prices and subsidies on domestic products. Common financing is the obligation of the Community to pay whatever is required to meet the costs of unlimited support.

For two-thirds of EC production—grains, rice, sugar, olive oil, and the main animal products—common pricing and Community preference are achieved through the variable levy system. As this system operates for grains, the market for the most important cereals is supported by government purchasing of any amount offered at fixed support, or "intervention" prices. Intervention prices are set at different levels according to the producing area so that products of the main producing areas can compete equally with each other in the most deficit consuming centers—primarily Duisburg, Germany. The price at which grains can be sold at intervention in producing areas is, therefore, equal to the Duisburg price, minus freight from the given producing area. The Duisburg intervention price is set a little below the desired wholesale price for Duisburg—the "target" price. Imports are prevented from selling at less than the target price because imports must meet a minimum import price, or "threshold" price, which is equal to the Duisburg target price minus transport costs from Rotterdam. The Community observes world market price quotations for

grains each day and adjusts these quotations to what they would be if they were made for grains of a standard EC quality delivered to Rotterdam. The lowest such adjusted price for each grain is then subtracted from its threshold price. The difference is a variable levy which is applied to all imports of the grain in question regardless of its actual price. In this way, the EC allows third countries to supply only those qualities and quantities of each grain that cannot be supplied by domestic production. The levy on August 1, 1972 (beginning of the 1972/73 marketing year), was 122 percent of the lowest adjusted price for wheat imports, 84 percent for corn, and comparably high for other products.

Production has risen rapidly under these incentives. For example, production in 1972/73 compared to the 1962/63–1966/67 average is up 26 percent for wheat and 128 percent for corn. Surpluses are removed with export subsidies.

Minimum import prices, somewhat differently constructed, are also used to establish Community preference for the most sensitive fruits and vegetables, wine, and fish. Subsidies are used to establish Community preference for certain other products such as tobacco, oilseeds, and grass seeds.

Because the CAP acts mainly on prices to achieve its objectives, administration of the CAP has been vastly complicated by the introduction of floating exchange rates since 1971. A change in exchange rates means a change in export and import prices, but not in farm support prices; hence, if the latter were not to be undercut, offsetting import charges and export subsidies had to be reintroduced in trade between Member States and superimposed on regular levies and subsidies employed in trade with third countries. The effect of this system is to render the calculation of total import charges and export subsidies extremely difficult and in some cases to raise these charges and subsidies far above the levels that would otherwise prevail.

The EC has also found that the CAP produces burdensome surpluses and fails to maintain farm income in the face of rising costs. On this account, in 1968 the EC Commission made wide-ranging recommendations for the modernization of farming over 10 years. Uncertainty over costs, feasibility, control, and results prevented drafting of specific implementing measures. In April 1972, the EC directed Member States to adopt limited measures including small retirement annuities, subsidized interest on loans for farm improvements, and funds for vocational advice and training. Currently the EC is studying further measures for regional development and aid to hill farming. Ideas for a more basic reform of price and marketing policies have been appearing with greater frequency in the last few years, but have so far won little support.

From the viewpoint of third countries like the United States, the effect of the CAP is to squeeze out imports as domestic production rises, and to disrupt markets in third countries by subsidizing exports. U.S. exports to the EC (Six) subject to variable levies averaged $478 million during the last 3 years (1970–1972)—down 20 percent from 1965–67, the last 3 years before complete freedom of intra-EC trade for most variable levy products. Total U.S. agricultural exports to the EC averaged $1.8 billion during 1970–72, up 22 percent over 1965–67

and 61 percent higher than in 1960–62 (before the CAP was established). Nearly all of this increase in U.S. agricultural exports to the EC can be accounted for by oilseeds (especially soybeans) and oilcake which rose from $176 million in 1960–62 to $788 million in 1970–72. These exports are not subject to a variable levy and enter duty free.

U.S. agricultural exports to the three new EC members in 1970–72 averaged $566 million, of which $179 million corresponds to grains and other products now under the variable levy system. The direct impact of EC enlargement on U.S. agricultural exports can be foreseen fairly clearly in that the adoption of higher prices and protection by the new members is certain to lead to the same problems already experienced with the present members. It is expected, for example, that the enlarged Community will no longer be a net importer of grains within 10 years.

I. Objectives of the CAP

A. The Rome Treaty

The Common Agricultural Policy (CAP) is the unified farm policy applied by the member governments of the European Economic Community. By signature of the Rome Treaty in 1957 establishing the European Economic Community, France, Germany, Italy, the Netherlands, Belgium and Luxembourg agreed to undertake the integration of their economies. In 1968, the governing institutions of the Eurpoean Economic Community were merged with those of the European Coal and Steel Community and the European Atomic Energy Community. Since then, it has been common to refer to the three European Communities as a single organization, which in fact it is: the "European Community" or EC. The United Kingdom, Denmark, and Ireland joined the six original members in an enlarged Community of Nine on January 1, 1973. The discussion that follows concerns the CAP as developed by the Six prior to 1973, the effect of EC enlargement on the CAP, and the effect of the CAP on U.S. exports to the EC.

A basic part of the commitment to economic integration was the gradual establishment of a customs union—the freeing of trade between the members and the establishment of a common customs tariff on imports from third countries. This could not be done for agricultural products without bringing some uniformity and centralization to the national agricultural support programs. Nor could agriculture be omitted from the customs union, since some members—notable France and the Netherlands—expected to benefit from the export of agricultural products, in part as an offset to increased competition from industrial imports.

The importance of agriculture to France and the Netherlands at the time can be seen in the facts that: France has nearly half the agricultural area of the Six and 66 percent of the farms larger than 250 acres; nearly one Frenchman in four was employed in agriculture in 1958; and agricultural products accounted for 18 percent of French exports in 1970. While the Netherlands has limited cropland, animal products are highly important. Agricultural products accounted for 28 percent of Dutch exports in 1970.

A single agricultural policy was therefore considered essential to the success of the economic union. The Rome Treaty specifies that a common agricultural policy shall be established and sets forth certain objectives to be achieved. These objectives are:

"(a) to increase agricultural productivity by developing technical progress and by ensuring the rational development of agriculture and the optimum utilization of the factors of production, particularly labor;

"(b) to ensure thereby a fair standard of living for the agricultural population, particularly by the increasing of the individual earnings of persons engaged in agriculture;

"(c) to stabilize markets;

"(d) to guarantee regular supplies;

"(e) to ensure reasonable prices in supplies to consumers."

It is readily apparent, however, that this statement of objectives is a rather poor guide to the nature of the CAP, which has often been accused of being perverse in its impact upon technical progress and inadequate in its ability to maintain farm income, while it is "reasonable" with regard to consumer prices only in a very relative sense. These points will be taken up further in Section VII.

B. The Three Pillars of the CAP

France's President Pompidou has often described the Common Agricultural Policy in terms of three fundamental principles:

Common pricing, Community preference, and common financing. What are these three pillars of the CAP?

1. Common pricing means that, as a minimum, prices should be so regulated as to permit the elimination of duties and restrictions on trade between the member states, and to promote exports from the main producing areas of the Community to the more deficit areas. In the case of grains in particular, support prices are set lower in the main producing areas than in the more deficit areas in order to achieve this objective. Therefore, common pricing does *not* necessarily mean a single support price. How high prices should go is a matter of political bargaining between the countries with the largest producing interest (and usually the lowest costs) and countries whose farmers need higher prices to stay in business.

In connection with common pricing it may be pointed out that no restraint can be placed on production, since that would discourage the development of intra-EC trade.

2. Community preference is simply the notion that the European Community should constitute a preferred market for the products of member countries. Marketing should be so regulated that imports from third countries will always be a little more expensive or harder to obtain than domestic products. A fixed tariff is generally considered by the EC to be insufficient for this purpose, since an imported product, if it is cheap enough, can pay the tariff and still be cheaper than the domestic product.

Community preference is accomplished by various techniques, of which the two most common are minimum import prices and subsidies. Imports must meet a price higher than the desired domestic level or pay a fee or be restricted. Alternatively the EC pays producers

or buyers of EC products a subsidy big enough to assure the sale of domestic products over imported products.

The concept of Community preference is further strengthened by some elements who have a basic philosophy of favoring self-sufficiency. European farm organizations tend to regard the existence of imports as evidence that European policy makers have failed to provide adequate incentives to domestic production.

3. Common financing means that the cost of agricultural support must be paid by all members. Or as the basic financing regulation (No. 25) states "the financial consequences of the CAP are the responsibility of the Community." Put negatively, this means the EC shall not refuse to support farm prices and income on the grounds that it costs too much to do so. In practice there has been no limit on the support, since limitation of support would raise the question of which country's producers would not be fully supported.

II. The Commodity Regulation

A. Grains

1. How the CAP Works

A: In the Six

(1) WHO ARE THE PRODUCERS?

Production of most grains is wide-spread throughout the Community, although over half of the production of the Six is in France. In particular France accounted for 51 percent of wheat production, 58 percent of barley production and 61 percent of corn production in 1972/73. Eighty-seven percent of durum wheat production and most of the consumption is in Italy. Eighty-three percent of rye production is in Germany. The CAP, therefore, provides a price system designed to promote intra-Community sales of French soft wheat, barley and corn, and to a lesser extent German rye and Italian durum. The first grain regulations were adopted in 1962; "common" pricing began in 1967.

(2) PRICING AND PREFERENCE

To accomplish the above marketing objectives, a "target" price is fixed for each of these grains. The target price is the wholesale price level desired in the most deficit (hence highest priced) consuming area—Duisburg, Germany. Grain from the main producing areas should obtain this price after being transported to Duisburg.

Market forces, however, are permitted to operate within a limited range around the target price at Duisburg. A basic "intervention" price for Duisburg is set a little lower than the target price and operates as a market floor. Government intervention agencies stand ready to buy any domestic grain offered to them at the intervention price. A market ceiling is provided by the "threshold" price, which is the minimum price at which imports are permitted to enter. The threshold price is fixed for Rotterdam. When transport costs from Rotterdam to Duisburg are added, the cost of imported grain is at or above the target price. The Duisburg prices for the principal grains as of August 1, 1972, the beginning of the 1972/73 marketing year, were:

[In dollars [1] per metric ton]

	Threshold price	Target price	Intervention price
Wheat:			
Non-Durum	121.17	123.55	113.73
Durum	141.58	143.97	(2)
Rye	112.10	114.49	105.80
Barley	110.74	113.19	103.90
Corn	108.08	110.47	(2)

[1] Converted from units of account at UA1.00=$1.08571. The rate has since changed. Applicable rates are—from May 7, 1972: UA1.00=$1.08571; Feb. 13, 1973, to date: UA1.00=$1.20635.
[2] No intervention price is fixed for Duisburg. See text.

Intervention centers are located throughout the Community. Intervention prices at these points are generally equal to the Duisburg intervention price minus transport costs from the intervention centers. Duisburg is the basic intervention center and most other intervention centers are linked in this way to Duisburg. The Duisburg price, however, also applies in certain other centers so that in fact there is more than one base point for grain.

In the case of corn and durum wheat there is only one intervention price. The Community still imports a large part of its requirements of these two grains so that the market tends to be supported indirectly by the threshold price. The intervention price therefore is set on the basis of the floor price required by producers in the main producing areas—Mont-de-Marsan, France, for corn and Palermo for durum, bearing in mind the transport costs from these points to Duisburg and what the intervention price there would be in theory. A similar procedure has been approved for rye, to take effect on August 1, 1973. On August 1, 1972 the uniform intervention prices for corn and durum were $90.39 and $126.95 per metric ton respectively.

Durum is exceptional also in that consumers are not made to pay the full cost of producer support through higher prices. Instead, durum producers receive an additional payment of $40.03 per ton, which when added to the intervention price raises their total guarantee to $166.98 per ton.

Grain threshold prices do not change from one port to another. They are the same at all points of entry. Thus the market ceiling is constant. Only the floor is lowered according to the distance from Duisburg.

The threshold price serves as the upper base point for the calculation of variable levies on imports. Every working day the Commission, which is the executive arm of the EC, collects price quotations for each grain on international markets and adjusts those prices to what they would be if the grain had been of a standard EC quality and had been offered for delivery, c.i.f. Rotterdam. The lowest such adjusted price for each grain is then deducted from the corresponding threshold price. The difference is the variable levy, which is then collected on all imports of that grain regardless of the actual price of the particular shipment. In this way, the EC eliminates both price

and quality competition from imports. Imports are effectively limited to those quantities and grades that cannot be supplied by domestic production. Community preference is absolute.

"Seasonal" competition is also eliminated by raising threshold and intervention prices monthly during the year to cover storage costs for domestic grain.

A measure of supervision over the levy system is provided by requiring importers to obtain licenses for each importation and to complete the importation as proposed or forfeit a surety deposit. The license is particularly important in controlling the advance fixing of levies. Normally the importer may choose to gamble on the height of the levy on the day of importation or hedge against a levy increase by having the levy "fixed" at the time he obtains his license, which may be up to 4 months in advance. If he elects to hedge, he will obtain the levy on the day he applies for the license, adjusted to the month of importation in accordance with forward price quotations and any change in the threshold price. However, the EC can and often has reduced or suspended this privilege just when it is most needed—when markets are uncertain because of monetary problems or other difficulties.

While direct price support (intervention) applies only to the grains discussed above, the levy system applies to all grains and grain products. Most levies on the latter are calculated only monthly and are derived from the corresponding grain levies by using conversion coefficients and adding a fixed amount for protection of the milling or processing industry.

An anomaly like that for durum occurs in the case of wheat, corn, and broken rice purchased for the manufacture of starch or for brewing. Brewers and starch manufacturers receive a subsidy for these purchases, which relieves them from paying the full price for their raw materials.[1] There is a parallel reduction in import levies (and export subsidies) on starch and beer.

Not all outside suppliers feel the full effect of the levy system. While few preferences are given on grain levies—small reductions are granted for Turkish rye, Moroccan durum and East African corn—over 20 African countries and certain territories and former colonies in other parts of the world are exempt from that part of the levy on grain products which is intended for protection of millers and processors.

In certain respects, the system of community preference and common pricing has not worked well. The most important example arises from the price unification decision of 1964. When the CAP for grains was first established in 1962, it was not possible to bring the range of national support prices immediately within the limits described above. Agreement to this end was reached only with the greatest difficulty in December 1964 when it was decided that the "unified" price system described above would take effect July 1, 1967. Germany and Luxembourg had to make substantial price reductions to bring their support levels into line. For three years after 1967 they were permitted to make compensation payments to their farmers. Italy did not wish to make the full price increases required for feedgrains. A compromise was reached by allowing Italy to compensate for higher port and handling costs by cutting levies on feedgrains imported by sea in 1967/68 through 1971/72 and extended through 1976/77. The

[1] These subsidies make necessary a further subsidy to manufacturers of potato starch, which is granted on condition that a minimum price is paid for the potatoes.

amount of the reduction in 1972/73 is 7.50 units of account (U/A or just over $9 at current exchange rates. This reduction is to be eliminated beginning in 1973/74, when it will be 6.00 UA per ton; it will decline 1.50 UA per ton each year, to zero by 1977/78.

(3) PRODUCTION AND DISPOSAL

Since production is not controlled and rises rapidly in response to high price incentives for unlimited quantities, surpluses are generated which must be disposed of. In addition, provision is made for the normal export business of firms who cannot sell high priced domestic grains or grain products on world markets without a subsidy. Export subsidies are fixed weekly, or more often if it serves a useful purpose. Separate subsidies may be fixed for each third country or area of the world for which a market exists, and the amount of the subsidy depends simply upon how much is needed to make the sale.

As with import levies, export subsidies may be fixed in advance, and the privilege of advance fixing may be reduced or suspended in times of wide changes in world market prices. It has also happened that in periods of strong foreign demand as in 1972/73 the EC has cut export subsidies in order to prevent domestic shortages.

Under normal market conditions, intervention agencies will sell the stocks they have acquired whenever the market is strong enough to absorb the additional supply. Sales are by tender. A minimum price is fixed by regulation for domestic sales, but in the case of sales for export, the Commission determines the price on the basis of the offers made and normal export market conditions. There can be, therefore, a further element of subsidy which is not published.

To facilitate sales of wheat for feed the CAP also provides for a denaturing premium. This is a subsidy for dyeing wheat or otherwise rendering it unsuitable for milling into flour. The premium is intended to bring the cost of wheat down to a level where it is competitive with other domestic grains—primarily barely—for feed use.

B. IN THE NINE

In joining the EC the United Kingdom, Denmark and Ireland accepted the basic structure of the CAP, and agreed to begin applying the CAP on February 1, 1973. It was agreed that the new members would adjust their price levels in stages so that "common" EC prices would apply in 1978. The level of "common" intervention prices in each new member remained to be negotatied, however.

The British, for example, whose market prices were around 40 percent below EC prices understandably wanted to fix prices as low as possible to minimize the total adjustment and its effect on food prices. France, however, wanted British prices high enough not to preclude competition from French grain. The resulting compromise fixed the intervention prices for wheat and barley at the principal inland center of Cambridge at a 1978 level slightly below the intervention price at the French port of Rouen. Third countries will have to meet the higher Rotterdam threshold price. In principle, therefore by 1978 there should be a substantial margin of Community preference for French grains over third country grain, but little preference over British grain.

For 1973, U.K. intervention prices were set near existing market levels. The difference between the 1973 intervention price and the common (1978) intervention price for the U.K. must be eliminated by

six successive price increases beginning August 1, 1973 and ending January 1, 1978.

The price differential is a key figure: It is used instead of variable levies and export subsidies in trade between the U.K. and the original EC members; it is deducted from EC variable levies and export subsidies in trade with third countries. As it happened, by February 1, 1973, when the price differentials were first to be applied, world grain prices had risen and EC levies and subsidies were reduced to less than the U.K. price differentials. New rules were therefore adopted by which the price differential for foreign trade would be set not to exceed the EC levy.

New Member Intervention Prices and Price Differentials for the Principal Grains, Feb. 1, 1973

[In dollars [1] per metric ton]

	6		United Kingdom, Cambridge	Ireland, Enniscorthy	Denmark, Bandholm
	Duisburg	Rouen			
Wheat (non-durum):					
Common price	120.70	116.94	116.06	119.39	117.48
1973 price	120.70	116.94	67.95	111.25	106.68
Differential:					
Basic			48.11	8.14	10.80
Temporary			32.57	8.14	10.80
Barley:					
Common price	108.52	104.67	103.01	104.97	106.27
1973 price	108.52	104.67	57.05	88.83	96.85
Differential:					
Basic			45.96	16.13	9.42
Temporary			15.20	16.13	9.42
Corn:					
Common price	(2)	(2)	(3)	(3)	(3)
1973 price	(2)	(2)	(3)	(3)	(3)
Differential:					
Basic			40.07	24.97	0
Temporary			28.23	24.97	0

[1] Converted from units of account at UA1.00=$1.08571.
[2] $90.39 based on Mont-de-Marsan, France.
[3] No intervention (no production).

For Denmark and Ireland the same principles apply, except that Denmark set its initial 1973 price levels for wheat and barley nearly as high as the common price levels so that the price differential is very small. For corn and sorghum Denmark has adopted EC prices at the outset; there is no price differential. Ireland also set its initial price levels very high; moderate price differentials apply for all grains.

The United Kingdom has the additional privilege of continuing its deficiency payments (subsidies equal to the difference between a

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guaranteed price and actual market returns) as long as the guaranteed price is higher than the intervention price. For 1972/73 the guaranteed price was $79.56 per metric ton for wheat compared to an intervention price of $67.95; and $72.16 per ton for barley, compared to an intervention price of $57.05.

2. Impact on the United States

From 1962 to 1972 with high price incentives and protection grain production of the Six rose 36 percent while consumption rose only 24 percent. Net imports dropped from 10 million metric tons to less than 2 million tons. While the Six continue to import grains, they have now become substantial exporters as well, so that the market maintained in the EC is lost elsewhere. In addition, the market for feedgrains is further diminished by the substantial increase in the use of wheat for feed.

EC (6): Supply and distribution of grains

[Million metric tons]

	Change in stocks	Production	Imports	Exports	Consumption	
					Feed	Total
Total grains:						
1962–63	2.6	57.8	15.1	5.4	35.1	64.9
1972–73	–.3	78.7	17.0	15.4	49.2	80.6
Wheat:						
1962–63	1.8	29.5	3.5	3.8	5.1	27.4
1972–73	–.2	35.2	4.0	7.7	9.3	31.7
Other grains:						
1962–63	.8	28.3	11.6	1.6	30.0	37.5
1972–73		43.5	13.0	7.6	39.9	48.9

The following changes in self-sufficiency show further the gains made by France at the expense both of other EC members and of third countries:

Percent self-sufficiency: total grains

	EC	France	Germany	Italy	Netherlands	Belgium/Luxembourg
Average:						
1956 to 1960	85	110	77	87	35	51
1967 to 1968	91	143	78	69	39	52
1968 to 1969	94	144	82	68	39	49
1969 to 1970	91	147	77	70	37	42
1970 to 1971	86	141	70	70	29	36
1971 to 1972	97	([1])	([1])	([1])	([1])	([1])
1972 to 1973	98	([1])	([1])	([1])	([1])	([1])

[1] Not available.

U.S. exports of grain to the Six rose 52 percent from $386 million in CY 1962 to $587 million in 1966, the early years of the CAP before the "unified" price system was set up. From 1966 to 1969 grain exports dropped 52 percent to $283 million, in large part due to the operation of the CAP. For the next few years a combination of factors, including short crops in the EC and high world prices, has maintained the value of U.S. grain exports to the EC although they continued to be below the 1966 peak. U.S. grain exports to the Six in 1972 totalled $489 million.

The extension of the CAP to the United Kingdom, Denmark, and Ireland cannot help but produce the same problems as those that have occurred with the Six. Whereas in 1971/72 net imports of grain by the Nine totalled 13 million tons, it can be expected that this net deficit will rapidly disappear. U.S. grain exports to the three in 1972 amounted to $135 million. Total exports to the Nine were $624 million.

B. Rice

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Only two EC countries produce rice. French production has been declining rather steadily due to greater profitability of other crops and now accounts for less than 10 percent of EC production. Italy is the primary producer. While Italian production has been rising rapidly, Italy does not produce long grain varieties such as those supplied by the United States and the Far East and generally preferred by consumers in northern Europe. The CAP, therefore, has established progressively greater protection and has provided export subsidies to facilitate sales in third markets. The first rice regulations were adopted in 1964; the present regulations date from 1967.

(2) PRICING AND PREFERENCE

A target price is established for brown rice in Duisburg. This is the wholesale price which German rice millers would be expected to pay for Italian rice. On September 1, 1972, the beginning of the 1972/73 marketing year, the brown rice target price was $229.63 per metric ton. This Duisburg target price is protected from import competition by threshold prices for brown rice and milled rice at Rotterdam. Intervention prices for paddy rice are fixed for the production centers of Arles and Vercelli at $141.14 per ton. The difference between the intervention and target price provides a generous margin to cover the cost of husking (converting paddy rice to brown rice) and the cost of transport to Duisburg.

The threshold price on September 1, 1972, for short grain brown rice, similar to the main Italian varieties was $225.39 per ton. A threshold price for "long grain" brown rice was set at $247.11 per ton. The difference between these two prices, however, does not reflect the difference between short grain and long grain varieties on world markets, but rather the "normal" difference between Italian short grain rice and Italian "Ribe", which is a large kernel variety more comparable to a medium grain standard. Thus levies on long grain rice are generally set by price quotations for cheaper medium grain varieties and are higher than would apply if a true long grain standard were used. Threshold prices on milled rice are higher than those on

brown rice in order to reflect the higher value of milled rice and to add a margin of protection for EC rice millers. For September 1, 1972, milled rice threshold prices were $293.68 for short grain and $346.02 for long grain.

Licenses must be obtained on all imports or exports. Levies and subsidies may be fixed in advance. In 1972, at Thailand's request, the EC began to discriminate in allowing a 90 day period of validity on licenses for imports from the Far East, compared to 30 days for imports from other parts of the world. On complaint by the United States the 30 day period was extended to 60 days.

More important preferential treatment is granted in the form of reduced levies on imports from the Malagasy Republic,[1] Surinam and Egypt.

(3) PRODUCTION AND DISPOSAL

Export subsidies are fixed weekly or monthly for rice and rice products, respectively, in the same manner as for grains and grain products. Subsidies are also available for the domestic purchase of broken rice for the manufacture of starch or for brewing.

B. IN THE NINE

Under the transitional arrangements for the United Kingdom, Denmark, and Ireland, price differentials are set like those for grains. However, since the new members do not produce rice the differentials are based on market prices in the new members relative to EC threshold prices. The differentials are deducted by new members from the EC levy on imports from third countries; the differentials also serve as the subsidy on exports of Italian rice to the new members.

The differentials were calculated in relation to a representative period when world prices were considerably lower than they were on February 1, 1973, the date the differentials were to be first applied. Consequently, as in the grain sector, the differentials had to be adjusted temporarily so as to be approximately equal to the levy:

New member price differentials, compared to the difference in EC threshold prices and world market prices at Rotterdam, Feb. 1, 1973

[Dollars per metric ton]

	Husked rice		Milled rice	
	Short	Long	Short	Long
EC-6:				
Threshold price	230.28	251.99	299.87	353.18
World price	208.67	199.12	225.39	198.14
Levy	21.61	52.87	74.48	155.04
3 differential:				
Basic	107.50	124.31	138.97	180.23
Temporary	22.80	55.37	74.91	153.09

[1] The eighteen African associates signatory to the Yaounde convention also receive preferential treatment. However, the Malagasy Republic is the only significant rice exporter.

Preferences granted to Egypt are now also granted by the new members. Surinam and Madagascar will receive preferential treatment by the new members after 1975. At that time certain Commonwealth suppliers now receiving a preference in the U.K. may receive preferences from the Nine.

2. Impact on the United States

While yields have been somewhat inconsistent, total rice acreage has increased every year since 1964 when the CAP was introduced. Acreage increases in Italy have more than offset a decline in France. Production has therefore shown a significant upward trend even though the harvests for 1971/72 and 1972/73 were reduced. Consumption by the Six on the other hand has shown a slight downward trend over the same period. Italy has had to look for new export markets, one of the most important of which has been the United Kingdom. The United Kingdom buys substantial quantities of short grain milled rice, and Italy has increased its share of the British market from less than one percent in 1970 to 24 percent in 1971 and 15 percent in 1972.

British imports of rice, 1970-72

[Thousands tons]

	Total	United States	Italy	Other
1970	123.8	61.1	0.7	62.0
1971	145.2	54.7	35.2	55.3
1972	126.8	47.1	19.2	60.5

The following table shows the development of Italian and French rice production under the CAP (husked basis):

[Thousand metric tons]

	Average	
	France	Italy
1956-60	86	546
1967-68	97	596
1968-69	67	518
1969-70	76	689
1970-71	73	655
1971-72	61	714
1972-73	41	601

The United States managed to increase rice exports to the EC for several years after the introduction of the CAP. "Common" pricing did not begin until September 1967 and until then, Germany and the Benelux countries were permitted to reduce levies substantially on imports from third countries. Sales to France were boosted as France discontinued discriminatory import licensing. Supplies from some Far

Eastern sources dropped. Since 1969, U.S. exports to the Six have declined, due in part to the height of variable levies and in part to more competitive pricing by other third country suppliers. U.S. exports to the Six were $31 million in 1969 and $17 million in 1972.

The most important effect of EC enlargement appears likely to be the further inroads of Italian rice into the important British market. U.S. exports to the U.K., Denmark, and Ireland in 1972 totaled $12 million, of which the U.K. accounted for all but $347,000.

C. Poultry, Eggs, and Pork

1. How the CAPS Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

All EC countries produce poultry, eggs and pork. The CAP establishes a very high level of absolute protection which has favored the expansion of intra-EC exports, especially Dutch and Belgian exports, at the expense of third countries. Dutch exports, in particular, to third countries have been expanded. Regulations for these products began in 1962; present regulations date from 1967.

(2) PRICING AND PREFERENCE

Intervention on domestic markets is limited to pork. Pork prices follow a cyclical pattern, and the intervention price level (which is the same throughout the EC) generally becomes effective only at the low end of the cycle. Export subsidies and protection against imports, however, help to support internal market prices indirectly for pork, poultry, and eggs.

The level of protection against imports is determined in two parts. The first is a basic variable levy which corresponds to the levy on the quantity of grains assumed necessary to produce the poultry, eggs, or pork, plus an additional margin of protection. The basic levy thus compensates producers for using higher cost domestic grain as well as providing additional protection. In fact, efficient producers are overcompensated for high grain costs, since the EC assumes a greater quantity of grain than is required by efficient producers

Since the basic levy is a function of grain prices, it does not by itself provide absolute preference for domestic pork, poultry, and eggs. Therefore, the EC has established a second element of protection: a minimum import price or "gate price." The gate price, which applies to all third country products, is not related to the domestic price level, but rather represents the EC's calculation of the "fair" cost of third country products delivered to the Community. Products offered to the Community at less than the gate price become subject to an offsetting supplementary levy.

This supplementary levy applies to imports only from those countries whose products do not meet the gate price. If a country can control its export prices and promise not to undercut the gate price, the EC will exempt that country from any supplementary levy on the products concerned. Apart from this preferential levy exemption for countries who meet the gate price, there is a small preferential levy reduction for poultry imports from Turkey.

Gate prices and basic levies are published every three months. Supplementary levies are reviewed more often and changed as needed.

(3) PRODUCTION AND DISPOSAL POLICIES

Because of the absence of domestic market intervention, export subsidies are particularly important in regulating the supply of products available to the domestic market. Export subsidies are calculated every three months and may be fixed in advance.

B. IN THE NINE

On imports from third countries new EC members collect the regular EC levy minus a price differential corresponding to the difference in grain costs between old and new members. The price differential is to be phased out by 1978 on the same schedule as for grains. The full EC gate price and supplementary levy, however, apply from February 1, 1973.

In negotiating the differentials to be applied in the trade of the new members, the U.K. was successful in obtaining a revision of the conversion factors used in calculating the differentials. The U.K. contended that less grain is required than implied in the formulas used in calculating EC levies on imports from third countries. Therefore, the differentials (but not the levies) are calculated with lower coefficients and are about 10 percent smaller than they would otherwise be. This means less is deducted from EC levies by the U.K.—i.e. British protection is higher. Also the subsidy on Dutch and Danish exports to the U.K. is smaller than it would otherwise be.

2. Impact on the United States

Production of pork, poultry and eggs has grown rapidly in all EC countries since the introduction of the CAP in 1962. Consumption has also grown rapidly with rising incomes. The following table shows the effect of the expansion of Dutch and Belgian production on trade within the EC and with third countries:

Percent of self-sufficiency in pork, poultry and eggs

	EC	Netherlands	Belgium/Luxembourg	France	Germany	Italy
Pork: Average:						
1956 to 1960	100	146	106	101	94	94
1967 to 1968	100	168	130	91	95	89
1968 to 1969	99	178	135	82	95	90
1969 to 1970	100	188	150	83	95	85
1970 to 1971	101	200	174	86	92	82
Poultry: Average:						
1956 to 1960	93	386	102	101	51	94
1967 to 1968	98	328	139	102	49	99
1968 to 1969	98	343	130	102	48	99
1969 to 1970	100	381	132	103	51	99
1970 to 1971	101	394	132	103	51	99
Eggs: Average:						
1956 to 1960	90	222	108	96	58	84
1967 to 1968	97	129	122	100	87	94
1968 to 1969	98	139	136	99	86	94
1969 to 1970	100	144	157	98	86	96
1970 to 1971	101	148	181	99	85	97

U.S. poultry exports to the Six reached $50 million in 1962, when the CAP was adopted, and declined steadily thereafter to less than $10 million in 1972. Of the $50 million in 1962 U.S. poultry exports to the Six, Germany accounted for $41 million, including $32 million of chicken and $8 million of turkey. In 1972 of the $10 million in U.S. poultry exports to the EC, Germany took $6 million, nearly all turkey. France, Italy and the Netherlands bought $1.5 million of baby chicks.

U.S. poultry exports to the Three totalled $2 million in 1972. This represents a substantial increase over 1971, when (until October) British imports from the United States were prohibited by a Newcastle disease control program. The relaxation of these controls, while accompanied by the establishment of rather high minimum import prices, would have permitted some market development. Accession to the EC will give the benefits of British market growth to the increasing exports of the Netherlands and to Denmark, which is also a major exporter.

U.S. exports of eggs to the EC are primarily for hatching, but have not grown significantly. Exports to the Six totalled $1.8 million in 1972; exports to the Three were another $1.0 million.

U.S. exports of pork have seldom been very large, but U.S. exports of lard to the Six were as much as $9.9 million in 1956 and were still $1.8 million in 1962. In 1972, U.S. exports of lard to the Six totalled $0.3 million. U.S. exports of lard to the Three mainly the U.K.—rose from $22.4 million in 1956 to $53.8 million in 1964, then dropped to $7.7 million in 1968. In 1969, the United States established an export subsidy for lard sales to the U.K. to regain our market from subsidized EC exports. By 1970 our exports recovered to $30.6 million. Beginning in 1971 the EC raised its export subsidy to record levels. U.S. exports to the Three dropped to $12.6 million by 1972. In 1973, the United States dropped its subsidy program altogether as the U.K. moved to the EC gate price and levy system.

The extension of the CAP on pork, poultry and eggs to the United Kingdom, Ireland and Denmark should largely eliminate outside suppliers from those markets. Although the United Kingdom market was opened to U.S. poultry in 1971 by the lifting of the Newcastle disease vaccine ban, it seems clear that Danish and Dutch exporters should gain the lion's share of this market. The same is true of pork and lard. High levies will apply against third country products only, while the Dutch and the Danes will benefit from export subsidies (price differentials) during the transition period. The gate price keeps outside suppliers from competing through lower prices.

D. Beef and Veal

1. How the CAPS Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

All of the Six produce beef and veal, but only the French and Dutch produce enough to have appreciable quantities for export. On the whole the Six have a deficit in beef, and the deficit has tended to increase. The explanation for this situation lies in several factors: high incomes

which have brought a strong demand for beef, use of dual purpose animals so that the supply of beef is partly a function of policies aimed to regulate milk supplies, a price structure that severely inhibits modern grain feeding and which favors the slaughter of calves for veal. The first beef regulations were adopted in 1964; the present regulations date from 1968.

(2) PRICING AND PREFERENCE

Since none of the Six have been in a strong export position, the regulations for the beef sector have aimed primarily at providing support and protection during periods of low prices.

An "orientation" price is normally set annually for the year beginning April 1, for cattle and for calves. For 1972/73, in order to avoid a rise in consumer prices, orientation prices were set to increase in two steps—in April and September. These orientation prices were:

	Cents per pound [1]	
	April	September
Live cattle	36.9	38.4
Live calves	46.4	47.5

[1] Converted from units of account at $1.08571=UA1.00.

Member states are *authorized* to undertake market intervention (purchase of cattle, and purchase or storage of fresh or chilled beef) in certain localities whenever cattle prices on EC markets average less than 98 percent of the orientation price and are below 93 percent of the orientation price in the localities concerned. Intervention is *required* in all Member States whenever average cattle prices for the EC drop to less than 93 percent of the orientation price. Prices to be paid for intervention purchases of beef are derived from the intervention level for cattle by means of appropriate coefficients. There is no intervention for calves or veal.

Imports are subject to import duties of 16 percent ad valorem on live animals and 20 percent ad valorem on fresh, chilled, or frozen meat. In addition, if import prices are low relative to the orientation price, there may be variable levies. Prior to EC enlargement, import prices were calculated in two ways. A basic import price was calculated from a weighted average of certain cattle and calf prices in the United Kingdom, Denmark, Ireland and Austria. If, however, beef prices from another part of the world—say Argentina—were significantly out of line with this basic import price, a special import price could be calculated for imports from that country.

The EC system then provided that if both the (basic or special) import price and the average of Community market prices were below the orientation price, a variable levy would apply to all imports offsetting the difference between the import price and the orientation price. If, however, the average of Community market prices should rise above the orientation price, any applicable levy would be phased out as follows:

Average of EC prices as percent of orientation price	*Percent of applicable levy to be collected*
100–102	75
102–104	50
104–106	25
Over 106	0

The levy and intervention mechanism has not always worked well since markets are still basically nationally oriented and it is possible for one or more EC members to experience relatively low prices while the average of member state prices is high enough to preclude intervention—and vice versa (the average may be low enough to reduce or eliminate levies).

Special provisions apply for waiving levies and reducing import duties on importation of young cattle and calves for fattening, and for suspending part or all of the levies on frozen beef imported for processing. The quantity of frozen processing beef that may be imported under these provisions is strictly controlled by the issuance of import licenses against quarterly estimates of requirements.

The Community grants "indirect" preferential treatment to imports from a number of countries. Lower levies are imposed on imports of baby beef. The applicable tariff classification, however, may be used only for imports from Yugoslavia. Levies, normally calculated weekly, may be fixed 30 days in advance for imports from "distant suppliers" who have signed agreements to that end—i.e., Argentina and Uruguay.

(3) PRODUCTION AND DISPOSAL

Because of the inability of beef production to keep pace with consumption, the EC is seeking ways to give further encourgement to beef production. Cattle and calf orientation prices have been raised relatively more than grain prices, but without a reduction in grain prices it is unlikely farmers will employ grain feeding. More important, it has been necessary to raise milk prices along with cattle prices and to dispose of surplus milk with the aid of subsidies for use of skim milk powder in calf feeding. As a partial consequence of these factors there has been little incentive to shift from dual purpose animals to beef breeds, while they has been considerable incentive to raise calves on milk and slaughter them for veal instead of raising them to adult animals for beef.

In April 1973 the EC Council approved proposals by the Commission for special subsidies to convert dairy herds to beef herds.

Export subsidies are also available if needed for exports to third countries.

B. IN THE NINE

Since three of the four countries previously used in calculating the basic import price are now members of the EC, the levy system had to be changed. Levies are now calculated as the difference between the orientation price and a weighted average of import prices for meat

(converted to live weight basis) and live animals. However, if the price of imports from certain countries is abnormally low a special import price (and hence a higher levy) will be calculated for imports from those countries.

In the new members, EC levies are diminished by the difference between the EC orientation price applicable in the Six and that applicable in the new member concerned. In intra-EC trade the price differentials apply in lieu of levies. In practice, world prices have been well above orientation prices since the beginning of 1973 so that the levy system has been inoperative.

Import duties may also be suspended if EC market prices warrant it, and duties have been suspended through much of 1972 and 1973.

Orientation prices for 1972/73 for the new members are as follows:

	Cents per pound		
	United Kingdom	Ireland	Denmark
Cattle	29.8	29.8	38.4
Calves	36.9	36.9	47.5

The British in addition continue temporarily to operate their system of guaranteed prices even though the guaranteed price for fat cattle is below the U.K. orientation price. For 1972/73 the U.K. guaranteed price for fat cattle is 27.7 cents per pound [1] compared to the orientation price of 29.8 cents per pound.[1]

Special trading arrangements between Ireland and the U.K. continue in force.

2. Impact on the United States

The following data illustrate that production of beef and veal in the Six has grown apace with consumption, so that net imports have increased:

Percent self-sufficiency: beef and veal

	EC	Germany	France	Italy	Netherlands	Belgium/Luxembourg
Average:						
1956 to 1960	92	87	102	75	106	96
1967 to 1968	89	88	112	58	107	87
1968 to 1969	89	84	107	68	104	93
1969 to 1970	89	89	107	62	117	90
1970 to 1971	89	89	109	58	124	94

Converted from data in pounds sterling and units of account at £1.00=UA 2.1644=$2.3499.

Net imports of beef and veal

[In thousand metric tons]

	EC	Germany	France	Italy	Netherlands	Belgium/Luxembourg
Average:						
1956 to 1960	267	134	−17	154	−12	8
1967 to 1968	534	154	−125	493	−22	34
1968 to 1969	473	225	−145	399	−24	18
1969 to 1970	533	169	−118	500	−48	27
1970 to 1971	553	171	−141	576	−68	15

U.S. exports to the EC in this sector are largely outside the levy system described above. Only fixed duties—zero for inedible tallow and hides—apply to imports of variety meats, tallow and hides. U.S. exports to the Six and the Three in selected years are shown below:

U.S. exports of bovine products

[In millions of dollars]

	1960	1965	1970	1971	1972
Items subject to both duties and levies:					
Beef and veal:					
6	([1])	1.5	0.4	0.9	1.1
3	.1	.5	.3	.7	.4
Items subject to duties only:					
Variety meats (offals):[2]					
6	14.2	34.4	42.5	50.9	58.4
3	7.8	14.0	14.7	14.7	16.8
Items duty free:					
Tallow:					
6	37.6	37.1	33.4	33.3	28.3
3	2.3	7.3	6.1	5.2	3.6
Hides, skins:[3]					
6	24.0	31.6	17.8	33.7	54.4
3	2.5	5.2	3.8	15.1	21.2

[1] Less than $50,000.
[2] Includes pork, and other variety meats as well as beef variety meats.
[3] Primarily cattle hides until 1971 and 1972 when furskins and sheepskins became more important.

On the other hand, the restrictiveness of the CAP for fresh, chilled and frozen meat when world supplies are more abundant has in the past contributed to a diversion of world exports to the United States.

Enlargement of the EC brings two major beef exporters (Ireland and Denmark) and one of the world's largest remaining unrestricted markets (the United Kingdom) within the protective framework of the CAP. For the Three there is already a net export surplus. It may be expected that the price and other incentives under the CAP will give a strong impetus to production in all these countries, thus tending to reduce gradually the net deficit of the Nine.

The United States should continue to have a good market for its traditional exports, although British duties on variety meats will rise from zero to 21 and 14 percent by 1978. On the other hand, the British duty on inedible tallow will be reduced from 10 percent to zero.

E. Dairy Products

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Milk is the main source of daily cash income of many thousands of very small farms in the EC. According to EC agricultural census data for 1966/67, covering 6.4 million farms, 1.2 million or nearly one farm in five obtained 68 percent or more of its income from the production of bovine animals. The percentage ranges from 11 percent and 16 percent in Italy and Germany to over 30 percent in France. Belgium and the Netherlands. Of these 1.2 million farms, 38 percent were less than 12 acres in size; 59 percent were less than 25 acres. Bovine animal production is also the leading enterprise of another 1.4 million farms, 33 percent of which were under 12 acres and 57 percent of which were under 25 acres.

Most cattle in the EC serve the dual purpose of milk and meat production. The smaller farmers necessarily have to rely more on milk production, which provides a daily cash return. The CAP, therefore, aims to meet the income needs of these small farmers as well as provide a protected market for those EC members that export—mainly the Netherlands and France. The first regulations were adopted in 1964; present regulations date from 1968.

(2) PRICING AND PREFERENCE

The pricing system for dairy products is extremely complex. The system is intended, through "intervention" purchases of butter, nonfat dry milk and certain cheese, through import protection by variable levies on all products and through export subsidies, to achieve an average target price for whole milk (3.7 percent butterfat) delivered to the dairy. Whole milk itself, however, is not directly supported. The target price for whole milk, intervention prices for butter, nonfat dry milk and cheese, and the threshold prices (minimum import prices) for various dairy products are shown below as of April 1972 (the beginning of the 1972/73 marketing year):

	Cents per pound[1]
Target price: Whole milk	5.8
Intervention prices:	
Butter	88.6
Nonfat dry milk	26.6
Grana padano cheese	83.0
Parmesan cheese	90.1
Threshold prices:	
Whey powder	10.6
Nonfat dry milk	33.0
Dry whole milk	57.5
Evaporated milk	24.4
Condensed milk (with sugar)	32.6
Butter	99.1
Swiss cheese	83.7
Blue cheese	72.5
Parmesan cheese	112.0
Cheddar cheese	76.9
Gouda cheese	68.9
Lactose	21.2

[1] Prices are converted from units of account at \$1.08571 = UA 1.00

Prior to 1971 the intervention prices cited were not all applied uniformly throughout the EC, because one or more EC members insisted on prices a little higher or lower than the agreed "common" level. This problem reappeared in 1971 when floating exchange rates were introduced. For 1973/74, Germany and the Benelux countries will have a "common" nonfat dry milk price about 1¢/lb lower than the level for other member states in order to offset partly the disruption of common pricing by monetary problems (See Part III).

Also in setting intervention prices for 1973/74, the EC Council made a major shift in emphasis, away from butter toward nonfat dry milk. Instead of raising both butter and nonfat dry milk prices as in past years, the Council reduced the common butter intervention price 2 percent in relation to April 1972 and increased the common intervention price for nonfat dry milk 22 percent. This shift was made because surpluses were rising faster for butter than for other products.

Variable import levies are calculated for all products monthly, and are revised more frequently for particular products if necessary. In the case of so-called "pilot" products, for which threshold prices are fixed (above), the levies equal the difference between the threshold price and lowest corresponding c.i.f. price. For other dairy products levies are derived by making adjustments in the levies for the nearest corresponding pilot product. For fresh milk, which became subject to the CAP only in 1972, the levy is derived from the levies on butter and nonfat dry milk.

In order to mitigate the effect of the levy system on imports of Swiss cheeses from certain countries, the EC has agreed to charge a fixed duty, instead of a levy, on these cheeses when special conditions (especially minimum prices) are met and the imports are from certain countries (mainly European).

(3) PRODUCTION AND DISPOSAL POLICIES

Surpluses—especially of butter—have been a major problem for the Community. The Community has found it especially difficult to avoid price increases for dairy products because of the importance of milk in the income of millions of EC farmers.

Instead the EC has paid premiums for the slaughter of very small herds and for not delivering milk to the dairy (it must be used on the farm or destroyed). It has also paid subsidies for exports of butter and other dairy products, and has made butter available at low prices out of intervention stocks for processing, export, feed use, for the armed forces and general consumption (if several months old). Intervention stocks have been donated to charitable institutions and to foreign countries as food aid.

In considering prices for 1973/74 the Commission reported that butter stocks in the Six increased by 157,000 tons in 1972, and that milk production in the Nine was currently exceeding consumption by 7 to 8 million tons. For 1973/74 the Council approved a small reduction in the butter intervention price—offset by a much larger increase in the price of nonfat dry milk—and for the first time approved a general consumer subsidy for fresh butter of about 5.5 cents per pound.

Another important subsidy is paid to dairies to reduce the price of nonfat dry milk used in calf feed. In 1968/69, the first year of "common" prices for milk, the subsidy was 20 percent of the intervention price for nonfat dry milk. In 1972/73 the subsidy was 33 percent of the nonfat dry milk price, and in 1973/74 is 39 percent. Thus the net cost of nonfat dry milk for feed in 1973/74 is 21 percent above the 1968/69 level compared to a 60 percent increase in cost (intervention price) for other uses. This subsidy has helped the EC avoid such large surpluses of nonfat dry milk, but has encouraged the production of milk fed veal to the detriment of beef.

B. IN THE NINE

As with other price supported products, price differentials operate in trade between the Three and the Six and as adjustments in levies and subsidies applicable between the Three and third countries. The price differentials are based on theoretical threshold price differences, however, rather than intervention prices:

24

Price differential Feb. 1, 1973

[Cents per pound [1]]

	United Kingdom	Ireland	Denmark
Whey powder	0	0	0
Nonfat dry milk	0	0	0
Dry whole milk	17. 17	4. 82	2. 73
Evaporated milk	4. 95	1. 39	. 08
Condensed milk (with sugar)	[2] 5. 94	[2] 1. 67	[2] . 09
Butter	54. 14	15. 21	8. 60
Swiss cheese	18. 82	5. 29	2. 99
Blue cheese	18. 82	5. 29	2. 99
Parmesan cheese	14. 13	3. 97	2. 25
Cheddar cheese	18. 82	5. 29	2. 99
Gouda cheese	18. 82	5. 29	2. 99
Lactose	0	0	0

[1] Converted from units of account to $1.08571=UA1.00.
[2] Plus a differential for sugar content.

Intervention prices compared to the "common" level were set as follows for February 1, 1973:

	Cents per pound			
	6	United Kingdom	Ireland	Denmark
Butter	91. 60	37. 46	76. 39	83. 00
Nonfat dry milk	26. 60	26. 60	26. 60	26. 60
Cheese		(1)	(1)	(1)

[1] No intervention in 3.

Perhaps the two most important consequences of the application of the CAP to the Three are the relatively greater encouragement to production of butter and other manufactured dairy products compared to direct consumption of fluid milk, and the substantial price increases that must be made by the Three, in particular the U.K. These two factors can only aggravate the Community's dairy surplus problems.

2. Impact on the United States

The CAP has affected the United States primarily because the surpluses generated have been exported with a disruptive effect on world markets, including the American market. The following data on changes in the percentage of self-sufficiency for the most important dairy products suggests that the production and disposal policies earlier described were having some success, particularly in increasing consumption. Production had slowed somewhat in 1970 and 1971

but began to rise again in 1972. Butter stocks, which had been reduced from over 300,000 tons at the end of 1969 to 106,000 tons at the end of 1971 were back up to 400,000 tons at the end of 1972.

Percent of self-sufficiency in nonfat dry milk, butter and cheese

	EC	France	Netherlands	Belgium/Luxembourg	Germany	Italy
Nonfat dry milk:						
Average:						
1956-60	97	131	76	100	93	100
1967-68	161	234	57	153	165	46
1968-69	149	226	38	164	160	61
1969-70	121	143	42	166	145	69
1970-71	132	145	47	176	182	65
Butter:						
Average:						
1956-60	101	106	180	96	94	81
1967-68	117	131	323	100	105	70
1968-69	113	119	350	109	104	63
1969-70	107	106	367	102	98	64
1970-71	105	107	345	95	96	65
Cheese:						
Average:						
1956-60	100	104	210	35	77	98
1967-68	104	109	259	54	83	94
1968-69	102	109	226	48	85	91
1969-70	102	111	218	49	86	88
1970-71	102	112	230	51	84	86

EC dairy policies have contributed to increased imports into the United States, both directly in EC exports to the United States and indirectly by diverting to the United States products kept out of the EC by the levy system. U.S. imports of dairy products from the EC rose from $37.6 million in 1967 to $49.0 million in 1972, notwithstanding the tightening of U.S. import quotas during that period as necessary to protect domestic programs.

U.S. exports of dairy products to the Six in 1972 totalled $2 million.

The extension of the CAP on dairy products to the United Kingdom, Ireland and Denmark will, as mentioned above, aggravate the surplus problems of the Six by encouraging greater production of manufactured dairy products. The pattern of world trade will be further distorted as traditional suppliers to the U.K. market are displaced by internal EC production.

The most important of the traditional suppliers to the U.K. is New Zealand, which has a temporary guarantee. The U.K. is authorized to import butter and cheese from New Zealand at special prices in the following quantities for 1973-1977:

29-617 O - 74 - 13

[In metric tons]

	Butter	Cheese
1973	165, 811	68, 580
1974	158, 902	60, 960
1975	151, 994	45, 720
1976	145, 085	30, 480
1977	138, 176	15, 240

After 1977 some further provision may be made for butter, but not for cheese.

F. Sugar

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Sugar beets are grown in all EC countries. In addition, the CAP makes provision for the cane sugar production of the French Overseas Departments.[1] France and Belgium are the principal exporting members.

The number of sugar millers and refiners, however, is quite limited. Sugar marketing is dominated by three firms in Germany, two firms in the Netherlands, one in Belgium, one group of firms in Italy, and one group in France. There are less than two dozen major refining companies in the Six. The CAP therefore also includes a system of production quotas designed to preserve their interests. A levy system for sugar was introduced in 1967; the present system took effect in 1968.

(2) PRICING AND PREFERENCE

In the case of sugar, both target and intervention prices are pegged to the main production areas of northern France. Threshold prices, however, are fixed for the most distant point, Palermo, Sicily, at a level that will assure a preference for French sugar there. Higher intervention prices are permitted in Italy, by way of exception.

Intervention prices are fixed for refined sugar, raw cane sugar from the French Overseas Departments, and raw beet sugar. Refiners must meet a minimum beet price in their contracts with beet growers.

Sugar prices 1972/73 (beginning July 1)

(In dollars [1] per metric ton)

Refined sugar:	
Threshold price	293. 68
Target price	266. 54
Intervention price	253. 40
Italy	269. 69
French Overseas Departments	249. 82
Raw beet sugar intervention	215. 51
Italy	230. 50

[1] Converted from units of account at UA 1.00=$1.08571.

[1] Guadeloupe, Martinique, Reunion, French Guiana.

Sugar prices 1972/73 (beginning July 1)—Continued

Raw cane sugar intervention (French overseas departments) 217.25
Minimum beet price:
- Within quota 19.20
  - Italy 21.31
- Over quota 11.29
  - Italy 13.41

Sugar levies are calculated daily in a manner similar to that for grains. The Six have not extended preferential treatment to any third countries. This policy, however, may be reassessed in the light of the accession of the United Kingdom which has had special arrangements with its Commonwealth suppliers.

(3) PRODUCTION AND DISPOSAL POLICIES

As indicated above, a system of production quotas allocated to each sugar factory or manufacturer was established in 1968. Initially, the total of the quotas was well in excess of levels indicated by previous production history.

[In thousand metric tons]

	Sum of basic quotas	Production	Human consumption	Balance
Average:				
1962-63—1966-67		5,897	5,521	376
1967-68		6,600	5,820	780
1968-69	6,480	6,816	5,931	885
1969-70	6,480	7,434	6,065	1,369
1970-71	6,480	7,052	6,493	559
1971-72	6,480	8,095	6,280	1,815

NOTE.—Data include French overseas departments.

As the quota system is presently operated in most EC countries, the refiner becomes liable to a tax or assessment on any production in excess of his base quota. In principle the amount of the tax should equal the cost per ton of export subsidies and other measures employed to dispose of sugar surpluses. (Surpluses are presently defined as quantities in excess of estimated human consumption or base quotas, whichever figure is larger. Small quantities are also used for feed and industrial use). In fact, the EC Council has placed a ceiling on the tax rate well below the actual disposal cost. Moreover, 60 percent of the tax may be passed on to the beet grower. The refiner may also cut the minimum price to beet growers some 40 percent for beets used to produce sugar in excess of his base quota. If a refiner produces more than 135 percent of his base quota, the excess must be exported without benefit of subsidy. Losses on this account, however, may again be at least partly passed on to beet growers since the minimum beet price is also eliminated.

Premiums are available for denaturing sugar for use as animal feed.

Chemical manufacturers who use sugar as a raw material receive a subsidy to offset the higher costs imposed by the Community support system.

Export subsidies are paid on sugar and molasses and on the sugar content of products containing sugar.

Subsidy rates, available on request, are published regularly. However subsidy rates may also be and often are established by tender and are not published. Subsidized sales may be authorized even when the published subsidy rate is zero. (This has been of particular importance in the case of molasses.)

B. IN THE NINE

Sugar prices fixed for the new Member States for 1972/73 are as follows:

	Dollars[1] per metric ton		
	United Kingdom	Ireland	Denmark
Intervention prices:			
Refined sugar	205.85	228.65	253.40
Raw beet sugar	160.58	194.34	230.50
Minimum beet price:			
Within quota	15.51	17.32	19.20
Over quota	11.29	11.29	11.29

[1] Converted from units of account at $1.08571 equals UA 1.00.

U.K. import commitments to Commonwealth Sugar Agreement countries are to continue unchanged to February 25, 1975, except that the price paid for raw cane sugar, c.i.f. U.K. ports under the agreement is to be:

	Dollars per metric ton
Feb. 1, 1973 to June 30, 1973	161.55
July 1, 1973 to June 30, 1974	171.33
July 1, 1974 to Feb. 28, 1975	181.10

In order to provide some comparability of aid during this period, any EC refiner may receive a subsidy to buy raw cane sugar from the French Overseas Departments as follows:

	Dollars per metric ton
Feb. 1, 1973 to June 30, 1973	10.10
July 1, 1973 to June 30, 1974	7.38
July 1, 1974 to Feb. 28, 1975	4.67

New arrangements for less developed Commonwealth countries are to be negotiated by 1975.

Price differentials used in trade between the Three and the Six and as adjustments in EC levies and subsidies on trade by the Three with third countries are—for sugar or sugar products:

	Dollars per metric ton	
	Refined	Raw
United Kingdom	4.76	5.49
Ireland	2.48	2.12
Denmark	0	0

Basic quotas for the Nine are set at:

	Metric tons
Germany	1,750,000
France	2,400,000
Italy	1,230,000
Netherlands	550,000
Belgium/Luxembourg	550,000
United Kingdom	900,000
Ireland	150,000
Denmark	290,000
Total	7,820,000

2. Impact on the United States

While the United States does not export sugar, the United States has been affected by EC sugar regulations in several ways. The emergence of the EC of Six as an important sugar exporter has added to the pressures on other import markets in years when world sugar supplies are abundant. The depressing effect of EC exports on free world market prices has been reflected also in the levies imposed by the EC on the sugar syrup added to canned fruit. EC regulations have led to the sale of subsidized molasses and other products to the United States, and have established import licenses for sugar beet pulp, which the United States has exported to the EC for feed.

The accession of the United Kingdom, Denmark and Ireland is important to the United States especially in terms of the restructuring of world trade as some of the Commonwealth suppliers are displaced by other EC members in the British market.

G. Olive Oil

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Olive oil is produced and consumed almost exclusively in Italy. Because of its high price it is not strictly competitive with other oils. The CAP therefore is intended mainly to preserve the market in Italy. The support system for olive oil was introduced in 1966.

(2) PRICING AND PREFERENCE

A market target price is fixed at a level intended to make olive oil available to consumers at "reasonable" (though higher than world market) prices. This market target price is achieved with the aid of

market intervention and variable import levies. Since the market target price is considered an inadequate income guarantee, the CAP further provides for a direct payment to bring the total return up to a producer target price. For 1972/73 these prices are:

	Dollars[1] per metric ton
Producer target price	1,354
Market target price	864
Intervention price	786

[1] Converted from units of account at $1.08571 = UA 1.00.

Preferential reductions in the levy are granted to several Mediterranean countries that are important suppliers of olive oil. In the case of Greece this is done by establishing a separate levy based on Greek prices. For other countries a token reduction in the regular levy is granted, plus a somewhat larger reduction if the exporting country raises its price by an equivalent amount.

(3) PRODUCTION AND DISPOSAL

Subsidies are provided to canners of fish and other products to allow them to use olive oil at world market prices.

Export subsidies are also available as necessary.

B. IN THE NINE

Enlargement of the Community required no transitional measures for olive oil. The full levy system was adopted by the new members on February 1, 1973.

The new members have delayed, for the time being, adoption of preferences for Mediterranean countries pending renegotiation of some of the agreements involved.

2. Impact on the United States

While the direct impact of the CAP for olive oil on the United States is marginal, EC efforts to support the olive oil market are sometimes raised as grounds for taxing or otherwise restricting imports of other vegetable oils and oil bearing materials.

H. Oilseeds and Oilseed Products

1. How the CAP Works

A. IN THE SIX

(1) WHO ARE THE PRODUCERS?

Oilseed production in 1972/73 is reported at 1.1 million tons. Net oilseed imports, however, have been on the order of 6 to 7 million tons.

In 1972/73 rapeseed accounted for 91 percent of EC production of oilseeds; most of the remainder is sunflowerseed. Seventy percent of the rapeseed production is in France, and another 24 percent in Germany. Virtually all of the imports enter the EC duty free under GATT concessions. In short, the CAP for oilseeds did not and cannot provide the kind of protection afforded to other products, such as grains. EC oilseed regulations took effect in 1967.

(2) PRICING AND PREFERENCE

Community preference is established by paying a subsidy to EC oilseed crushers for the purchase of domestic rapeseed and sunflowerseed. EC market prices for domestic rapeseed and sunflowerseed have been maintained at levels well above world market prices by govern-

ment purchasing at intervention prices and by the payment of the subsidy mentioned above, which bridges the gap between the higher domestic price and the world market price at which imported oilseeds are available. The gap is measured by the target price in Genoa minus the c.i.f. price of imports at Rotterdam and is therefore exaggerated for the main producing areas where domestic prices are lower than at Genoa.

The pricing structure is illustrated below:

	Dollars [1] per metric ton	
	Rapeseed	Sunflowerseed
1. Target price (Genoa)	226.37	228.54
2. Intervention price (Genoa)	219.86	222.03
3. Intervention price (Bourges)	202.81	203.68
4. World price (Rotterdam) July 1972	121.21	152.70
5. Subsidy (1–4)	105.16	75.84

[1] Converted from units of account at $1.08571 equals UA 1.00.

In Italy there is a further small payment to crushers to offset alleged higher costs there.

Community preference has been effective in terms of encouraging EC production of oilseeds, as may be seen from the following data:

EC production of oilseeds

	Area (1,000 hectares)	Yield (100 kg/ha)	Production (1,000 tons)
1967 to 1968	306	20	626
1968 to 1969	356	20	697
1969 to 1970	409	18	737
1970 to 1971	478	18	806
1971 to 1972	496	21	918
1972 to 1973	517	22	1,025

Since imports of oilseeds and oilcake are admitted duty free, tariff preferences are not possible. The EC has under consideration, however, a scheme whereby certain preferred suppliers—notably associated African countries—would be "guaranteed" a specified price for a given quantity of their oilseed (peanut) exports to the EC. If world prices should fall below the agreed price, the EC would indirectly make up the difference with respect to its imports by financial aid in some form.

(3) PRODUCTION AND DISPOSAL POLICIES

Export subsidies are available as needed.

B. IN THE NINE

Oilseed production in the Three is minimal, but support is available; in particular the subsidies to crushers are available for the purchase of rapeseed and sunflowerseed on the continent.

2. Impact on the United States

The United States is the major supplier to the EC of soybeans, which comprise about two-thirds of EC oilseed imports. U.S. exports of soybeans and soybean cake to the EC have grown fourfold from $204 million in 1962 to $818 million in 1972 and accounted for most of the increase in U.S. agricultural exports to the EC over that period. This unusual growth reflects the strong EC demand for inexpensive feeds and the free access to the EC market afforded by the EC's GATT commitments.

On the other hand, some Community interests have remained concerned that free access of inexpensive oilseeds and oilseed products would somehow undermine other parts of the CAP, especially undercut the market for high cost EC feedgrains. The EC has therefore considered a number of ways to curtail oilseed imports, notwithstanding GATT commitments:

1. Imposition of a tax on both domestic and imported products. The tax rate might differ, for example, as between soybean products and rapeseed products.
2. Negotiation of an international commodity agreement whereby all importing countries would apply variable levies to enforce a negotiated world price level.
3. Application of countervailing duties on imported products found to be, or presumed to be, subsidized directly or indirectly. (Such duties have in fact been imposed on rapeseed oil from East Europe and castor oil from Brazil when the price of the oil was deemed to be abnormally low in relation to the price of the oilseed.)

Another proposal advanced by the French in 1973 when world market prices rose to unusually high levels was to provide subsidies for soybeans similar to those now granted to EC crushers of rapeseed and sunflowerseed. Soybeans are now grown only experimentally in Europe, but could be grown commercially if subsidized sufficiently. Some French estimates are that up to 300,000 tons could be produced within three years.

I. Cottonseed

1. How the CAP Works

EC production of cotton—all in Italy—is so small that cotton was not defined as an agricultural product in the Treaty of Rome. In order to provide some assistance, therefore, it was necessary to provide aid to cottonseed rather than cotton. The aid consists of a direct payment of about $35 an acre.[1] The aid was initiated in 1971.

2. Impact on the United States

About 9,000 acres were devoted to Italian cotton production in 1972/73. Total cotton production was estimated at 900 metric tons.

The United States exports little cottonseed, but cottonseed oil exports are important: $7 million to the Six and another $7 million to the Three in 1972.

[1] 80 units of account per hectare for 1972/73 at UA 1.00=$1.08571.

The United States exported $70 million of cotton to the Nine in 1972. The EC is considering a scheme for cotton, like that mentioned for peanuts, whereby preferred (African) suppliers would be guaranteed a specific price on a certain quantity of exports to the EC.

J. Flax and Hemp

1. How the CAP Works

Flax and hemp are minor crops grown for fiber, although support obviously also benefits flaxseed and hempseed oil. Flax production in 1972 is estimated at 66,400 metric tons, 80 percent of which is in France. Smaller amounts are grown elsewhere in the Community, primarily in Belgium and the Netherlands. Belgium is the leading processor. EC hemp production in 1972 totalled 5,400 tons, nearly all in France.

Support has been provided since 1970 in the form of direct payments equivalent, in 1972/73, to $59 per acre of flax and $51 per acre of hemp. These subsidies were increased 11 percent for 1973/74.

2. Impact on the United States

The CAP for flax and hemp has had little impact on U.S. exports so far, particularly in view of the small quantities produced.

U.S. exports to the Six of flaxseed and linseed oil totalled $25.9 million and $2.5 million, respectively, in 1972. Another $2.0 million of linseed oil was exported to the Three in 1972. The level of these exports, however, has depended more on the quantities available for export than on EC policies.

K. Tobacco

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Tobacco is grown in Italy, France, Germany, and Belgium. In 1972 production totalled 142,000 metric tons, 59 percent in Italy and 33 percent in France. In these latter countries, production, trade and manufacture of tobacco has been in the hands of government monopolies. As a condition to the establishment of a CAP for tobacco in 1970, these governments agreed to relinquish their legal control over leaf tobacco production and wholesale trade by 1976. The CAP for tobacco was adopted mainly to meet Italian interest in Community support for this product.

(2) PRICING AND PREFERENCE

Over 60 percent of EC tobacco consumption is imported, subject to fixed import duties bound in GATT. Community preference is therefore established by subsidies rather than by variable levy import protection. The EC fixes a "standard" or "norm" price, which is a producer target price, for each of 20 types or groups of tobacco types. An intervention price is fixed for each of these types at 90 percent of the standard price. Intervention prices, when first established in 1970, were some 15 percent above the prices received in 1969 by growers. Intervention prices, however, are considerably above the prices of comparable imported tobacco.

Therefore, in order to assure the purchase of domestic tobaccos, a premium is paid to EC buyers of domestic leaf. The buyer's premium

ranges from 60 to 80 percent of the intervention price for most types. Hence it not only assures that domestic tobacco is competitive in price with imported tobacco, but it makes domestic tobacco far cheaper to the EC buyer than it used to be before the CAP entered into force.

The import duty is divided into two classifications. The rate is 15 percent subject to a maximum of 70 units of account per 100 kg. (38¢/lb.)[1] on tobacco valued at more than 280 u.a. per 100 kg. ($1.53/lb.). This classification was originally intended to cover only cigar wrapper leaf, but now includes increasing amounts of highly processed cigarette leaf. The rate for the remaining classification is 23 percent subject to a maximum of 33 u.a./100 kg. (18¢/lb.)[1] and a minimum of 28 u.a./100 kg. (15¢/lb.)[1] The majority of U.S. tobacco enters at the maximum rate of 33 U.A./100 kg.

Twenty-one percent (in 1971) of EC tobacco imports by volume, however, are subject to no duties or restrictions because they originate in countries with which the EC has preferential trading arrangements. The principal preferential suppliers are Greece, Turkey and the EC's African associates.

(3) PRODUCTION AND DISPOSAL POLICIES

The abandonment of monopoly controls over production in France and Italy and the replacement of the monopolies' administratively guaranteed market by high premiums to buyers led the EC to adopt provisions to prevent an excessive increase in support costs. The tobacco CAP provides that if quantities purchased by intervention agencies exceed a specified percentage of production, the EC Council may decide, for the varieties in question, such measures as a cut in the intervention price or a limit on intervention purchases, and in an extreme case a cut in the buyer's premium.

Provision is also made for export subsidies. Export subsidies announced for the first time in 1973, for two types.

Another factor affecting the consumption of tobacco is the excise tax policy applicable to cigarettes and other manufactured tobacco products. In Germany, which bought 58 percent of U.S. tobacco exports to the Six in 1972, the excise tax has been based on the quantity of cigarettes produced, whereas in other EC countries the tax has been based on value—a procedure which discourages the use of high priced raw materials such as the United States supplies. The EC is now trying to standardize the tax system and has agreed so far that excise taxes must be at least 25 percent on a value basis.

B. IN THE NINE

Since none of the new EC members produces tobacco, EC regulations were adopted in full on February 1, 1973. Transitional arrangements exist only in respect of the tariff. In the U.K., however, the principal charges applied to tobacco imports are fiscal charges rather than customs duties *per se*. The Accession Treaty requires no adjustment in these charges until 1976 or later—until agreement is reached on standardization of excise tax systems. The U.K. fiscal charge must then be converted to an internal tax. No agreement has been attempted, however, even within the Six, on standardization of tax rates.

[1] Converted at UA 1.00=$1.20635.

Preferences extended by the U.K. to less developed Commonwealth suppliers also remain unchanged for the moment. The EC is now preparing, however, for negotiations with the less developed countries previously associated either with the Six or with the U.K. with a view to combining these preferential systems. Preferences by the Three for Mediterranean suppliers are also to be negotiated.

2. Impact on the United States

The United States has been concerned that EC tobacco policies will lead to an expansion of EC production and will induce manufacturers to shift to cheaper types of tobacco and to shift to tobacco from preferred suppliers. The expansion of EC production is already evident.

Production, which had been declining, is now rising again:

	Area (1,000 hectares)	Yield (100 kg/ha)	Production (1,000 tons)
Average:			
1956–60	88.4	17.5	155.1
1967–68	77.6	18.6	144.6
1968–69	76.3	17.7	135.1
1969–70	70.1	19.0	133.3
1970–71	66.0	20.5	135.5
1971–72	67.5	19.8	133.9
1972–73	71.7	19.8	141.8

U.S. exports of tobacco to the Six have shown significant growth—to $168.5 million in 1972, compared to $149.0 million in 1967, and $105.5 million in 1962. However, the increase since 1967 is 13 percent compared to a 44 percent increase in U.S. tobacco exports to the rest of the world.

U.S. exports of tobacco to the Three totalled $169.2 million in 1972, of which $132.6 million went to the U.K. In considering the impact of EC tobacco policies on U.S. exports to the enlarged Community, several factors stand out: (1) the market in the Three, which is as large as the market in the Six, will pay buyers premiums for the use of lower cost tobaccos; (2) the number of preferential suppliers will be increased within a few years by the combining of U.K. and EC preferential systems; and (3) an excise tax system based to some extent on value will be applied to the new members as well as the Six.

L. Fruits and Vegetables

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Obviously all EC members have an interest in the fruit and vegetable sector. The specific products in which they have an interest, however, vary from country to country. The relationship of production to consumption in each member state is indicated below for the sector as a whole and for some particular products:

Production as percent of consumption 1970–71

	EC	Italy	France	Germany	Netherlands	Belgium/ Luxembourg
All vegetables	99	111	95	47	88	117
Fruit, excluding citrus	88	120	101	54	82	67
Apples	99	113	141	61	96	82
Pears	102	125	103	52	113	94
Peaches	102	135	108	9	0	8
Citrus fruit	52	125	1	0	0	0

(2) PRICING AND PREFERENCE

Fruits and vegetables have clearly not been given the priority for protection that has been allotted to grains and livestock products. This situation is owing to the fewer number of farmers involved, the diversity of specialized interests and other factors. However, while the first regulations governing fruits and vegetables were adopted in 1962, major new provisions have been added every few years after that in order to strengthen the support and protection afforded.

Import duties apply to all products, and for many the rates are bound in GATT.

Since 1962 the most important products have been further protected from import competition by "reference prices," which in effect serve as minimum import prices. When, after certain adjustments, the price of an imported product from a particular country is found to be selling below the reference price, the EC imposes an offsetting "compensatory tax" on that product when imported from the country in question. Compensatory taxes have been applied relatively infrequently and never yet against American products because the latter have been relatively high priced. Since this system was first implemented, however, it has been made more automatic in its application; reference prices have been extended to more products and have been raised to higher levels. These changes combined with two devaluations of the dollar greatly increase the likelihood that American products will be affected in the future.

An interesting feature of this system since 1972 is that compensatory taxes may be assessed on the basis of prices for domestic products rather than imports if the latter are sold on wholesale markets other than those on which price quotations are normally collected.

In 1967 the EC introduced a support system which functions in the first instance through producer organizations. Member States were to give aid for the establishment of producer groups that would be able to hold their members produce off the market at price levels not to exceed ceilings set by the Member States. In addition, for the most important products (approximately the same products for which which reference prices are fixed), the EC Council fixes "base prices" and "purchase prices" each year—the former an average of recent market prices, the latter a considerably lower figure at which under certain conditions Member States would begin to buy up produce withheld from the market by the producer groups. In effect, the system

seeks to provide more even marketing of fruits and vegetables with government intervention, if necessary, at distress prices. This system, too, has been strengthened by easing the conditions for government intervention, by increasing the number of products covered by base prices and purchase prices, and by increasing these prices.

Processed fruits and vegetables have yet to be brought completely within the Common Agricultural Policy. The common external tariff applies in all cases, and is often fairly high (20 percent or more ad valorem).

In addition, for products packed with added sugar or syrup, there is a variable levy on the calculated added sugar content. This levy is now changed every three months and is relatively low during periods when world sugar prices are high, as at present. On the other hand, the method used in calculating the quantity of added sugar does not permit the importer to know in advance what the total levy will be. Hence the system tends to be far more restrictive than it appears.

Agreement was reached only in June 1973 on a Communitywide system of protection to replace national quantitative restrictions that have been applied to a greater or lesser extent by each Member State to processed fruits and vegetables. The common system will establish minimum import prices which will be used to trigger compensatory taxes for the most sensitive products including citrus juice, canned peaches, and tomatoes and tomato products. The EC Council has also adopted and implemented "escape clauses" under which, if the EC has difficulty marketing a product, imports may be restricted by licenses. Licensing has been applied to restrict imports of apples when domestic production was in surplus and to restrict imports of tomato concentrates which were said to cause difficulty for the marketing of domestic tomatoes.

Preferential tariffs apply to many fruits and vegetables. Duty reductions vary depending on the product and the country of origin. In the case of citrus fruit, most of the Community's imports enter from Mediterranean countries at preferential rates ranging from 20 to 60 percent of the most-favored-nation rates. In June 1973 the EC Council voted to reduce the preferential rate further for Spain and Israel to 40 percent of the MFN rate. The reductions have been granted on the condition that during the main season of Community marketing (when reference prices apply), the prices are maintained by the exporting countries at specified levels somewhat above applicable reference prices. This provision was to be simplified in mid-1973 by an increase in reference prices in proportion to the increase in the margin of preference. The effect of this arrangement is to guarantee a high unit profit to the preferred supplier during seasons when reference prices apply and to assure a price preference on the EC market in other seasons. In either case the arrangement affords a commercial advantage to the preferred suppliers.

(3) PRODUCTION AND DISPOSAL POLICIES

EC fruit and vegetable marketing is intended to function insofar as possible through producer groups. Aid to their formation and operation is a basic part of the CAP. At present, producer groups account for only about 30 percent of EC production of fruits and vegetables.

When surpluses are withdrawn from the market, they may be donated to charity or provided to institutional feeding. They may also be made available to the processing industry at low cost. As a result,

EC processed fruits and vegetables are occasionally offered on world markets at very low prices. In the case of Italian oranges, for which marketing methods are said to be inadequate, the EC has authorized the payment of special subsidies, not only for processing but also for marketing fresh oranges within the EC.

Since 1970, export subsidies have been made available for fresh fruits and vegetables. Export subsidies have been available for certain processed products since 1966 on a national basis at the request of a Member State government. Since 1970 processed products have been eligible for export subsidies on a Community-wide basis.

B. IN THE NINE

In adopting the CAP for fruits and vegetables, the Three will eliminate import duties between themselves and the Six and will adopt the common external tariff in five annual steps, generally beginning January 1, 1974.

All other elements of the CAP went into force in the Three with no transition on February 1, 1973.

Quantitative restrictions maintained by the Three on fresh fruits and vegetables had to be eliminated on that date. The Treaty of Accession provided that when these restrictions were removed, if producer prices in the new member were higher than the base prices in the EC, the new members could replace the quantitative restrictions with a surcharge on imports equal in principle to the price difference. The surcharge is to be phased out in equal stages by 1978. It is presently applied on fresh apples and pears at very high initial levels, further adjusted in a discriminatory manner with regard to the customs duty. For example, for the August-December season when most U.S. trade enters, 1973 U.K. charges on fresh pears are:

[In percent]

	Ad valorem equivalent	
	On United States pears	On Italian pears
Custom duty	2.5	2.5
Surcharge	23.0	23.0
Adjustment	10.5	−2.5
Total	36.0	23.0

2. Impact on the United States

U.S. exports of fruits and vegetables fluctuate to some extent with available supplies. In general exports have increased:

Average U.S. exports to the EC

[In millions of dollars]

	1961-63	1964-66	1967-69	1970-72
Fresh fruits	19.8	22.4	22.0	21.2
Citrus	18.5	19.8	20.7	20.3
Dried fruits	8.1	9.2	8.2	11.0
Fruit juices	6.4	4.3	8.5	11.7
Canned fruit	25.8	30.8	18.7	22.2
Other fruit	1.3	1.5	1.1	1.0
Vegetables	25.1	24.4	16.2	23.4
Nuts	2.4	3.3	5.5	27.0
Total	88.9	95.9	80.2	117.5

The five main problems raised for United States exports by EC policies on fruits and vegetables are:

(1) Reference prices apply to fresh fruits, including among others oranges, lemons, apples, pears, grapes. U.S. prices have been above reference prices so far, but reference prices are rising and U.S. prices have dropped with dollar devaluation so that the possibility that U.S. products will be affected is greatly increased.

(2) Recently enacted minimum import prices on certain processed fruits and vegetables may lead to taxes or restrictions on U.S. products. Implementing regulations have not yet been adopted.

(3) Export subsidies have resulted in unusual offers of EC apples at low prices in Latin America and Scandinavia. Subsidies on processed tomato products have increased competition for U.S. products in Canada, our principal export market. Concern has been expressed by U.S. exporters at the high level of EC export subsidies on almonds.

(4) Preferential import duties on oranges have contributed to a 50-percent drop in U.S. sales to the EC of Six from 1969 to 1972. U.S. sales to the rest of the world increased over this period.

(5) Levies on the sugar added to canned fruit have made it impossible for traders to determine in advance the amount of import charges to be imposed on canned fruit sales to the EC.

M. Hops

Eighty five percent of Community production is in Germany. Imports are subject to fixed duties. In December 1972 the EC authorized the first payment, for the 1971 crop, at 250 u.a. per hectare ($110 per acre). If surpluses arises, the regulations provide that the EC could limit this aid to a specified area. Quality standards and certification are also required for both domestic and imported products.

Hops production in 1972 was estimated at 34,000 tons for the Six, of which 30,300 tons was grown in Germany. Another 10,200 tons was produced in the U.K. in 1972. U.S. exports of hops to the Six amounted to $4.6 million in 1972, and $2.2 million to the Three. The United States also imports hops from the EC: $9.2 million in 1972, of which $8.6 million came from Germany.

N. Seeds, Bulbs, Plants, Flowers

Protection for domestic seed producers is provided primarily through the registration and quality certification of desired varieties. In principle, no seeds can be marketed in the EC without prior growth trials and acceptance on EC varietal lists. Import duties are zero or low.

Imports of seed corn may be subject to a compensatory tax if priced below a reference price. Third countries that guarantee to respect this price may be exempted from the tax.

For certain grass seeds and flaxseed the EC provides a direct payment to producers. The payment is large: from 6 to 82 percent of U.S. prices as of July 1972 when the first subsidies took effect.

U.S. exports of field and garden seeds in 1972 totalled $15.4 million to the Six and $3.3 million to the Three.

The Netherlands, Italy and France are major exporters of cut flowers. The Dutch are the largest producers and exporters of flower blubs. Quality standards apply, as well as minimum export prices for flower bulbs.

Flower bulbs are an important EC export to the United States. U.S. imports in 1972 of flower bulbs totalled $17.9 million from the Six and minor amounts from the U.K.

O. Wine

France and Italy are the major producers, accounting for 48 percent and 45 percent, respectively, of the production of the Six in 1970/71. Important production areas, however, are also found in Germany and Luxembourg. France in particular is a major importer as well as exporter of wine. Imports are mainly less expensive wines imported in large containers. Exports are more largely bottled quality wines.

Wine production has always been highly protected in the EC, and it was therefore difficult to divise a common policy that would facilitate intra-Community trade. Regulations requiring the collection of statistics date from 1962. Production and marketing regulations were initiated in 1970.

To facilitate removal of intra-EC trade barriers the Community was divided into five regions. Different production standards apply in each region. Government intervention, primarily in the form of aid to storage, may be granted in any region when average producer prices for any of six types of wine fall below a specified level.

Protection against imports from third countries is provided by a host of measures, including certification as to production methods, reference prices and compensatory taxes, and the common external tariff. In practice, the compensatory taxes have an effect comparable to variable levies. Certain countries, however, are exempt for particular types of wine for which these countries have agreed to respect the reference price. In addition, imports from a number of countries receive a preferential duty rate.

The new members of the EC do not produce wine.

Wine is a major export of the EC to the United States. U.S. imports of wine from the EC totalled $148 million in 1972, up from $44 million in 1962. EC restrictions (including national restrictions before 1970) have largely excluded U.S. wines from the EC market.

P. Silk

On behalf of Italian silk production, the EC instituted a subsidy in 1972: $32.57 per box of silkworm eggs.

Q. Fish

Fishing and fish marketing fall under the purview of the Common Agricultural Policy.

One basic area of regulation concerns equal access of Member States to each other's fishing grounds except for certain areas reserved for coastal fishing. The EC Council may also regulate fishing seasons and the type of equipment used. Provision is made for financial assistance to fleet modernization, research and development, etc.

The second basic area of regulation concerns marketing and market support. Aid may be provided to producer groups that undertake market support or stabilization by withholding fish from the market.

Government market support is limited to the principal varieties of fresh, chilled and frozen fish. Government support is based on the establishment each year of an orientation price (which may have seasonal variations) at the wholesale level, or for tuna an average producer price. Government support may then take various forms—reimbursement of producer groups for withdrawal of certain fresh fish from the market, purchase of sardines and anchovies, aid to private storage of certain frozen varieties, and deficiency payments for tuna.

Protection against imports is provided by the common external tariff and for certain varieties by reference prices. Imports whose prices are calculated to be below their reference price may be suspended, limited, or subject to a compensatory tax. In a few instances, the EC has authorized Member States to retain national quantitative restrictions.

Export subsidies are available.

U.S. exports of fresh and processed fish in 1972 totalled $23 million to the Six and $28 million to the Three. The most important varieties were salmon and shrimp.

R. Other Agricultural Products

1. Subject to the CAP

In 1968 the EC Council agreed that most of the remaining products defined in the Rome Treaty as agricultural require no particular support or protection beyond that afforded by the common external tariff. Accordingly, a regulation was drawn up which provided that henceforth these products would be subject to common policy (no national restrictions or supports could apply) and only the common external tariff would apply. The EC now proposes to amend this policy by providing export subsidies for breeding animals. Some other commodities subject to this regulation but not eligible for export subsidies are: dry peas, beans and lentils, dates, tropical nuts, cocoa, coffee, tea, spices, inedible tallow, meatmeal, and feeds and feeding materials not containing grains or milk.

2. Not Yet Subject to the CAP

A few agricultural products still remain subject to national regulation. Generally they are considered sensitive enough by one or two member states that the EC could not provide for free trade with tariff protection only. Yet the EC members as a whole have so far been unwilling to provide for Community-wide support or protection. However, market regulations are being planned for several of these products.

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The most important agricultural products not yet covered by the CAP are sheep, mutton and lamb, horsemeat, potatoes, dehydrated alfalfa, chicory, honey, bananas, and alcohol. Of these products, the EC Council has agreed to establish a regulation for alcohol by August 1, 1973.

S. Non-agricultural Products

The EC has also provided that a wide range of processed foods and industrial products, such as starches and chemicals, are also subject to variable import levies and export subsidies corresponding to the levies and subsidies that would apply to the agricultural ingredients. That is, to offset the higher cost of EC supported grains, milk, sugar, and eggs, EC manufacturers of many products (e.g. candy and chocolate, biscuits, noodles, cake mixes, cereal or milk based baby food, breakfast food, other processed foods, starches and glazings) are protected not only by a fixed tariff but also by a variable levy on the grain, milk or sugar contained in these products. The manufacturer may also obtain an export subsidy on the grain, milk, sugar or eggs contained in the manufactured product.

III. Exchange Rate Changes and the CAP

Just as the elimination of trade barriers between the Member States requires agreement on the price support levels to be applied in each Member State, so the maintenance of these price relationships requires stable exchange rates. Otherwise, intra-Community customs charges must be reintroduced.

For example, in 1969 France devalued the franc 12.5 percent. A product supported at an intervention price of 100 francs in France could upon devaluation be shipped to an intervention agency in another Member State and sold for the equivalent of 112.5 francs. Or it could be exported with a subsidy to a third country and reimported into another Member State with a levy and still be sold more profitably than in France. Similarly a Frenchman would have had to pay 112.5 francs for an imported product that should cost only 100 francs. Therefore rather than change French support prices abruptly, for products subject to intervention prices France applied offsetting export taxes and import subsidies for two years both in trade with other Member States and in trade with third countries. Support levels were raised in stages over this period to restore the relationships required by common pricing.

In 1969, Germany revalued the mark upward by 8.5 percent. A product supported in Germany at an intervention price of 100 marks could be imported from other Member States and third countries who could sell it to Germany after revaluation for the equivalent of 91.50 marks (levy paid, in the case of third countries). Germany, however, in contrast with France, agreed to reduce support prices almost immediately to the "common" level. Germany was authorized to compensate farmers for the lower prices by means of special payments for structural and social assistance for four years.

In May 1971 Germany and the Netherlands found it necessary to allow their currencies to float (upward in value). This time, since international monetary uncertainties seemed likely to continue for a while, it was not considered possible to adjust support prices. Con-

sequently Germany and the Netherlands instituted a system of import surcharges and supplementary export subsidies on products affected by the price support system.

Common prices, as well as import levies, export subsidies and other payments are denominated in "units of account," then officially equal to the United States dollar. Hence the amount of monetary surcharge or subsidy needed to offset the floating of the mark or the Dutch guilder in relation to the unit of account was calculated weekly from the percentage change in these currencies in relation to the dollar.

In the Smithsonian Agreement of December 1971 new exchange rates were fixed for the dollar; however it was not until May 1972 that the parity between the dollar and the unit of account was changed to $1.0857 = UA 1.00. As a consequence, variable levies, calculated in units of account, were automatically increased on products priced in dollars and the monetary surcharge cut. For example, a shipment valued at $100 before devaluation might pay a levy of $80 and a surcharge in Germany of $13.57. After devaluation the same shipment would pay a levy of $88.57 and a surcharge of $5.

Since with floating exchange rates no two Member State currencies necessarily float up or down by the same percentage, different surcharges and subsidies may be necessary between each Member State and each other Member State and third countries for the same product. At one point, in February 1973 following the second dollar devaluation, the EC Commission was calculating 56 different surcharges for each product. This system broke down because the Commission found itself unable to publish the changes on a timely basis. Two revisions were made by June 1973 to reduce the number of calculations necessary and to transfer the responsibility for calculation to the Member States as far as possible.

Nevertheless the system is highly vulnerable to further monetary pressures and the Member States are largely unwilling or unable to consider price adjustments to restore common pricing. A small movement in this direction was made at the end of April 1973, when Germany agreed to forego part of the 1973/74 price increases agreed for the milk sector and Italy agreed to raise prices by 1 percent.

On June 29, 1973, Germany announced a 5.5 percent revaluation of the mark, so that yet another adjustment in the system was necessary in order to leave German price levels unaffected.

A permanent solution may await, as Germany insists, an EC agreement on monetary union, in which there is either a single currency or all currencies are interchangeable at fixed rates. Monetary union, however, implies that no EC member can devalue or revalue to fight a depression or to curb inflation or for any other reason. So far, no EC country has been willing to renounce this right.

In the meantime, the surcharge system and changes in the dollar—unit of account relationship imply an automatic increase in variable levies to offset any benefits the United States might expect to gain from devaluation. For example, on March 1, 1973, a German importer of U.S. corn would have paid a levy per ton of DM 139.81, adjusted for monetary changes to DM 143.94. At 1970 exchange rates, the German importer would have paid a lower levy, with no adjustments, of DM 89.63. Monetary adjustments correspond to a 61-percent increase in levies in this case.

IV. Consumer Protection

Consumer protection legislation remains on a national basis, although the Community is making an effort to standardize national laws in a wide variety of areas.

In the field of animal health the Community has so far adopted directives to standardize national laws governing intra-Community trade and trade with third countries in cattle, pigs and meat from these animals, and poultry and poultry meat. The directives concern health standards for trade in live animals, slaughter and meat cutting, and inspection of animals and meat.

In the field of plant health there is little Community legislation to date except for a directive specifying residue levels in the use of diphenyl as a preservative on citrus fruit. The Commission has been working for many years, however, to reach agreement on the use of pesticides and other agricultural chemicals.

In the field of food health the Community has agreed on recognized lists of food colors, preservatives and antioxidants. Directives are under study concerning emulsifiers, stabilizers, and many other chemical additives. In addition, there are a great many proposals to set Community standards for the manufacture and packaging of specific products such as chocolate and confectionery, fruit juices, soups, jams and jellies, butter, margarine, bread, noodles and macaroni, honey, and beer.

The Community has also adopted directives regulating or restricting the use of additives in animal feeds.

V. Reform of the CAP

In designing the CAP the Member States had in mind the primary need to eliminate trade barriers inside the Community. Consequently, the CAP aims above all to regulate prices. However, it became apparent within a few years that a price policy alone could not at the same time promote efficiency and maintain the income of very small farms, or increase prices of farm products at a pace with rising costs without adding to inflation and surpluses.

In December 1968, the Commission published a memorandum to the Council recommending large and expensive programs to reform the structure of farming in the EC. The memorandum—known as the "Mansholt Plan" after Sicco Mansholt, EC Commission Vice President and from 1958 to 1972 Commissioner with responsibility for agriculture—called for the expenditure of some $2.5 billion per year over 10 years in programs to withdraw from production about 5 million hectares (equivalent to one-third of the farm land in Germany), reduce the number of farmers by half, and restructure the remaining farms into larger and more efficient units. After an initial period of debate the objectives of the memorandum were generally accepted, but the recommendations were not adopted because the Member States were not in agreement over the cost, how the authority and benefits should be distributed, whether the specific proposals would meet the objectives and, finally, whether the improvement in productivity contemplated would in fact permit a reduction in surpluses and support costs.

In May 1971, the EC Council agreed on guidelines for a more limited structural policy. Specific directives to implement those guidelines were finally adopted in April 1972.

The first of these directives concerns selective aid to full-time farmers who present a plan for the modernization of their farm over a period of six years and who can demonstrate that they have the professional ability, including the keeping of adequate accounts, to achieve it. In fact relatively few farmers meet the standards of eligibility.

Another directive calls for grants to farmers between 55 and 65 years of age who agree to stop farming. The grant is limited to $724 per year [1] for single farmers and $1,086 per year [1] for married farmers to age 65 only. In theory, farmers over 65 years are to be covered by national insurance programs. In addition Member States are authorized to pay a grant for the farm land released.

Member States have the option further to limit the aid provided under these first two directives to certain regions most in need.

A third directive provides funds for vocational advisers and technical training, including aid in the keeping of accounts. In principle some further assistance in retraining should be available from the European Social Fund.

Still to be worked out are proposed programs for regional development aimed at subsidizing the development of industry in low income areas, and aid to hill farming.

In the meantime, other studies have appeared in Europe, which parallel or even go beyond the recommendations in the Mansholt Plan.

In August 1969, the French Government published the report of the Vedel Commission, which had been appointed in 1967 to study the problems facing French agriculture. The Commission's recommendations—not accepted by the French government—were that by 1985 the number of French farms should be reduced by 75 percent and the French agricultural area cut by more than one-third. Grants should be given to modernize the farm structure and for social assistance including pensions and retraining. Moreover, prices should be reduced, in particular for grains and sugar.

In May 1972, the EC Commission released a report on the competitive ability of the European Community. The report was prepared in 1971 at the request of the EC Commission by a group of experts headed by Pierre Uri of the Atlantic Institite. The "Uri Report's" recommendations—not accepted by the European Commission—were to reduce prices of products in surplus and compensate farmers by direct income subsidies graduated by size of farm. The cost of such a policy was estimated at less than $3 billion per year.

The EC Commission has itself suggested certain revisions in EC price policies, particularly in connection with 1970/71 price proposals—e.g. maintaining the level of protection against third countries but making modest cuts (1 to 2 percent) in intervention prices for grains, allowing intervention only in the last four months of the marketing year, replacing the present intervention price structure for grains, by a single price based on export ports. These ideas were aimed mainly at shifting the burden of surplus disposal to the export market.

[1] Converted from units of account at $1.20635 = UA 1.00.

Finally, when the Commission was preparing price proposals for 1972/73 and 1973/74, Altiero Spinelli, one of the Italian Commissioners suggested that support prices be raised only for livestock products and that direct payments of about $8 per acre be granted to farmers for about the first 50 acres planted to grains.

Certain other limited proposals put forward by the Commission in recent years have been adopted—especially in the milk sector: premiums for the slaughter of dairy cattle or non-delivery of milk to the dairy, premiums for converting dairy heards to beef herds, an increase in the support price for nonfat dry milk relative to that for butter.

VI. Financing

The cost of agricultural support is met through the European Agricultural Guidance and Guarantee Fund, established in 1962. The expenditures of the Fund account for the lion's share—76 percent in 1973—of the total Community budget. The Fund was budgeted to spend an estimated $3.7 billion[1] in 1973 out of total budgeted Community expenditures of $4.9 billion.[1]

The most essential feature of the Fund is that there is no limit on expenditures. The annual budget figure is no more than a guess as to what may be required in the light of estimates of Community surpluses and trends in world prices. When, for example, the EC seizes the opportunity to sell large stocks of butter on world markets, there is a corresponding unanticipated drain on Community resources. On the other hand, if there is an unexpected rise in world prices, there is a corresponding unexpected drop both in receipts from variable import levies and in expenses for export subsidies.

Variable levies accounted for only 16 percent of estimated total Community revenues for 1973. The breakdown of estimated Community revenues for 1973 was as follows:

Community revenues:	Million of dollars[1]
From the Six:	
Levies on agricultural imports	829
Taxes on over-quota sugar	179
Custom duties	1,573
From the Three	501
Coal and steel levies	22
Employee contribution	21
Direct contributions of member states	1,987
Miscellaneous	11
Total	5,121

[1] Converted from units of account at $1.20635=UA 1.00.

From July 1962 through 1970, expenditures by Community institutions were covered by contributions from the Member States according to different formulas. The Fund was financed separately, in part by levy receipts. A transition began in 1971 with the development of an independent revenue system for the Community, under which the Fund is no longer financed separately. Community revenues consist of

[1] At $1.20635=UA 1.00.

all levies received by the Member States (less a small percentage to cover the cost of administration) and a share of the customs duties received by the Member States, which will rise to 100 percent in 1975. Until 1975, if levies and customs duties received by the Community are not sufficient to meet expenditures, the Community will assess additional funds from Member States according to a highly complex burden-sharing formula. The formula takes account, among other things, of the size of the country and the extent to which customs receipts reflect imports from transshipment to other Member States. Beginning in 1975 this assessment, if required, will be met by allocating to the Community up to 1 percent of the value-added tax collected in the Member States.

Expenditures for agriculture are handled by the Fund under two sections: the Guarantee Section and the Guidance Section.

The Guarantee Section pays for export subsidies and price support operations such as market intervention, denaturing premuims, buyers premiums for tobacco, aid to oilseed crushers, processing, storage and disposal operations, etc. Expenses under the Guarantee Section in 1971 are reported as follows:

[In millions of dollars][1]

	Export subsidies	Other	Total
Grains	310	204	514
Rice	53	1	54
Dairy products	323	292	615
Oilseeds, olive oil	2	121	123
Sugar	69	51	120
Beef, veal	19	2	21
Pork	53	3	56
Poultry, eggs	13		13
Fruit, vegetables	8	51	59
Wine	(2)	31	31
Tobacco		80	80
Fish	(2)	(2)	(2)
Flax, hemp		1	1
Processed foods	20		20
Total	870	836	1,706

[1] Converted from units of account at $1.08571 = UA 1.00.
[2] Less than $500,000.

The Guidance Section pays for assistance to improvements to the structure of production, storage and marketing. Such assistance has been given in the form of grants to projects drawn up by the Member States and financed in part by the beneficiary, in part by the national government, and 25 percent (exceptionally 45 percent) by the Guidance Section of the Fund. In future years priority will be given in the Guidance Section to financing the structural reform measures described in Part V above.

The Guidance Section has also been used for special expenditures such as livestock censuses, disease control, aid to the formation of producer groups, and "compensation" to one or another Member State for delays in extending the CAP to a product of interest to that country.

The level of expenditures of the Guidance Section, in contrast with with the Guarantee Section, has been limited. The present ceiling is 285 million units of accounts ($344 million [1]). However, from 1969 to 1972 the EC held part of these funds in reserve with a view to using them to finance Community programs for structural reform. The latter were not drawn up until April 1972 (see Part V). At the end of 1972, the reserve totalled 438 million units of account ($528 million [1]).

EC Member States also continue to spend large sums on a national basis on behalf of agriculture, although they are prohibited from engaging in price support and other commodity oriented programs that have a direct impact on competition. Spending by national governments is on the order of $5 billion annually, and covers capital investments such as irrigation, roads, electrification, and water supply, and covers other areas such as pensions and insurance, information and extension services, research, inspection, statistical and economic services, forest management, etc.

VII. Evaluation

Any common agricultural policy must meet at least two objectives: it must make possible the elimination of barriers to trade in agricultural products between the Member States and it must be able to assure farmers of an adequate income. The Rome Treaty adds several other objectives for the CAP: to ensure the rational development of agriculture and optimum use of resources (especially labor), to stabilize markets, to guarantee regular supplies, and to assure reasonable prices to consumers. The Rome Treaty does not consider the relationship between these objectives and the objective of harmonious development of world trade referred to in the section of the Treaty on commercial policy.

Each of the foregoing CAP objectives raises certain problems, however, either for the EC itself or for third countries, or both. These problems are discussed below.

Elimination of duties and restrictions on trade between the Member States is by definition essential to the economic integration of these countries. The issue is the extent to which competition must be regulated in this process. On the one hand, it is economically disruptive for one Member State to provide relatively more assistance to its farmers than another Member State. On the other hand, it is difficult to cut support without reducing income. Thus the objective tends to become the establishment of a common level of assistance at the highest level previously existing in any one Member State.

Under the Common Agricultural Policy, regulation of the price level was adopted as almost the *only* form of assistance. Hence agricultural support prices tended to be fixed at the highest levels previously prevailing. (Direct payments are used only for products for which EC output is relatively small: oilseeds, durum, etc.) One important consequence is that the average level of protection against agricultural imports also tends to be higher than that previously

[1] $1.20635 = UA 1.00.

existing. Thus the fixing of common prices for the agricultural products tends to overcompensate for unequal prior support levels and tends to make the cost structure more rigid. The latter result is particularly important in relation to the objective of maintaining and raising farm income. As an economy grows, and income in general rises, more of the increase is usually spent on nonagricultural products. The demand for resources to produce nonagricultural products helps push up the prices of farm inputs as well, and farm costs usually rise faster than farm prices.

If farm income is not to decline, the cost-price squeeze must be offset by higher productivity. However, unless resources (land, farmers) are then removed from agriculture, farm output will rise with higher productivity and will tend to depress prices. If, in addition, prices are maintained or increased by government regulation, production will rapidly outpace consumption, surpluses will appear, and support costs will mount. These criticisms in fact underlie the recommendations in the Mansholt Plan and other studies mentioned in Part V. The EC, however, has been rather slow to respond to these recommendations, particularly those calling for lower prices and lower protection.

High prices for farm products also tend to raise prices for farm land and capital so that cost reduction is prevented. Trying to maintain farm income by raising prices tends therefore to be selfdefeating and to lead to demands for further price increases, in particular from small farms who cannot easily find financing for capital improvements and who must otherwise dig into existing capital in order to live. Similarly, farmers are discouraged from livestock production because of the relatively greater investment required.

A further objective of the CAP stipulated in the Rome Treaty is the rational development of agriculture and optimum use of labor and other resources. The EC has considered this objective, for example, in trying to raise prices relatively more for livestock products than for grains, since demand for the former appears the stronger. Little thought has been given to reducing grain prices and other costs for the benefit of livestock producers and other consumers. However, as described above, if per capita income in the agricultural sector is to be maintained, productivity must be raised in a manner that permits resources to flow out of agriculture and that permits the structure of the remaining agricultural production to change markedly.

This problem cannot be resolved by minor price adjustments, nor even by action solely within the agricultural sector. Jobs must be available outside agriculture for farmers to move to. To a large extent these jobs must be available in the areas where the farmers now live, in part in order to provide a supplement to farm income rather than requiring farmers to abandon entirely their homes and livelihood. The EC is well aware of this aspect of the problem, but has only begun to consider ways to deal with it on a common "Community" basis.

Two other objectives specified in the Rome Treaty are market stability and the guarantee of regular supplies. Both of these objectives raise questions of interpretation. In the extreme, market stability can mean total insulation of the market from the effects of changes in supply and demand, while a guarantee of regular supplies could be interpreted as a policy of self-sufficiency. To the extent that the CAP is developed to this extreme the interests of third countries are clearly excluded.

Finally, according to the Rome Treaty, the CAP should provide for reasonable prices to consumers. In the past the EC has tended to define reasonableness in relation to income. For example, from 1960 to 1970 the proportion of private domestic consumption in the EC spent on food, beverages and tobacco—notwithstanding high and rising farm support prices—declined from 41 percent in 1960 to 34 percent in 1970.

At the same time, however, EC consumers have had to pay prices for farm products far above those in other countries. The excess cost has in the past been variously estimated at up to $8 billion per year. (The figure would, of course, be lower in 1973 in view of the unusual world market conditions.) In 1973 inflation became a major factor in many countries and appears to have led the EC to take more account than usual of consumer interests when support prices were fixed for 1973/74. On the other hand, except for minor crops, the EC has not seriously considered the use of direct payments as an alternative to high prices. Reasons often advanced by the EC are the administrative difficulty of establishing direct payments for a large number of small farmers, and the political difficulty of shifting the cost from an indirect burden on consumers to a direct budgetary expenditure.

Finally the CAP may be assessed in terms of the principles of common pricing, Community preference, and common financing. Common pricing, in fact, has broken down under the impact of international monetary conditions that have forced changes in exchange rates and hence the intra-EC price relationships. How common pricing is implemented in the future in relation to assistance to farmers outside of direct price support will largely determine whether EC farm income objectives will be met. Community preference has to do mainly with the form and margin of protection against imports from third countries. At present the forms of protection and the level are often tied closely to the internal price system in spite of the problems this procedure raises both for the EC and for third countries. U.S. spokesmen have consistently maintained that to meet the basic objectives of the CAP and the EC does not need some of the forms of protection nor as high a level of protection as it has chosen. Common financing has been viewed by the EC mainly in terms of funding joint expenses, whatever they may turn out to be. The benefits consequently tend to be distributed largely to those countries which are the largest producers, rather than, say, to the countries whose farmers are poorest or most numerous. Much of the debate over reform of the CAP in fact reflects this situation, and any substantial change in the CAP involves a thorough assessment not only of the costs, but of the distribution of benefits.

As far as U.S. exports are concerned, the impact of the CAP can be seen in part from the following data:

Commercial U.S. Agricultural Exports

[Dollar amounts in millions]

	1962	1972	Increase (percent)
To the six	$1,125	$2,108	87
To others	2,430	6,230	156

If food aid exports are added, the picture is obscured somewhat, especially for wheat. Nevertheless, the following table also shows that for most categories of exports U.S. trade increased faster with the rest of the world than with the EC. The major exception is oilseeds and oilcake, for which the EC market expanded more rapidly in large part because of the high cost of grains under the variable levy system.

[Dollar amounts in millions]

	Total U.S. agricultural exports					
	To the 6			To others		
	1962	1972	Increase (percent)	1962	1972	Increase (percent)
Wheat and flour	$64.3	$94.8	47	$1,069.6	$1,360.8	27
Feedgrains	317.6	394.1	24	470.5	1,128.0	140
Rice	14.2	16.9	19	138.5	371.2	168
Poultry	50.3	10.6	−79	25.5	37.6	47
Oilseeds, oilcake	220.1	915.5	316	410.8	1,176.6	186
Tobacco	105.5	168.5	60	267.9	503.5	88
Fruits, vegetables	94.4	133.9	42	354.7	644.5	82
Cotton	106.0	61.0	−42	412.9	441.8	5
Other	178.3	313.2	76	721.3	1,631.1	126
Total	1,150.7	2,108.5	83	3,880.7	7,295.1	88

The effect of variable levies can be judged from the following comparison:

[Dollar amounts in millions]

	U.S. Agricultural exports to the EC-6		
	1962	1972	Increase (percent)
Variable levy items	$480	$539	12
Nonlevy items	671	1,570	134
Total	1,151	2,109	83

From the viewpoint of third countries like the United States, the effect of the CAP is to squeeze out imports as domestic production rises, and to disrupt markets in third countries by subsidizing exports. U.S. exports to the EC (Six) subject to variable levies averaged $478 million during the last 3 years (1970-72)—down 20 percent from 1965-67, the last 3 years before complete freedom of intra-EC trade for most variable levy products. Total U.S. agricultural exports to the EC averaged $1.8 billion during 1970-72, up 22 percent over 1965-67 and 61 percent higher than in 1960-62 (before the CAP was established). Nearly all of this increase in U.S. agricultural exports to the EC can be accounted for by oilseeds (especially soybeans) and oilcake which rose from $176 million in 1960-62 to $788 million in 1970-72. These products are not subject to a variable levy and enter the EC duty free.

U.S. agricultural exports to the three new EC members in 1970-72 averaged $566 million, of which $179 million corresponds to grains and other products now under the variable levy system. The direct impact of EC enlargement on U.S. agricultural exports can be foreseen fairly clearly in that the adoption of higher prices and protection by the new members is certain to lead to the same problems already experienced with the present members. It is expected, for example, that the enlarged Community will no longer be a net importer of grains within 10 years.

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Study No. 13.—"An Analysis of Whether or Not Greater Flexibility in Foreign Exchange Rates Would Serve in the Interests of United States and World Trade."

The question whether greater exchange rate flexibility is in the interests of U.S. and world trade can be assessed in terms of two somewhat different considerations:

—first, whether greater flexibility can contribute to a better world payments equilibrium and thereby to an atmosphere more conducive to a rational expansion of world trade free from governmental restriction or inducement; and

—second, a more technical question whether greater rate flexibility necessarily tends through increased risk to raise the cost of international transactions and thereby to reduce the volume of trade as compared with a system of "fixed" rates.

Our judgment is that the answer to the first question is positive. It is widely acknowledged that a major factor leading to the increasing instability and eventual collapse of the Bretton Woods monetary system was the failure of countries to implement effective and timely policies to moderate their balance of payments surpluses and deficits. It is also generally agreed that a major factor contributing to inadequate adjustment was the rigidity of the exchange rate mechanism and that greater exchange rate flexibility is a basic need of a reformed system. The United States strongly supports this view. More flexible exchange rate arrangements need not mean less stable exchange rates—a more adaptable exchange rate mechanism can contribute to a greater stability of the system as a whole.

The U.S. has presented comprehensive proposals to the Committee of Twenty—the group charged with negotiation of world monetary reform—which would provide strong and balanced incentives for adjustment of payments disequilibria and which incorporate provisions for more flexible use of the exchange rate mechanism. We believe that these proposals would greatly improve the process of balance of payments adjustment and provide a sounder and more stable basis for the development of U.S. and world trade in the future.

While the U.S. proposals assume that most countries will wish to maintain stable but adjustable par values for their currencies most of the time (which should be adjusted in a timely manner when they become inappropriate), they also recognize the contribution that more innovative techniques—wider margins of exchange rate fluctuation and floating exchange rates—can make toward an improved process of balance of payments adjustment. Specifically, the United States has proposed:

1. That wider margins of exchange rate fluctuation (on the order of the 2¼ percent margins agreed provisionally in the Smithsonian Agreement of 1971) be made a permanent feature of the system; and that these wider margins be available for use

by all countries, including the United States, in contrast to the arrangements in the past. We believe that arguments in favor of wider margins are persuasive, in particular:

(*a*) that they can help to discourage disequilibrating capital flows, thus absorbing pressures which would otherwise bring large changes in reserves and/or lead countries to impose controls on trade and payments;

(*b*) that they permit greater independence for national monetary policies by reducing the sensitivity of mobile capital to differences in money market conditions among nations; and

(*c*) that they can facilitate small changes in par value.

2. That countries be permitted to float their exchange rates, under appropriate international surveillance and agreed standards. Exchange rate floats can provide a useful means of responding to destabilizing capital flows, particularly in periods of pronounced exchange market uncertainty; greatly facilitate a transition from one par value to another, particularly where there is considerable uncertainty as to the appropriate level of the exchange rate; and provide a mechanism for payments adjustment more closely responsive to market forces over a more extended period.

With respect to the second question, we find no persuasive evidence that greater exchange rate flexibility has a damaging impact on trade. It should be noted that the term "greater flexibility" can cover various arrangements significantly different in technical detail. What the U.S. has proposed, and what is being discussed in the reform negotiations, is a system centered on stable but adjustable par values, with wider margins and provision for floating in particular circumstances. Neither a generalized freely floating exchange rate regime nor a system of "crawling exchange rate pegs" is envisaged as the result of reform or is under international discussion in the reform effort.

Nevertheless, the limited evidence available regarding the effects of more flexible exchange rates on trade relates primarily to experience with floating rates—the extended float of the Canadian dollar between 1950 and 1962. and the interim floating arrangements that were adopted by most industrial countries in mid-March 1973. Our analysis of the Canadian experience has produced no evidence that the flexible exchange rate regime adopted by Canada during 1950–1962 had an adverse impact on Canadian trade or that of other countries. Nor does the recent experience with widespread floating—although brief and under most difficult circumstances—lend support to the hypothesis that greater flexibility harms world trade. Such evidence as is available, while not conclusive for the longer run, suggests that the present transitional arrangements have not seriously affected, in one direction or another, the volume of world trade.

In conclusion, we believe that a reformed monetary system must yield more prompt, effective, and symmetrical payments adjustment than in the past. This is essential if we are to avoid the imbalances, uncertainties, and crises of recent years, and the tendencies toward damaging trade restrictions and protectionism which they produce. Greater flexibility of exchange rates—through wider margins and exchange rate floats, as well as more timely discrete changes in par value—is one essential element of an improved adjustment process and monetary system. Our judgment is that possible adverse technical effects of greater flexibility, if any, are outweighed by the benefits for U.S. and world trade to be derived from the contribution of more adaptable exchange rate arrangements to a smoothly operating process of balance of payments adjustment.

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Appendix—General Agreement on Tariffs and Trade

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THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The Governments of the COMMONWEALTH OF AUSTRALIA, the KINGDOM OF BELGIUM, the UNITED STATES OF BRAZIL, BURMA, CANADA, CEYLON, the REPUBLIC OF CHILE, the REPUBLIC OF CHINA, the REPUBLIC OF CUBA, the CZECHOSLOVAK REPUBLIC, the FRENCH REPUBLIC, INDIA, LEBANON, the GRAND-DUCHY OF LUXEMBURG, the KINGDOM OF THE NETHERLANDS, NEW ZEALAND, the KINGDOM OF NORWAY, PAKISTAN, SOUTHERN RHODESIA, SYRIA, the UNION OF SOUTH AFRICA, the UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, and the UNITED STATES OF AMERICA:

Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods,

Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce,

Have through their Representatives agreed as follows:

PART I

Article I

General Most-Favoured-Nation Treatment

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, * any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

2. The provisions of paragraph 1 of this Article shall not require the elimination of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 4 of this Article and which fall within the following descriptions:

(*a*) Preferences in force exclusively between two or more of the territories listed in Annex A, subject to the conditions set forth therein;

(*b*) Preferences in force exclusively between two or more territories which on July 1, 1939, were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C and D, subject to the conditions set forth therein;

(*c*) Preferences in force exclusively between the United States of America and the Republic of Cuba;

(*d*) Preferences in force exclusively between neighbouring countries listed in Annexes E and F.

3. The provisions of paragraph 1 shall not apply to preferences between the countries formerly a part of the Ottoman Empire and detached from it on July 24, 1923, provided such preferences are approved under paragraph 5 † of Article XXV, which shall be applied in this respect in the light of paragraph 1 of Article XXIX.

† The authentic text erroneously reads " sub-paragraph 5 (*a*) ".

4. The margin of preference * on any product in respect of which a preference is permitted under paragraph 2 of this Article but is not specifically set forth as a maximum margin of preference in the appropriate Schedule annexed to this Agreement shall not exceed:

(*a*) in respect of duties or charges on any product described in such Schedule, the difference between the most-favoured-nation and preferential rates provided for therein; if no preferential rate is provided for, the preferential rate shall for the purposes of this paragraph be taken to be that in force on April 10, 1947, and, if no most-favoured-nation rate is provided for, the margin shall not exceed the difference between the most-favoured-nation and preferential rates existing on April 10, 1947;

(*b*) in respect of duties or charges on any product not described in the appropriate Schedule, the difference between the most-favoured-nation and preferential rates existing on April 10, 1947.

In the case of the contracting parties named in Annex G, the date of April 10, 1947, referred to in sub-paragraphs (*a*) and (*b*) of this paragraph shall be replaced by the respective dates set forth in that Annex.

Article II

Schedules of Concessions

1. (*a*) Each contracting party shall accord to the commerce of the other contracting parties treatment no less favourable than that provided for in the appropriate Part of the appropriate Schedule annexed to this Agreement.

(*b*) The products described in Part I of the Schedule relating to any contracting party, which are the products of territories of other contracting parties, shall, on their importation into the territory to which the Schedule relates, and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for therein. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date.

(*c*) The products described in Part II of the Schedule relating to any contracting party which are the products of territories entitled under Article I to receive preferential treatment upon importation into the territory to which the Schedule relates shall, on their importation into such territory,

and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for in Part II of that Schedule. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date. Nothing in this Article shall prevent any contracting party from maintaining its requirements existing on the date of this Agreement as to the eligibility of goods for entry at preferential rates of duty.

2. Nothing in this Article shall prevent any contracting party from imposing at any time on the importation of any product:

(*a*) a charge equivalent to an internal tax imposed consistently with the provisions of paragraph 2 of Article III * in respect of the like domestic product or in respect of an article from which the imported product has been manufactured or produced in whole or in part;

(*b*) any anti-dumping or countervailing duty applied consistently with the provisions of Article VI;*

(*c*) fees or other charges commensurate with the cost of services rendered.

3. No contracting party shall alter its method of determining dutiable value or of converting currencies so as to impair the value of any of the concessions provided for in the appropriate Schedule annexed to this Agreement.

4. If any contracting party establishes, maintains or authorizes, formally or in effect, a monopoly of the importation of any product described in the appropriate Schedule annexed to this Agreement, such monopoly shall not, except as provided for in that Schedule or as otherwise agreed between the parties which initially negotiated the concession, operate so as to afford protection on the average in excess of the amount of protection provided for in that Schedule. The provisions of this paragraph shall not limit the use by contracting parties of any form of assistance to domestic producers permitted by other provisions of this Agreement.*

5. If any contracting party considers that a product is not receiving from another contracting party the treatment which the first contracting party believes to have been contemplated by a concession provided for in the appropriate Schedule annexed to this Agreement, it shall bring the matter directly to the attention of the other contracting party. If the latter agrees that the treatment contemplated was that claimed by the first contracting party, but declares that such treatment cannot be accorded because a court or other proper authority has ruled to the effect that the product involved

cannot be classified under the tariff laws of such contracting party so as to permit the treatment contemplated in this Agreement, the two contracting parties, together with any other contracting parties substantially interested, shall enter promptly into further negotiations with a view to a compensatory adjustment of the matter.

6. (*a*) The specific duties and charges included in the Schedules relating to contracting parties members of the International Monetary Fund, and margins of preference in specific duties and charges maintained by such contracting parties, are expressed in the appropriate currency at the par value accepted or provisionally recognized by the Fund at the date of this Agreement. Accordingly, in case this par value is reduced consistently with the Articles of Agreement of the International Monetary Fund by more than twenty per centum, such specific duties and charges and margins of preference may be adjusted to take account of such reduction; *Provided* that the CONTRACTING PARTIES (*i.e.*, the contracting parties acting jointly as provided for in Article XXV) concur that such adjustments will not impair the value of the concessions provided for in the appropriate Schedule or elsewhere in this Agreement, due account being taken of all factors which may influence the need for, or urgency of, such adjustments.

(*b*) Similar provisions shall apply to any contracting party not a member of the Fund, as from the date on which such contracting party becomes a member of the Fund or enters into a special exchange agreement in pursuance of Article XV.

7. The Schedules annexed to this Agreement are hereby made an integral part of Part I of this Agreement.

PART II

Article III *

National Treatment on Internal Taxation and Regulation

1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.*

2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.*

3. With respect to any existing internal tax which is inconsistent with the provisions of paragraph 2, but which is specifically authorized under a trade agreement, in force on April 10, 1947, in which the import duty on the taxed product is bound against increase, the contracting party imposing the tax shall be free to postpone the application of the provisions of paragraph 2 to such tax until such time as it can obtain release from the obligations of such trade agreement in order to permit the increase of such duty to the extent necessary to compensate for the elimination of the protective element of the tax.

4. The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

5. No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources. Moreover, no contracting party shall otherwise apply internal quantitative regulations in a manner contrary to the principles set forth in paragraph 1.*

6. The provisions of paragraph 5 shall not apply to any internal quantitative regulation in force in the territory of any contracting party on July 1, 1939, April 10, 1947, or March 24, 1948, at the option of that contracting party; *Provided* that any such regulation which is contrary to the provisions of paragraph 5 shall not be modified to the detriment of imports and shall be treated as a customs duty for the purpose of negotiation.

7. No internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions shall be applied in such a manner as to allocate any such amount or proportion among external sources of supply.

8. (*a*) The provisions of this Article shall not apply to laws, regulations or requirements governing the procurement by governmental agencies of products purchased for governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

(*b*) The provisions of this Article shall not prevent the payment of subsidies exclusively to domestic producers, including payments to domestic producers derived from the proceeds of internal taxes or charges applied consistently with the provisions of this Article and subsidies effected through governmental purchases of domestic products.

9. The contracting parties recognize that internal maximum price control measures, even though conforming to the other provisions of this Article, can have effects prejudicial to the interests of contracting parties supplying imported products. Accordingly, contracting parties applying such measures shall take account of the interests of exporting contracting parties with a view to avoiding to the fullest practicable extent such prejudicial effects.

10. The provisions of this Article shall not prevent any contracting party from establishing or maintaining internal quantitative regulations relating to exposed cinematograph films and meeting the requirements of Article IV.

Article IV

Special Provisions relating to Cinematograph Films

If any contracting party establishes or maintains internal quantitative regulations relating to exposed cinematograph films, such regulations shall take the form of screen quotas which shall conform to the following requirements:

(*a*) Screen quotas may require the exhibition of cinematograph films of national origin during a specified minimum proportion of the total screen time actually utilized, over a specified period of not less than one year, in the commercial exhibition of all films of whatever origin, and shall be computed on the basis of screen time per theatre per year or the equivalent thereof;

(*b*) With the exception of screen time reserved for films of national origin under a screen quota, screen time including that released by administrative action from screen time reserved for films of national origin, shall not be allocated formally or in effect among sources of supply;

(*c*) Notwithstanding the provisions of sub-paragraph (*b*) of this Article, any contracting party may maintain screen quotas conforming to the requirements of sub-paragraph (*a*) of this Article which reserve a minimum proportion of screen time for films of a specified origin other than that of the contracting party imposing such screen quotas; *Provided* that no such minimum proportion of screen time shall be increased above the level in effect on April 10, 1947;

(*d*) Screen quotas shall be subject to negotiation for their limitation, liberalization or elimination.

Article V

Freedom of Transit

1. Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this Article " traffic in transit ".

2. There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport.

3. Any contracting party may require that traffic in transit through its territory be entered at the proper custom house, but, except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions and shall be exempt from customs duties and from all transit duties or other charges imposed in respect of transit, except charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered.

4. All charges and regulations imposed by contracting parties on traffic in transit to or from the territories of other contracting parties shall be reasonable, having regard to the conditions of the traffic.

5. With respect to all charges, regulations and formalities in connection with transit, each contracting party shall accord to traffic in transit to or from the territory of any other contracting party treatment no less favourable than the treatment accorded to traffic in transit to or from any third country.*

6. Each contracting party shall accord to products which have been in transit through the territory of any other contracting party treatment no less favourable than that which would have been accorded to such products had they been transported from their place of origin to their destination without going through the territory of such other contracting party. Any contracting party shall, however, be free to maintain its requirements of direct consignment existing on the date of this Agreement, in respect of any goods in regard to which such direct consignment is a requisite condition of eligibility for entry of the goods at preferential rates of duty or has relation to the contracting party's prescribed method of valuation for duty purposes.

7. The provisions of this Article shall not apply to the operation of aircraft in transit, but shall apply to air transit of goods (including baggage).

Article VI

Anti-dumping and Countervailing Duties

1. The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

(*a*) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,

(*b*) in the absence of such domestic price, is less than either

(i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or

(ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.*

2. In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.*

3. No countervailing duty shall be levied on any product of the territory of any contracting party imported into the territory of another contracting party in excess of an amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the country of origin or exportation, including any special subsidy to the transportation of a particular product. The term " countervailing duty " shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly or indirectly, upon the manufacture, production or export of any merchandise.*

4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes.

5. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to both anti-dumping and countervailing duties to compensate for the same situation of dumping or export subsidization.

6. (*a*) No contracting party shall levy any anti-dumping or countervailing duty on the importation of any product of the territory of another contracting party unless it determines that the effect of the dumping or subsidization, as the case may be, is such as to cause or threaten material injury to an established domestic industry, or is such as to retard materially the establishment of a domestic industry.

(*b*) The CONTRACTING PARTIES may waive the requirement of sub-paragraph (*a*) of this paragraph so as to permit a contracting party to levy an anti-dumping or countervailing duty on the importation of any product for the purpose of offsetting dumping or subsidization which causes or threatens material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party. The CONTRACTING PARTIES shall waive the requirements of sub-paragraph (*a*) of this paragraph, so as to permit the levying of a countervailing duty, in cases in which they find that a subsidy is causing or threatening material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party.*

(*c*) In exceptional circumstances, however, where delay might cause damage which would be difficult to repair, a contracting party may levy a countervailing duty for the purpose referred to in sub-paragraph (*b*) of this paragraph without the prior approval of the CONTRACTING PARTIES; *Provided* that such action shall be reported immediately to the CONTRACTING PARTIES and that the countervailing duty shall be withdrawn promptly if the CONTRACTING PARTIES disapprove.

7. A system for the stabilization of the domestic price or of the return to domestic producers of a primary commodity, independently of the movements of export prices, which results at times in the sale of the commodity for export at a price lower than the comparable price charged for the like commodity to buyers in the domestic market, shall be presumed not to result in material injury within the meaning of paragraph 6 if it is determined

by consultation among the contracting parties substantially interested in the commodity concerned tnat:

(*a*) the system has also resulted in the sale of the commodity for export at a price higher than the comparable price charged for the like commodity to buyers in the domestic market, and

(*b*) the system is so operated, either because of the effective regulation of production, or otherwise, as not to stimulate exports unduly or otherwise seriously prejudice the interests of other contracting parties.

Article VII

Valuation for Customs Purposes

1. The contracting parties recognize the validity of the general principles of valuation set forth in the following paragraphs of this Article, and they undertake to give effect to such principles, in respect of all products subject to duties or other charges * or restrictions on importation and exportation based upon or regulated in any manner by value. Moreover, they shall, upon a request by another contracting party review the operation of any of their laws or regulations relating to value for customs purposes in the light of these principles. The CONTRACTING PARTIES may request from contracting parties reports on steps taken by them in pursuance of the provisions of this Article.

2. (*a*) The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values.*

(*b*) "Actual value" should be the price at which, at a time and place determined by the legislation of the country of importation, such or like merchandise is sold or offered for sale in the ordinary course of trade under fully competitive conditions. To the extent to which the price of such or like merchandise is governed by the quantity in a particular transaction, the price to be considered should uniformly be related to either (i) comparable quantities, or (ii) quantities not less favourable to importers than those in which the greater volume of the merchandise is sold in the trade between the countries of exportation and importation.*

(*c*) When the actual value is not ascertainable in accordance with sub-paragraph (*b*) of this paragraph, the value for customs purposes should be based on the nearest ascertainable equivalent of such value.*

3. The value for customs purposes of any imported product should not include the amount of any internal tax, applicable within the country of

origin or export, from which the imported product has been exempted or has been or will be relieved by means of refund.

4. (*a*) Except as otherwise provided for in this paragraph, where it is necessary for the purposes of paragraph 2 of this Article for a contracting party to convert into its own currency a price expressed in the currency of another country, the conversion rate of exchange to be used shall be based, for each currency involved, on the par value as established pursuant to the Articles of Agreement of the International Monetary Fund or on the rate of exchange recognized by the Fund, or on the par value established in accordance with a special exchange agreement entered into pursuant to Article XV of this Agreement.

(*b*) Where no such established par value and no such recognized rate of exchange exist, the conversion rate shall reflect effectively the current value of such currency in commercial transactions.

(*c*) The CONTRACTING PARTIES, in agreement with the International Monetary Fund, shall formulate rules governing the conversion by contracting parties of any foreign currency in respect of which multiple rates of exchange are maintained consistently with the Articles of Agreement of the International Monetary Fund. Any contracting party may apply such rules in respect of such foreign currencies for the purposes of paragraph 2 of this Article as an alternative to the use of par values. Until such rules are adopted by the CONTRACTING PARTIES, any contracting party may employ, in respect of any such foreign currency, rules of conversion for the purposes of paragraph 2 of this Article which are designed to reflect effectively the value of such foreign currency in commercial transactions.

(*d*) Nothing in this paragraph shall be construed to require any contracting party to alter the method of converting currencies for customs purposes which is applicable in its territory on the date of this Agreement, if such alteration would have the effect of increasing generally the amounts of duty payable.

5. The bases and methods for determining the value of products subject to duties or other charges or restrictions based upon or regulated in any manner by value should be stable and should be given sufficient publicity to enable traders to estimate, with a reasonable degree of certainty, the value for customs purposes.

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Article VIII

Fees and Formalities connected with Importation and Exportation *

1. (*a*) All fees and charges of whatever character (other than import and export duties and other than taxes within the purview of Article III) imposed by contracting parties on or in connexion with importation or exportation shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes.

(*b*) The contracting parties recognize the need for reducing the number and diversity of fees and charges referred to in sub-paragraph (*a*).

(*c*) The contracting parties also recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements.*

2. A contracting party shall, upon request by another contracting party or by the CONTRACTING PARTIES, review the operation of its laws and regulations in the light of the provisions of this Article.

3. No contracting party shall impose substantial penalties for minor breaches of customs regulations or procedural requirements. In particular, no penalty in respect of any omission or mistake in customs documentation which is easily rectifiable and obviously made without fraudulent intent or gross negligence shall be greater than necessary to serve merely as a warning.

4. The provisions of this Article shall extend to fees, charges, formalities and requirements imposed by governmental authorities in connexion with importation and exportation, including those relating to:

(*a*) consular transactions, such as consular invoices and certificates;
(*b*) quantitative restrictions;
(*c*) licensing;
(*d*) exchange control;
(*e*) statistical services;
(*f*) documents, documentation and certification;
(*g*) analysis and inspection; and
(*h*) quarantine, sanitation and fumigation.

Article IX

Marks of Origin

1. Each contracting party shall accord to the products of the territories of other contracting parties treatment with regard to marking requirements no less favourable than the treatment accorded to like products of any third country.

2. The contracting parties recognize that, in adopting and enforcing laws and regulations relating to marks of origin, the difficulties and inconveniences which such measures may cause to the commerce and industry of exporting countries should be reduced to a minimum, due regard being had to the necessity of protecting consumers against fraudulent or misleading indications.

3. Whenever it is administratively practicable to do so, contracting parties should permit required marks of origin to be affixed at the time of importation.

4. The laws and regulations of contracting parties relating to the marking of imported products shall be such as to permit compliance without seriously damaging the products, or materially reducing their value, or unreasonably increasing their cost.

5. As a general rule, no special duty or penalty should be imposed by any contracting party for failure to comply with marking requirements prior to importation unless corrective marking is unreasonably delayed or deceptive marks have been affixed or the required marking has been intentionally omitted.

6. The contracting parties shall co-operate with each other with a view to preventing the use of trade names in such manner as to misrepresent the true origin of a product, to the detriment of such distinctive regional or geographical names of products of the territory of a contracting party as are protected by its legislation. Each contracting party shall accord full and sympathetic consideration to such requests or representations as may be made by any other contracting party regarding the application of the undertaking set forth in the preceding sentence to names of products which have been communicated to it by the other contracting party.

Article X

Publication and Administration of Trade Regulations

1. Laws, regulations, judicial decisions and administrative rulings of general application, made effective by any contracting party, pertaining to the classification or the valuation of products for customs purposes, or to rates of duty, taxes or other charges, or to requirements, restrictions or prohibitions on imports or exports or on the transfer of payments therefor, or affecting their sale, distribution, transportation, insurance, warehousing, inspection, exhibition, processing, mixing or other use, shall be published promptly in such a manner as to enable governments and traders to become acquainted with them. Agreements affecting international trade policy which are in force between the government or a governmental agency of any contracting party and the government or governmental agency of any other contracting party shall also be published. The provisions of this paragraph shall not require any contracting party to disclose confidential information which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.

2. No measure of general application taken by any contracting party effecting an advance in a rate of duty or other charge on imports under an established and uniform practice, or imposing a new or more burdensome requirement, restriction or prohibition on imports, or on the transfer of payments therefor, shall be enforced before such measure has been officially published.

3. (*a*) Each contracting party shall administer in a uniform, impartial and reasonable manner all its laws, regulations, decisions and rulings of the kind described in paragraph 1 of this Article.

(*b*) Each contracting party shall maintain, or institute as soon as practicable, judicial, arbitral or administrative tribunals or procedures for the purpose, *inter alia*, of the prompt review and correction of administrative action relating to customs matters. Such tribunals or procedures shall be independent of the agencies entrusted with administrative enforcement and their decisions shall be implemented by, and shall govern the practice of, such agencies unless an appeal is lodged with a court or tribunal of superior jurisdiction within the time prescribed for appeals to be lodged by importers; *Provided* that the central administration of such agency may take steps to obtain a review of the matter in another proceeding if there is good cause to believe that the decision is inconsistent with established principles of law or the actual facts.

(*c*) The provisions of sub-paragraph (*b*) of this paragraph shall not require the elimination or substitution of procedures in force in the territory of a contracting party on the date of this Agreement which in fact provide for an objective and impartial review of administrative action even though such procedures are not fully or formally independent of the agencies entrusted with administrative enforcement. Any contracting party employing such procedures shall, upon request, furnish the CONTRACTING PARTIES with full information thereon in order that they may determine whether such procedures conform to the requirements of this sub-paragraph.

Article XI *

General Elimination of Quantitative Restrictions

1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

2. The provisions of paragraph 1 of this Article shall not extend to the following:

(*a*) Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party;

(*b*) Import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade;

(*c*) Import restrictions on any agricultural or fisheries product, imported in any form,* necessary to the enforcement of governmental measures which operate:

(i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or

(ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted, by making the surplus available

to certain groups of domestic consumers free of charge or at prices below the current market level; or

(iii) to restrict the quantities permitted to be produced of any animal product the production of which is directly dependent, wholly or mainly, on the imported commodity, if the domestic production of that commodity is relatively negligible.

Any contracting party applying restrictions on the importation of any product pursuant to sub-paragraph (*c*) of this paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified future period and of any change in such quantity or value. Moreover, any restrictions applied under (i) above shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period and to any special factors* which may have affected or may be affecting the trade in the product concerned.

Article XII *

Restrictions to Safeguard the Balance of Payments

1. Notwithstanding the provisions of paragraph 1 of Article XI, any contracting party, in order to safeguard its external financial position and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported, subject to the provisions of the following paragraphs of this Article.

2. (*a*) Import restrictions instituted, maintained or intensified by a contracting party under this Article shall not exceed those necessary:

(i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

(ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of such contracting party or its need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

(*b*) Contracting parties applying restrictions under sub-paragraph (*a*) of this paragraph shall progressively relax them as such condi-

tions improve, maintaining them only to the extent that the conditions specified in that sub-paragraph still justify their application. They shall eliminate the restrictions when conditions would no longer justify their institution or maintenance under that sub-paragraph.

3. (*a*) Contracting parties undertake, in carrying out their domestic policies, to pay due regard to the need for maintaining or restoring equilibrium in their balance of payments on a sound and lasting basis and to the desirability of avoiding an uneconomic employment of productive resources. They recognize that, in order to achieve these ends, it is desirable so far as possible to adopt measures which expand rather than contract international trade.

(*b*) Contracting parties applying restrictions under this Article may determine the incidence of the restrictions on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential.

(*c*) Contracting parties applying restrictions under this Article undertake:

(i) to avoid unnecessary damage to the commercial or economic interests of any other contracting party;*

(ii) not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and

(iii) not to apply restrictions which would prevent the importation of commercial samples or prevent compliance with patent, trade mark, copyright, or similar procedures.

(*d*) The contracting parties recognize that, as a result of domestic policies directed towards the achievement and maintenance of full and productive employment or towards the development of economic resources, a contracting party may experience a high level of demand for imports involving a threat to its monetary reserves of the sort referred to in paragraph 2 (*a*) of this Article. Accordingly, a contracting party otherwise complying with the provisions of this Article shall not be required to withdraw or modify restrictions on the ground that a change in those policies would render unnecessary restrictions which it is applying under this Article.

4. (*a*) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification of the measures applied under this Article shall immediately after instituting or intensifying such restrictions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the CONTRACTING

PARTIES as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(*b*) On a date to be determined by them,* the CONTRACTING PARTIES shall review all restrictions still applied under this Article on that date. Beginning one year after that date, contracting parties applying import restrictions under this Article shall enter into consultations of the type provided for in sub-paragraph (*a*) of this paragraph with the CONTRACTING PARTIES annually.

(*c*) (i) If, in the course of consultations with a contracting party under sub-paragraph (*a*) or (*b*) above, the CONTRACTING PARTIES find that the restrictions are not consistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the CONTRACTING PARTIES determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that damage to the trade of any contracting party is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within a specified period of time. If such contracting party does not comply with these recommendations within the specified period, the CONTRACTING PARTIES may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*d*) The CONTRACTING PARTIES shall invite any contracting party which is applying restrictions under this Article to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Article or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the CONTRACTING PARTIES have ascertained that direct discussions between the contracting parties concerned have not been successful. If, as a result of the consultations with the CONTRACTING PARTIES, no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified

within such time as the CONTRACTING PARTIES may prescribe, they may release the contracting party initiating the procedure from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*e*) In proceeding under this paragraph, the CONTRACTING PARTIES shall have due regard to any special external factors adversely affecting the export trade of the contracting party applying restrictions.*

(*f*) Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

5. If there is a persistent and widespread application of import restrictions under this Article, indicating the existence of a general disequilibrium which is restricting international trade, the CONTRACTING PARTIES shall initiate discussions to consider whether other measures might be taken, either by those contracting parties the balances of payments of which are under pressure or by those the balances of payments of which are tending to be exceptionally favourable, or by any appropriate intergovernmental organization, to remove the underlying causes of the disequilibrium. On the invitation of the CONTRACTING PARTIES, contracting parties shall participate in such discussions.

Article XIII *

Non-discriminatory Administration of Quantitative Restrictions

1. No prohibition or restriction shall be applied by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation of any product destined for the territory of any other contracting party, unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted.

2. In applying import restrictions to any product, contracting parties shall aim at a distribution of trade in such product approaching as closely as possible the shares which the various contracting parties might be expected to obtain in the absence of such restrictions, and to this end shall observe the following provisions:

(*a*) Wherever practicable, quotas representing the total amount of permitted imports (whether allocated among supplying countries or not) shall be fixed, and notice given of their amount in accordance with paragraph 3 (*b*) of this Article;

(*b*) In cases in which quotas are not practicable, the restrictions may be applied by means of import licences or permits without a quota;

(*c*) Contracting parties shall not, except for purposes of operating quotas allocated in accordance with sub-paragraph (*d*) of this paragraph, require that import licences or permits be utilized for the importation of the product concerned from a particular country or source;

(*d*) In cases in which a quota is allocated among supplying countries, the contracting party applying the restrictions may seek agreement with respect to the allocation of shares in the quota with all other contracting parties having a substantial interest in supplying the product concerned. In cases in which this method is not reasonably practicable, the contracting party concerned shall allot to contracting parties having a substantial interest in supplying the product shares based upon the proportions, supplied by such contracting parties during a previous representative period, of the total quantity or value of imports of the product, due account being taken of any special factors which may have affected or may be affecting the trade in the product. No conditions or formalities shall be imposed which would prevent any contracting party from utilizing fully the share of any such total quantity or value which has been allotted to it, subject to importation being made within any prescribed period to which the quota may relate.*

3. (*a*) In cases in which import licences are issued in connection with import restrictions, the contracting party applying the restrictions shall provide, upon the request of any contracting party having an interest in the trade in the product concerned, all relevant information concerning the administration of the restrictions, the import licences granted over a recent period and the distribution of such licences among supplying countries; *Provided* that there shall be no obligation to supply information as to the names of importing or supplying enterprises.

(*b*) In the case of import restrictions involving the fixing of quotas, the contracting party applying the restrictions shall give public notice of the total quantity or value of the product or products which will be permitted to be imported during a specified future period and of any change in such quantity or value. Any supplies of the product in question which were *en route* at the time at which public notice was given shall not be excluded from entry; *Provided* that they may be counted so far as practicable, against the quantity permitted to be imported in the period in question, and also, where necessary, against the quantities permitted to be imported in the next following period or periods; and *Provided* further that if any contracting party customarily exempts from such restrictions products entered for consumption or withdrawn from warehouse for consumption during a period of thirty days after the day of such public notice, such practice shall be considered full compliance with this sub-paragraph.

(*c*) In the case of quotas allocated among supplying countries, the contracting party applying the restrictions shall promptly inform all other contracting parties having an interest in supplying the product concerned of the shares in the quota currently allocated, by quantity or value, to the various supplying countries and shall give public notice thereof.

4. With regard to restrictions applied in accordance with paragraph 2 (*d*) of this Article or under paragraph 2 (*c*) of Article XI, the selection of a representative period for any product and the appraisal of any special factors * affecting the trade in the product shall be made initially by the contracting party applying the restriction; *Provided* that such contracting party shall, upon the request of any other contracting party having a substantial interest in supplying that product or upon the request of the CONTRACTING PARTIES, consult promptly with the other contracting party or the CONTRACTING PARTIES regarding the need for an adjustment of the proportion determined or of the base period selected, or for the reappraisal of the special factors involved, or for the elimination of conditions, formalities or any other provisions established unilaterally relating to the allocation of an adequate quota or its unrestricted utilization.

5. The provisions of this Article shall apply to any tariff quota instituted or maintained by any contracting party, and, in so far as applicable, the principles of this Article shall also extend to export restrictions.

Article XIV *

Exceptions to the Rule of Non-discrimination

1. A contracting party which applies restrictions under Article XII or under Section B of Article XVIII may, in the application of such restrictions, deviate from the provisions of Article XIII in a manner having equivalent effect to restrictions on payments and transfers for current international transactions which that contracting party may at that time apply under Article VIII or XIV of the Articles of Agreement of the International Monetary Fund, or under analogous provisions of a special exchange agreement entered into pursuant to paragraph 6 of Article XV.*

2. A contracting party which is applying import restrictions under Article XII or under Section B of Article XVIII may, with the consent of the CONTRACTING PARTIES, temporarily deviate from the provisions of Article XIII in respect of a small part of its external trade where the benefits to the contracting party or contracting parties concerned substantially outweigh any injury which may result to the trade of other contracting parties.*

3. The provisions of Article XIII shall not preclude a group of territories having a common quota in the International Monetary Fund from applying against imports from other countries, but not among themselves, restrictions in accordance with the provisions of Article XII or of Section B of Article XVIII on condition that such restrictions are in all other respects consistent with the provisions of Article XIII.

4. A contracting party applying import restrictions under Article XII or under Section B of Article XVIII shall not be precluded by Articles XI to XV or Section B of Article XVIII of this Agreement from applying measures to direct its exports in such a manner as to increase its earnings of currencies which it can use without deviation from the provisions of Article XIII.

5. A contracting party shall not be precluded by Articles XI to XV, inclusive, or by Section B of Article XVIII, of this Agreement from applying quantitative restrictions:

(*a*) having equivalent effect to exchange restrictions authorized under Section 3 (*b*) of Article VII of the Articles of Agreement of the International Monetary Fund, or

(*b*) under the preferential arrangements provided for in Annex A of this Agreement, pending the outcome of the negotiations referred to therein.

Article XV

Exchange Arrangements

1. The CONTRACTING PARTIES shall seek co-operation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES.

2. In all cases in which the CONTRACTING PARTIES are called upon to consider or deal with problems concerning monetary reserves, balances of payments or foreign exchange arrangements, they shall consult fully with the International Monetary Fund. In such consultations, the CONTRACTING PARTIES shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balances of payments, and shall accept the determination of the Fund as to whether action by a contracting party in exchange matters is in accordance with the Articles of Agreement of the International Monetary Fund,

or with the terms of a special exchange agreement between that contracting party and the CONTRACTING PARTIES. The CONTRACTING PARTIES, in reaching their final decision in cases involving the criteria set forth in paragraph 2 (*a*) of Article XII or in paragraph 9 of Article XVIII, shall accept the determination of the Fund as to what constitutes a serious decline in the contracting party's monetary reserves, a very low level of its monetary reserves or a reasonable rate of increase in its monetary reserves, and as to the financial aspects of other matters covered in consultation in such cases.

3. The CONTRACTING PARTIES shall seek agreement with the Fund regarding procedures for consultation under paragraph 2 of this Article.

4. Contracting parties shall not, by exchange action, frustrate * the intent of the provisions of this Agreement, nor, by trade action, the intent of the provisions of the Articles of Agreement of the International Monetary Fund.

5. If the CONTRACTING PARTIES consider, at any time, that exchange restrictions on payments and transfers in connexion with imports are being applied by a contracting party in a manner inconsistent with the exceptions provided for in this Agreement for quantitative restrictions, they shall report thereon to the Fund.

6. Any contracting party which is not a member of the Fund shall, within a time to be determined by the CONTRACTING PARTIES after consultation with the Fund, become a member of the Fund, or, failing that, enter into a special exchange agreement with the CONTRACTING PARTIES. A contracting party which ceases to be a member of the Fund shall forthwith enter into a special exchange agreement with the CONTRACTING PARTIES. Any special exchange agreement entered into by a contracting party under this paragraph shall thereupon become part of its obligations under this Agreement.

7. (*a*) A special exchange agreement between a contracting party and the CONTRACTING PARTIES under paragraph 6 of this Article shall provide to the satisfaction of the CONTRACTING PARTIES that the objectives of this Agreement will not be frustrated as a result of action in exchange matters by the contracting party in question.

(*b*) The terms of any such agreement shall not impose obligations on the contracting party in exchange matters generally more restrictive than those imposed by the Articles of Agreement of the International Monetary Fund on members of the Fund.

8. A contracting party which is not a member of the Fund shall furnish such information within the general scope of section 5 of Article VIII of the Articles of Agreement of the International Monetary Fund as

the CONTRACTING PARTIES may require in order to carry out their functions under this Agreement.

9. Nothing in this Agreement shall preclude:

(*a*) the use by a contracting party of exchange controls or exchange restrictions in accordance with the Articles of Agreement of the International Monetary Fund or with that contracting party's special exchange agreement with the CONTRACTING PARTIES, or

(*b*) the use by a contracting party of restrictions or controls on imports or exports, the sole effect of which, additional to the effects permitted under Articles XI, XII, XIII and XIV, is to make effective such exchange controls or exchange restrictions.

Article XVI *

Subsidies

Section A—Subsidies in General

1. If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.

Section B—Additional Provisions on Export Subsidies *

2. The contracting parties recognize that the granting by a contracting party of a subsidy on the export of any product may have harmful effects for other contracting parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of this Agreement.

3. Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting

party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affecting such trade in the product.*

4. Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market. Until 31 December 1957 no contracting party shall extend the scope of any such subsidization beyond that existing on 1 January 1955 by the introduction of new, or the extension of existing, subsidies.*

5. The CONTRACTING PARTIES shall review the operation of the provisions of this Article from time to time with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties.

Article XVII

State Trading Enterprises

1.* (*a*) Each contracting party undertakes that if it establishes or maintains a State enterprise, wherever located, or grants to any enterprise, formally or in effect, exclusive or special privileges,* such enterprise shall, in its purchases or sales involving either imports or exports, act in a manner consistent with the general principles of non-discriminatory treatment prescribed in this Agreement for governmental measures affecting imports or exports by private traders.

(*b*) The provisions of sub-paragraph (*a*) of this paragraph shall be understood to require that such enterprises shall, having due regard to the other provisions of this Agreement, make any such purchases or sales solely in accordance with commercial considerations,* including price, quality, availability, marketability, transportation and other conditions of purchase or sale, and shall afford the enterprises of the other contracting parties adequate opportunity, in accordance with customary business practice, to compete for participation in such purchases or sales.

(*c*) No contracting party shall prevent any enterprise (whether or not an enterprise described in sub-paragraph (*a*) of this paragraph) under its jurisdiction from acting in accordance with the principles of sub-paragraphs (*a*) and (*b*) of this paragraph.

2. The provisions of paragraph 1 of this Article shall not apply to imports of products for immediate or ultimate consumption in governmental use and not otherwise for resale or use in the production of goods * for sale. With respect to such imports, each contracting party shall accord to the trade of the other contracting parties fair and equitable treatment.

3. The contracting parties recognize that enterprises of the kind described in paragraph 1 (*a*) of this Article might be operated so as to create serious obstacles to trade; thus negotiations on a reciprocal and mutually advantageous basis designed to limit or reduce such obstacles are of importance to the expansion of international trade.*

4. (*a*) Contracting parties shall notify the CONTRACTING PARTIES of the products which are imported into or exported from their territories by enterprises of the kind described in paragraph 1 (*a*) of this Article.

(*b*) A contracting party establishing, maintaining or authorizing an import monopoly of a product, which is not the subject of a concession under Article II, shall, on the request of another contracting party having a substantial trade in the product concerned, inform the CONTRACTING PARTIES of the import mark-up * on the product during a recent representative period, or, when it is not possible to do so, of the price charged on the resale of the product.

(*c*) The CONTRACTING PARTIES may, at the request of a contracting party which has reason to believe that its interests under this Agreement are being adversely affected by the operations of an enterprise of the kind described in paragraph 1 (*a*), request the contracting party establishing, maintaining or authorizing such enterprise to supply information about its operations related to the carrying out of the provisions of this Agreement.

(*d*) The provisions of this paragraph shall not require any contracting party to disclose confidential information which would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises.

Article XVIII *

Governmental Assistance to Economic Development

1. The contracting parties recognize that the attainment of the objectives of this Agreement will be facilitated by the progressive development

of their economies, particularly of those contracting parties the economies of which can only support low standards of living * and are in the early stages of development.*

2. The contracting parties recognize further that it may be necessary for those contracting parties, in order to implement programmes and policies of economic development designed to raise the general standard of living of their people, to take protective or other measures affecting imports, and that such measures are justified in so far as they facilitate the attainment of the objectives of this Agreement. They agree, therefore, that those contracting parties should enjoy additional facilities to enable them (*a*) to maintain sufficient flexibility in their tariff structure to be able to grant the tariff protection required for the establishment of a particular industry * and (*b*) to apply quantitative restrictions for balance of payments purposes in a manner which takes full account of the continued high level of demand for imports likely to be generated by their programmes of economic development.

3. The contracting parties recognize finally that, with those additional facilities which are provided for in Sections A and B of this Article, the provisions of this Agreement would normally be sufficient to enable contracting parties to meet the requirements of their economic development. They agree, however, that there may be circumstances where no measure consistent with those provisions is practicable to permit a contracting party in the process of economic development to grant the governmental assistance required to promote the establishment of particular industries * with a view to raising the general standard of living of its people. Special procedures are laid down in Sections C and D of this Article to deal with those cases.

4. (*a*) Consequently, a contracting party the economy of which can only support low standards of living * and is in the early stages of development * shall be free to deviate temporarily from the provisions of the other Articles of this Agreement, as provided in Sections A, B and C of this Article.

(*b*) A contracting party the economy of which is in the process of development, but which does not come within the scope of sub-paragraph (*a*) above, may submit applications to the CONTRACTING PARTIES under Section D of this Article.

5. The contracting parties recognize that the export earnings of contracting parties, the economies of which are of the type described in paragraph 4 (*a*) and (*b*) above and which depend on exports of a small number of primary commodities, may be seriously reduced by a decline in the sale of such commodities. Accordingly, when the exports of primary commodities by such a contracting party are seriously affected by measures taken

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by another contracting party, it may have resort to the consultation provisions of Article XXII of this Agreement.

6. The CONTRACTING PARTIES shall review annually all measures applied pursuant to the provisions of Sections C and D of this Article.

Section A

7. (*a*) If a contracting party coming within the scope of paragraph 4 (*a*) of this Article considers it desirable, in order to promote the establishment of a particular industry * with a view to raising the general standard of living of its people, to modify or withdraw a concession included in the appropriate Schedule annexed to this Agreement, it shall notify the CONTRACTING PARTIES to this effect and enter into negotiations with any contracting party with which such concession was initially negotiated, and with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest therein. If agreement is reached between such contracting parties concerned, they shall be free to modify or withdraw concessions under the appropriate Schedules to this Agreement in order to give effect to such agreement, including any compensatory adjustments involved.

(*b*) If agreement is not reached within sixty days after the notification provided for in sub-paragraph (*a*) above, the contracting party which proposes to modify or withdraw the concession may refer the matter to the CONTRACTING PARTIES, which shall promptly examine it. If they find that the contracting party which proposes to modify or withdraw the concession has made every effort to reach an agreement and that the compensatory adjustment offered by it is adequate, that contracting party shall be free to modify or withdraw the concession if, at the same time, it gives effect to the compensatory adjustment. If the CONTRACTING PARTIES do not find that the compensation offered by a contracting party proposing to modify or withdraw the concession is adequate, but find that it has made every reasonable effort to offer adequate compensation, that contracting party shall be free to proceed with such modification or withdrawal. If such action is taken, any other contracting party referred to in sub-paragraph (*a*) above shall be free to modify or withdraw substantially equivalent concessions initially negotiated with the contracting party which has taken the action.*

Section B

8. The contracting parties recognize that contracting parties coming within the scope of paragraph 4 (*a*) of this Article tend, when they are in rapid process of development, to experience balance of payments difficulties arising mainly from efforts to expand their internal markets as well as from the instability in their terms of trade.

9. In order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development, a contracting party coming within the scope of paragraph 4 (*a*) of this Article may, subject to the provisions of paragraphs 10 to 12, control the general level of its imports by restricting the quantity or value of merchandise permitted to be imported; *Provided* that the import restrictions instituted, maintained or intensified shall not exceed those necessary:

(*a*) to forestall the threat of, or to stop, a serious decline in its monetary reserves, or

(*b*) in the case of a contracting party with inadequate monetary reserves, to achieve a reasonable rate of increase in its reserves.

Due regard shall be paid in either case to any special factors which may be affecting the reserves of the contracting party or its need for reserves, including, where special external credits or other resources are available to it, the need to provide for the appropriate use of such credits or resources.

10. In applying these restrictions, the contracting party may determine their incidence on imports of different products or classes of products in such a way as to give priority to the importation of those products which are more essential in the light of its policy of economic development; *Provided* that the restrictions are so applied as to avoid unnecessary damage to the commercial or economic interests of any other contracting party and not to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade; and *Provided* further that the restrictions are not so applied as to prevent the importation of commercial samples or to prevent compliance with patent, trade mark, copyright or similar procedures.

11. In carrying out its domestic policies, the contracting party concerned shall pay due regard to the need for restoring equilibrium in its balance of payments on a sound and lasting basis and to the desirability of assuring an economic employment of productive resources. It shall progressively relax any restrictions applied under this Section as conditions improve, maintaining them only to the extent necessary under the terms of paragraph 9 of this Article and shall eliminate them when conditions no longer justify such maintenance; *Provided* that no contracting party shall be required to withdraw or modify restrictions on the ground that a change in its development policy would render unnecessary the restrictions which it is applying under this Section.*

12. (*a*) Any contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification

of the measures applied under this Section, shall immediately after instituting or intensifying such restrictions (or, in circumstances in which prior consultation is practicable, before doing so) consult with the CONTRACTING PARTIES as to the nature of its balance of payments difficulties, alternative corrective measures which may be available, and the possible effect of the restrictions on the economies of other contracting parties.

(*b*) On a date to be determined by them,* the CONTRACTING PARTIES shall review all restrictions still applied under this Section on that date. Beginning two years after that date, contracting parties applying restrictions under this Section shall enter into consultations of the type provided for in sub-paragraph (*a*) above with the CONTRACTING PARTIES at intervals of approximately, but not less than, two years according to a programme to be drawn up each year by the CONTRACTING PARTIES; *Provided* that no consultation under this sub-paragraph shall take place within two years after the conclusion of a consultation of a general nature under any other provision of this paragraph.

(*c*) (i) If, in the course of consultations with a contracting party under sub-paragraph (*a*) or (*b*) of this paragraph, the CONTRACTING PARTIES find that the restrictions are not consistent with the provisions of this Section or with those of Article XIII (subject to the provisions of Article XIV), they shall indicate the nature of the inconsistency and may advise that the restrictions be suitably modified.

(ii) If, however, as a result of the consultations, the CONTRACTING PARTIES determine that the restrictions are being applied in a manner involving an inconsistency of a serious nature with the provisions of this Section or with those of Article XIII (subject to the provisions of Article XIV) and that damage to the trade of any contracting party is caused or threatened thereby, they shall so inform the contracting party applying the restrictions and shall make appropriate recommendations for securing conformity with such provisions within a specified period. If such contracting party does not comply with these recommendations within the specified period, the CONTRACTING PARTIES may release any contracting party the trade of which is adversely affected by the restrictions from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*d*) The CONTRACTING PARTIES shall invite any contracting party which is applying restrictions under this Section to enter into consultations with them at the request of any contracting party which can establish a *prima facie* case that the restrictions are inconsistent with the provisions of this Section or with those of Article XIII (subject to the provisions of Article XIV) and that its trade is adversely affected thereby. However, no such invitation shall be issued unless the CONTRACTING PARTIES have ascertained that direct discussions between the contracting parties concerned

have not been successful. If, as a result of the consultations with the CONTRACTING PARTIES no agreement is reached and they determine that the restrictions are being applied inconsistently with such provisions, and that damage to the trade of the contracting party initiating the procedure is caused or threatened thereby, they shall recommend the withdrawal or modification of the restrictions. If the restrictions are not withdrawn or modified within such time as the CONTRACTING PARTIES may prescribe, they may release the contracting party initiating the procedure from such obligations under this Agreement towards the contracting party applying the restrictions as they determine to be appropriate in the circumstances.

(*e*) If a contracting party against which action has been taken in accordance with the last sentence of sub-paragraph (*c*) (ii) or (*d*) of this paragraph, finds that the release of obligations authorized by the CONTRACTING PARTIES adversely affects the operation of its programme and policy of economic development, it shall be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary [1] to the CONTRACTING PARTIES of its intention to withdraw from this Agreement and such withdrawal shall take effect on the sixtieth day following the day on which the notice is received by him.

(*f*) In proceeding under this paragraph, the CONTRACTING PARTIES shall have due regard to the factors referred to in paragraph 2 of this Article. Determinations under this paragraph shall be rendered expeditiously and, if possible, within sixty days of the initiation of the consultations.

Section C

13. If a contracting party coming within the scope of paragraph 4 (*a*) of this Article finds that governmental assistance is required to promote the establishment of a particular industry * with a view to raising the general standard of living of its people, but that no measure consistent with the other provisions of this Agreement is practicable to achieve that objective, it may have recourse to the provisions and procedures set out in this Section.*

14. The contracting party concerned shall notify the CONTRACTING PARTIES of the special difficulties which it meets in the achievement of the objective outlined in paragraph 13 of this Article and shall indicate the specific measure affecting imports which it proposes to introduce in order to remedy these difficulties. It shall not introduce that measure before the expiration of the time-limit laid down in paragraph 15 or 17, as the case may be, or if the measure affects imports of a product which is the subject of a concession included in the appropriate Schedule annexed to

[1] See Preface.

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this Agreement, unless it has secured the concurrence of the CONTRACTING PARTIES in accordance with the provisions of paragraph 18; *Provided* that, if the industry receiving assistance has already started production, the contracting party may, after informing the CONTRACTING PARTIES, take such measures as may be necessary to prevent, during that period, imports of the product or products concerned from increasing substantially above a normal level.*

15. If, within thirty days of the notification of the measure, the CONTRACTING PARTIES do not request the contracting party concerned to consult with them,* that contracting party shall be free to deviate from the relevant provisions of the other Articles of this Agreement to the extent necessary to apply the proposed measure.

16. If it is requested by the CONTRACTING PARTIES to do so,* the contracting party concerned shall consult with them as to the purpose of the proposed measure, as to alternative measures which may be available under this Agreement, and as to the possible effect of the measure proposed on the commercial and economic interests of other contracting parties. If, as a result of such consultation, the CONTRACTING PARTIES agree that there is no measure consistent with the other provisions of this Agreement which is practicable in order to achieve the objective outlined in paragraph 13 of this Article, and concur * in the proposed measure, the contracting party concerned shall be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to apply that measure.

17. If, within ninety days after the date of the notification of the proposed measure under paragraph 14 of this Article, the CONTRACTING PARTIES have not concurred in such measure, the contracting party concerned may introduce the measure proposed after informing the CONTRACTING PARTIES.

18. If the proposed measure affects a product which is the subject of a concession included in the appropriate Schedule annexed to this Agreement, the contracting party concerned shall enter into consultations with any other contracting party with which the concession was initially negotiated, and with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest therein. The CONTRACTING PARTIES shall concur * in the measure if they agree that there is no measure consistent with the other provisions of this Agreement which is practicable in order to achieve the objective set forth in paragraph 13 of this Article, and if they are satisfied:

(*a*) that agreement has been reached with such other contracting parties as a result of the consultations referred to above, or

(*b*) if no such agreement has been reached within sixty days after the notification provided for in paragraph 14 has been received by the CONTRACTING PARTIES, that the contracting party having recourse to this Section has made all reasonable efforts to reach an agreement and that the interests of other contracting parties are adequately safeguarded.*

The contracting party having recourse to this Section shall thereupon be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to permit it to apply the measure.

19. If a proposed measure of the type described in paragraph 13 of this Article concerns an industry the establishment of which has in the initial period been facilitated by incidental protection afforded by restrictions imposed by the contracting party concerned for balance of payments purposes under the relevant provisions of this Agreement, that contracting party may resort to the provisions and procedures of this Section; *Provided* that it shall not apply the proposed measure without the concurrence * of the CONTRACTING PARTIES.*

20. Nothing in the preceding paragraphs of this Section shall authorize any deviation from the provisions of Articles I, II and XIII of this Agreement. The provisos to paragraph 10 of this Article shall also be applicable to any restriction under this Section.

21. At any time while a measure is being applied under paragraph 17 of this Article any contracting party substantially affected by it may suspend the application to the trade of the contracting party having recourse to this Section of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove; * *Provided* that sixty days' notice of such suspension is given to the CONTRACTING PARTIES not later than six months after the measure has been introduced or changed substantially to the detriment of the contracting party affected. Any such contracting party shall afford adequate opportunity for consultation in accordance with the provisions of Article XXII of this Agreement.

Section D

22. A contracting party coming within the scope of sub-paragraph 4 (*b*) of this Article desiring, in the interest of the development of its economy, to introduce a measure of the type described in paragraph 13 of this Article in respect of the establishment of a particular industry * may apply to the CONTRACTING PARTIES for approval of such measure. The CONTRACTING PARTIES shall promptly consult with such contracting party

and shall, in making their decision, be guided by the considerations set out in paragraph 16. If the CONTRACTING PARTIES concur * in the proposed measure the contracting party concerned shall be released from its obligations under the relevant provisions of the other Articles of this Agreement to the extent necessary to permit it to apply the measure. If the proposed measure affects a product which is the subject of a concession included in the appropriate Schedule annexed to this Agreement, the provisions of paragraph 18 shall apply.*

23. Any measure applied under this Section shall comply with the provisions of paragraph 20 of this Article.

Article XIX

Emergency Action on Imports of Particular Products

1. (*a*) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(*b*) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (*a*) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice

shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph 1 of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3. (*a*) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph 1 (*b*) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

(*b*) Notwithstanding the provisions of sub-paragraph (*a*) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Article XX

General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(*a*) necessary to protect public morals;

(*b*) necessary to protect human, animal or plant life or health;

(*c*) relating to the importation or exportation of gold or silver;

(*d*) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including

those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII, the protection of patents, trade marks and copyrights, and the prevention of deceptive practices;

(*e*) relating to the products of prison labour;

(*f*) imposed for the protection of national treasures of artistic, historic or archaeological value;

(*g*) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;

(*h*) undertaken in pursuance of obligations under any intergovernmental commodity agreement which conforms to criteria submitted to the CONTRACTING PARTIES and not disapproved by them or which is itself so submitted and not so disapproved;*

(*i*) involving restrictions on exports of domestic materials necessary to ensure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan; *Provided* that such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to non-discrimination;

(*j*) essential to the acquisition or distribution of products in general or local short supply; *Provided* that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with the other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist. The CONTRACTING PARTIES shall review the need for this sub-paragraph not later than 30 June 1960.

Article XXI

Security Exceptions

Nothing in this Agreement shall be construed

(*a*) to require any contracting party to furnish any information the disclosure of which it considers contrary to its essential security interests; or

(*b*) to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests

(i) relating to fissionable materials or the materials from which they are derived;

(ii) relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment;

(iii) taken in time of war or other emergency in international relations; or

(*c*) to prevent any contracting party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

Article XXII

Consultation

1. Each contracting party shall accord sympathetic consideration to, and shall afford adequate opportunity for consultation regarding, such representations as may be made by another contracting party with respect to any matter affecting the operation of this Agreement.

2. The CONTRACTING PARTIES may, at the request of a contracting party, consult with any contracting party or parties in respect of any matter for which it has not been possible to find a satisfactory solution through consultation under paragraph 1.

Article XXIII

Nullification or Impairment

1. If any contracting party should consider that any benefit accruing to it directly or indirectly under this Agreement is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded as the result of

(*a*) the failure of another contracting party to carry out its obligations under this Agreement, or

(*b*) the application by another contracting party of any measure, whether or not it conflicts with the provisions of this Agreement, or

(*c*) the existence of any other situation,

the contracting party may, with a view to the satisfactory adjustment of the matter, make written representations or proposals to the other contracting party or parties which it considers to be concerned. Any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it.

2. If no satisfactory adjustment is effected between the contracting parties concerned within a reasonable time, or if the difficulty is of the type described in paragraph 1 (*c*) of this Article, the matter may be referred to the CONTRACTING PARTIES. The CONTRACTING PARTIES shall promptly investigate any matter so referred to them and shall make appropriate recommendations to the contracting parties which they consider to be concerned, or give a ruling on the matter, as appropriate. The CONTRACTING PARTIES may consult with contracting parties, with the Economic and Social Council of the United Nations and with any appropriate inter-governmental organization in cases where they consider such consultation necessary. If the CONTRACTING PARTIES consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such concessions or other obligations under this Agreement as they determine to be appropriate in the circumstances. If the application to any contracting party of any concession or other obligation is in fact suspended, that contracting party shall then be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary[1] to the CONTRACTING PARTIES of its intention to withdraw from this Agreement and such withdrawal shall take effect upon the sixtieth day following the day on which such notice is received by him.

[1] See Preface.

PART III

Article XXIV

Territorial Application—Frontier Traffic—Customs Unions and Free-trade Areas

1. The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. Each such customs territory shall, exclusively for the purposes of the territorial application of this Agreement, be treated as though it were a contracting party; *Provided* that the provisions of this paragraph shall not be construed to create any rights or obligations as between two or more customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application by a single contracting party.

2. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.

3. The provisions of this Agreement shall not be construed to prevent:

(*a*) Advantages accorded by any contracting party to adjacent countries in order to facilitate frontier traffic;

(*b*) Advantages accorded to the trade with the Free Territory of Trieste by countries contiguous to that territory, provided that such advantages are not in conflict with the Treaties of Peace arising out of the Second World War.

4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; *Provided* that:

(*a*) with respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;

(*b*) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement, as the case may be; and

(*c*) any interim agreement referred to in sub-paragraphs (*a*) and (*b*) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

6. If, in fulfilling the requirements of sub-paragraph 5 (*a*), a contracting party proposes to increase any rate of duty inconsistently with the provisions of Article II, the procedure set forth in Article XXVIII shall apply. In providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union.

7. (*a*) Any contracting party deciding to enter into a customs union or free-trade area, or an interim agreement leading to the formation of such a union or area, shall promptly notify the CONTRACTING PARTIES and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate.

(*b*) If, after having studied the plan and schedule included in an interim agreement referred to in paragraph 5 in consultation with the parties

to that agreement and taking due account of the information made available in accordance with the provisions of sub-paragraph (*a*), the CONTRACTING PARTIES find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the CONTRACTING PARTIES shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.

(*c*) Any substantial change in the plan or schedule referred to in paragraph 5 (*c*) shall be communicated to the CONTRACTING PARTIES, which may request the contracting parties concerned to consult with them if the change seems likely to jeopardize or delay unduly the formation of the customs union or of the free-trade area.

8. For the purposes of this Agreement:

(*a*) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

(*b*) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

9. The preferences referred to in paragraph 2 of Article I shall not be affected by the formation of a customs union or of a free-trade area but may be eliminated or adjusted by means of negotiations with contracting parties affected.* This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (*a*) (i) and paragraph 8 (*b*).

10. The CONTRACTING PARTIES may by a two-thirds majority approve proposals which do not fully comply with the requirements of paragraphs 5 to 9 inclusive, provided that such proposals lead to the formation of a customs union or a free-trade area in the sense of this Article.

11. Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.*

12. Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territory.

Article XXV

Joint Action by the Contracting Parties

1. Representatives of the contracting parties shall meet from time to time for the purpose of giving effect to those provisions of this Agreement which involve joint action and, generally, with a view to facilitating the operation and furthering the objectives of this Agreement. Wherever reference is made in this Agreement to the contracting parties acting jointly they are designated as the CONTRACTING PARTIES.

2. The Secretary-General of the United Nations is requested to convene the first meeting of the CONTRACTING PARTIES, which shall take place not later than March 1, 1948.

3. Each contracting party shall be entitled to have one vote at all meetings of the CONTRACTING PARTIES.

4. Except as otherwise provided for in this Agreement, decisions of the CONTRACTING PARTIES shall be taken by a majority of the votes cast.

5. In exceptional circumstances not elsewhere provided for in this Agreement, the CONTRACTING PARTIES may waive an obligation imposed upon a contracting party by this Agreement; *Provided* that any such decision shall be approved by a two-thirds majority of the votes cast and that such majority shall comprise more than half of the contracting parties. The CONTRACTING PARTIES may also by such a vote

(i) define certain categories of exceptional circumstances to which other voting requirements shall apply for the waiver of obligations, and

(ii) prescribe such criteria as may be necessary for the application of this paragraph.†

Article XXVI

Acceptance, Entry into Force and Registration

1. The date of this Agreement shall be 30 October 1947.

2. This Agreement shall be open for acceptance by any contracting party which, on 1 March 1955, was a contracting party or was negotiating with a view to accession to this Agreement.

3. This Agreement, done in a single English original and in a single French original, both texts authentic, shall be deposited with the Secretary-General of the United Nations, who shall furnish certified copies thereof to all interested governments.

4. Each government accepting this Agreement shall deposit an instrument of acceptance with the Executive Secretary[1] to the CONTRACTING PARTIES, who will inform all interested governments of the date of deposit of each instrument of acceptance and of the day on which this Agreement enters into force under paragraph 6 of this Article.

5. (*a*) Each government accepting this Agreement does so in respect of its metropolitan territory and of the other territories for which it has international responsibility, except such separate customs territories as it shall notify to the Executive Secretary[1] to the CONTRACTING PARTIES at the time of its own acceptance.

(*b*) Any government, which has so notified the Executive Secretary[1] under the exceptions in sub-paragraph (*a*) of this paragraph, may at any time give notice to the Executive Secretary[1] that its acceptance shall be effective in respect of any separate customs territory or territories so excepted and such notice shall take effect on the thirtieth day following the day on which it is received by the Executive Secretary.[1]

(*c*) If any of the customs territories, in respect of which a contracting party has accepted this Agreement, possesses or acquires full autonomy in the conduct of its external commercial relations and of the other matters

† The authentic text erroneously reads " sub-paragraph ".

[1] See Preface.

provided for in this Agreement, such territory shall, upon sponsorship through a declaration by the responsible contracting party establishing the above-mentioned fact, be deemed to be a contracting party.

6. This Agreement shall enter into force, as among the governments which have accepted it, on the thirtieth day following the day on which instruments of acceptance have been deposited with the Executive Secretary[1] to the CONTRACTING PARTIES on behalf of governments named in Annex H, the territories of which account for 85 per centum of the total external trade of the territories of such governments, computed in accordance with the applicable column of percentages set forth therein. The instrument of acceptance of each other government shall take effect on the thirtieth day following the day on which such instrument has been deposited.

7. The United Nations is authorized to effect registration of this Agreement as soon as it enters into force.

Article XXVII

Withholding or Withdrawal of Concessions

Any contracting party shall at any time be free to withhold or to withdraw in whole or in part any concession, provided for in the appropriate Schedule annexed to this Agreement, in respect of which such contracting party determines that it was initially negotiated with a government which has not become, or has ceased to be, a contracting party. A contracting party taking such action shall notify the CONTRACTING PARTIES and, upon request, consult with contracting parties which have a substantial interest in the product concerned.

Article XXVIII *

Modification of Schedules

1. On the first day of each three-year period, the first period beginning on 1 January 1958 (or on the first day of any other period * that may be specified by the CONTRACTING PARTIES by two-thirds of the votes cast) a contracting party (hereafter in this Article referred to as the "applicant contracting party") may, by negotiation and agreement with any contracting party with which such concession was initially negotiated and with any other contracting party determined by the CONTRACTING PARTIES to have a principal supplying interest* (which two preceding categories of contracting

[1] See Preface.

parties, together with the applicant contracting party, are in this Article hereinafter referred to as the "contracting parties primarily concerned"), and subject to consultation with any other contracting party determined by the CONTRACTING PARTIES to have a substantial interest* in such concession, modify or withdraw a concession* included in the appropriate Schedule annexed to this Agreement.

2. In such negotiations and agreement, which may include provision for compensatory adjustment with respect to other products, the contracting parties concerned shall endeavour to maintain a general level of reciprocal and mutually advantageous concessions not less favourable to trade than that provided for in this Agreement prior to such negotiations.

3. (*a*) If agreement between the contracting parties primarily concerned cannot be reached before 1 January 1958 or before the expiration of a period envisaged in paragraph 1 of this Article, the contracting party which proposes to modify or withdraw the concession shall, nevertheless, be free to do so and if such action is taken any contracting party with which such concession was initially negotiated, any contracting party determined under paragraph 1 to have a principal supplying interest and any contracting party determined under paragraph 1 to have a substantial interest shall then be free not later than six months after such action is taken, to withdraw, upon the expiration of thirty days from the day on which written notice of such withdrawal is received by the CONTRACTING PARTIES, substantially equivalent concessions initially negotiated with the applicant contracting party.

(*b*) If agreement between the contracting parties primarily concerned is reached but any other contracting party determined under paragraph 1 of this Article to have a substantial interest is not satisfied, such other contracting party shall be free, not later than six months after action under such agreement is taken, to withdraw, upon the expiration of thirty days from the day on which written notice of such withdrawal is received by the CONTRACTING PARTIES, substantially equivalent concessions initially negotiated with the applicant contracting party.

4. The CONTRACTING PARTIES may, at any time, in special circumstances, authorize* a contracting party to enter into negotiations for modification or withdrawal of a concession included in the appropriate Schedule annexed to this Agreement subject to the following procedures and conditions:

(*a*) Such negotiations* and any related consultations shall be conducted in accordance with the provisions of paragraphs 1 and 2 of this Article.

(*b*) If agreement between the contracting parties primarily concerned is reached in the negotiations, the provisions of paragraph 3 (*b*) of this Article shall apply.

(*c*) If agreement between the contracting parties primarily concerned is not reached within a period of sixty days* after negotiations have been authorized, or within such longer period as the CONTRACTING PARTIES may have prescribed, the applicant contracting party may refer the matter to the CONTRACTING PARTIES.

(*d*) Upon such reference, the CONTRACTING PARTIES shall promptly examine the matter and submit their views to the contracting parties primarily concerned with the aim of achieving a settlement. If a settlement is reached, the provisions of paragraph 3 (*b*) shall apply as if agreement between the contracting parties primarily concerned had been reached. If no settlement is reached between the contracting parties primarily concerned, the applicant contracting party shall be free to modify or withdraw the concession, unless the CONTRACTING PARTIES determine that the applicant contracting party has unreasonably failed to offer adequate compensation.* If such action is taken, any contracting party with which the concession was initially negotiated, any contracting party determined under paragraph 4 (*a*) to have a principal supplying interest and any contracting party determined under paragraph 4 (*a*) to have a substantial interest, shall be free, not later than six months after such action is taken, to modify or withdraw, upon the expiration of thirty days from the day on which written notice of such withdrawal is received by the CONTRACTING PARTIES, substantially equivalent concessions initially negotiated with the applicant contracting party.

5. Before 1 January 1958 and before the end of any period envisaged in paragraph 1 a contracting party may elect by notifying the CONTRACTING PARTIES to reserve the right, for the duration of the next period, to modify the appropriate Schedule in accordance with the procedures of paragraphs 1 to 3. If a contracting party so elects, other contracting parties shall have the right, during the same period, to modify or withdraw, in accordance with the same procedures, concessions initially negotiated with that contracting party.

Article XXVIII bis

Tariff Negotiations

1. The contracting parties recognize that customs duties often constitute serious obstacles to trade; thus negotiations on a reciprocal and mutually advantageous basis, directed to the substantial reduction of the general level of tariffs and other charges on imports and exports and in particular to the reduction of such high tariffs as discourage the importation even of minimum quantities, and conducted with due regard to the objectives of this Agreement

and the varying needs of individual contracting parties, are of great importance to the expansion of international trade. The CONTRACTING PARTIES may therefore sponsor such negotiations from time to time.

2. (*a*) Negotiations under this Article may be carried out on a selective product-by-product basis or by the application of such multilateral procedures as may be accepted by the contracting parties concerned. Such negotiations may be directed towards the reduction of duties, the binding of duties at then existing levels or undertakings that individual duties or the average duties on specified categories of products shall not exceed specified levels. The binding against increase of low duties or of duty-free treatment shall, in principle, be recognized as a concession equivalent in value to the reduction of high duties.

(*b*) The contracting parties recognize that in general the success of multilateral negotiations would depend on the participation of all contracting parties which conduct a substantial proportion of their external trade with one another.

3. Negotiations shall be conducted on a basis which affords adequate opportunity to take into account:

(*a*) the needs of individual contracting parties and individual industries;

(*b*) the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes; and

(*c*) all other relevant circumstances, including the fiscal,* developmental, strategic and other needs of the contracting parties concerned.

Article XXIX

The Relation of this Agreement to the Havana Charter

1. The contracting parties undertake to observe to the fullest extent of their executive authority the general principles of Chapters I to VI inclusive and of Chapter IX of the Havana Charter pending their acceptance of it in accordance with their constitutional procedures.*

2. Part II of this Agreement shall be suspended on the day on which the Havana Charter enters into force.

3. If by September 30, 1949, the Havana Charter has not entered into force, the contracting parties shall meet before December 31, 1949, to agree whether this Agreement shall be amended, supplemented or maintained.

4. If at any time the Havana Charter should cease to be in force, the CONTRACTING PARTIES shall meet as soon as practicable thereafter to agree whether this Agreement shall be supplemented, amended or maintained. Pending such agreement, Part II of this Agreement shall again enter into force; *Provided* that the provisions of Part II other than Article XXIII shall be replaced, *mutatis mutandis*, in the form in which they then appeared in the Havana Charter; and *Provided* further that no contracting party shall be bound by any provisions which did not bind it at the time when the Havana Charter ceased to be in force.

5. If any contracting party has not accepted the Havana Charter by the date upon which it enters into force, the CONTRACTING PARTIES shall confer to agree whether, and if so in what way, this Agreement in so far as it affects relations between such contracting party and other contracting parties, shall be supplemented or amended. Pending such agreement the provisions of Part II of this Agreement shall, notwithstanding the provisions of paragraph 2 of this Article, continue to apply as between such contracting party and other contracting parties.

6. Contracting parties which are Members of the International Trade Organization shall not invoke the provisions of this Agreement so as to prevent the operation of any provision of the Havana Charter. The application of the principle underlying this paragraph to any contracting party which is not a Member of the International Trade Organization shall be the subject of an agreement pursuant to paragraph 5 of this Article.

Article XXX

Amendments

1. Except where provision for modification is made elsewhere in this Agreement, amendments to the provisions of Part I of this Agreement or to the provisions of Article XXIX or of this Article shall become effective upon acceptance by all the contracting parties, and other amendments to this Agreement shall become effective, in respect of those contracting parties which accept them, upon acceptance by two-thirds of the contracting parties and thereafter for each other contracting party upon acceptance by it.

2. Any contracting party accepting an amendment to this Agreement shall deposit an instrument of acceptance with the Secretary-General of the United Nations within such period as the CONTRACTING PARTIES may specify. The CONTRACTING PARTIES may decide that any amendment made effective under this Article is of such a nature that any contracting party

which has not accepted it within a period specified by the CONTRACTING PARTIES shall be free to withdraw from this Agreement, or to remain a contracting party with the consent of the CONTRACTING PARTIES.

Article XXXI

Withdrawal

Without prejudice to the provisions of paragraph 12 of Article XVIII, of Article XXIII or of paragraph 2 of Article XXX, any contracting party may withdraw from this Agreement, or may separately withdraw on behalf of any of the separate customs territories for which it has international responsibility and which at the time possesses full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement. The withdrawal shall take effect upon the expiration of six months from the day on which written notice of withdrawal is received by the Secretary-General of the United Nations.

Article XXXII

Contracting Parties

1. The contracting parties to this Agreement shall be understood to mean those governments which are applying the provisions of this Agreement under Articles XXVI or XXXIII or pursuant to the Protocol of Provisional Application.

2. At any time after the entry into force of this Agreement pursuant to paragraph 6 of Article XXVI, those contracting parties which have accepted this Agreement pursuant to paragraph 4 of Article XXVI may decide that any contracting party which has not so accepted it shall cease to be a contracting party.

Article XXXIII

Accession

A government not party to this Agreement, or a government acting on behalf of a separate customs territory possessing full autonomy in the conduct of its external commercial relations and of the other matters provided for in this Agreement, may accede to this Agreement, on its own behalf or on behalf of that territory, on terms to be agreed between such government and the CONTRACTING PARTIES. Decisions of the CONTRACTING PARTIES under this paragraph shall be taken by a two-thirds majority.

Article XXXIV

Annexes

The annexes to this Agreement are hereby made an integral part of this Agreement.

Article XXXV

Non-application of the Agreement between particular Contracting Parties

1. This Agreement, or alternatively Article II of this Agreement, shall not apply as between any contracting party and any other contracting party if:

(*a*) the two contracting parties have not entered into tariff negotiations with each other, and

(*b*) either of the contracting parties, at the time either becomes a contracting party, does not consent to such application.

2. The CONTRACTING PARTIES may review the operation of this Article in particular cases at the request of any contracting party and make appropriate recommendations.

PART IV*

TRADE AND DEVELOPMENT

Article XXXVI

Principles and Objectives

1.* The contracting parties,

(*a*) recalling that the basic objectives of this Agreement include the raising of standards of living and the progressive development of the economies of all contracting parties, and considering that the attainment of these objectives is particularly urgent for less-developed contracting parties;

(*b*) considering that export earnings of the less-developed contracting parties can play a vital part in their economic development and that the extent of this contribution depends on the prices paid by the less-developed contracting parties for essential imports, the volume of their exports, and the prices received for these exports;

(*c*) noting, that there is a wide gap between standards of living in less-developed countries and in other countries;

(*d*) recognizing that individual and joint action is essential to further the development of the economies of less-developed contracting parties and to bring about a rapid advance in the standards of living in these countries;

(*e*) recognizing that international trade as a means of achieving economic and social advancement should be governed by such rules and procedures—and measures in conformity with such rules and procedures—as are consistent with the objectives set forth in this Article;

(*f*) noting that the CONTRACTING PARTIES may enable less-developed contracting parties to use special measures to promote their trade and development;

agree as follows.

2. There is need for a rapid and sustained expansion of the export earnings of the less-developed contracting parties.

3. There is need for positive efforts designed to ensure that less-developed contracting parties secure a share in the growth in international trade commensurate with the needs of their economic development.

4. Given the continued dependence of many less-developed contracting parties on the exportation of a limited range of primary products,* there is need to provide in the largest possible measure more favourable and acceptable conditions of access to world markets for these products, and wherever appropriate to devise measures designed to stabilize and improve conditions of world markets in these products, including in particular measures designed to attain stable, equitable and remunerative prices, thus permitting an expansion of world trade and demand and a dynamic and steady growth of the real export earnings of these countries so as to provide them with expanding resources for their economic development.

5. The rapid expansion of the economies of the less-developed contracting parties will be facilitated by a diversification * of the structure of their economies and the avoidance of an excessive dependence on the export of primary products. There is, therefore, need for increased access in the largest possible measure to markets under favourable conditions for processed and manufactured products currently or potentially of particular export interest to less-developed contracting parties.

6. Because of the chronic deficiency in the export proceeds and other foreign exchange earnings of less-developed contracting parties, there are important inter-relationships between trade and financial assistance to development. There is, therefore, need for close and continuing collaboration between the CONTRACTING PARTIES and the international lending agencies so that they can contribute most effectively to alleviating the burdens these less-developed contracting parties assume in the interest of their economic development.

7. There is need for appropriate collaboration between the CONTRACTING PARTIES, other intergovernmental bodies and the organs and agencies of the United Nations system, whose activities relate to the trade and economic development of less-developed countries.

8. The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties.*

9. The adoption of measures to give effect to these principles and objectives shall be a matter of conscious and purposeful effort on the part of the contracting parties both individually and jointly.

Article XXXVII

Commitments

1. The developed contracting parties shall to the fullest extent possible—that is, except when compelling reasons, which may include legal reasons, make it impossible—give effect to the following provisions:

(*a*) accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms;*

(*b*) refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less-developed contracting parties; and

(*c*) (i) refrain from imposing new fiscal measures, and

(ii) in any adjustments of fiscal policy accord high priority to the reduction and elimination of fiscal measures,

which would hamper, or which hamper, significantly the growth of consumption of primary products, in raw or processed form, wholly or mainly produced in the territories of less-developed contracting parties, and which are applied specifically to those products.

2. (*a*) Whenever it is considered that effect is not being given to any of the provisions of sub-paragraph (*a*), (*b*) or (*c*) of paragraph 1, the matter shall be reported to the CONTRACTING PARTIES either by the contracting party not so giving effect to the relevant provisions or by any other interested contracting party.

(*b*) (i) The CONTRACTING PARTIES shall, if requested so to do by any interested contracting party, and without prejudice to any bilateral consultations that may be undertaken, consult with the contracting party concerned and all interested contracting parties with respect to the matter with a view to reaching solutions satisfactory to all contracting parties concerned in order to further the objectives set forth in Article XXXVI. In the course of these consultations, the reasons given in cases where effect was not being given to the provisions of sub-paragraph (*a*), (*b*) or (*c*) of paragraph 1 shall be examined.

(ii) As the implementation of the provisions of sub-paragraph (*a*), (*b*) or (*c*) of paragraph 1 by individual contracting parties

may in some cases be more readily achieved where action is taken jointly with other developed contracting parties, such consultation might, where appropriate, be directed towards this end.

(iii) The consultations by the CONTRACTING PARTIES might also, in appropriate cases, be directed towards agreement on joint action designed to further the objectives of this Agreement as envisaged in paragraph 1 of Article XXV.

3. The developed contracting parties shall:

(*a*) make every effort, in cases where a government directly or indirectly determines the resale price of products wholly or mainly produced in the territories of less-developed contracting parties, to maintain trade margins at equitable levels;

(*b*) give active consideration to the adoption of other measures * designed to provide greater scope for the development of imports from less-developed contracting parties and collaborate in appropriate international action to this end;

(*c*) have special regard to the trade interests of less-developed contracting parties when considering the application of other measures permitted under this Agreement to meet particular problems and explore all possibilities of constructive remedies before applying such measures where they would affect essential interests of those contracting parties.

4. Less-developed contracting parties agree to take appropriate action in implementation of the provisions of Part IV for the benefit of the trade of other less-developed contracting parties, in so far as such action is consistent with their individual present and future development, financial and trade needs taking into account past trade developments as well as the trade interests of less-developed contracting parties as a whole.

5. In the implementation of the commitments set forth in paragraphs 1 to 4 each contracting party shall afford to any other interested contracting party or contracting parties full and prompt opportunity for consultations under the normal procedures of this Agreement with respect to any matter or difficulty which may arise.

Article XXXVIII

Joint Action

1. The contracting parties shall collaborate jointly, within the framework of this Agreement and elsewhere, as appropriate, to further the objectives set forth in Article XXXVI.

2. In particular, the CONTRACTING PARTIES shall:

(*a*) where appropriate, take action, including action through international arrangements, to provide improved and acceptable conditions of access to world markets for primary products of particular interest to less-developed contracting parties and to devise measures designed to stabilize and improve conditions of world markets in these products including measures designed to attain stable, equitable and remunerative prices for exports of such products;

(*b*) seek appropriate collaboration in matters of trade and development policy with the United Nations and its organs and agencies, including any institutions that may be created on the basis of recommendations by the United Nations Conference on Trade and Development;

(*c*) collaborate in analysing the development plans and policies of individual less-developed contracting parties and in examining trade and aid relationships with a view to devising concrete measures to promote the development of export potential and to facilitate access to export markets for the products of the industries thus developed and, in this connexion, seek appropriate collaboration with governments and international organizations, and in particular with organizations having competence in relation to financial assistance for economic development, in systematic studies of trade and aid relationships in individual less-developed contracting parties aimed at obtaining a clear analysis of export potential, market prospects and any further action that may be required;

(*d*) keep under continuous review the development of world trade with special reference to the rate of growth of the trade of less-developed contracting parties and make such recommendations to contracting parties as may, in the circumstances, be deemed appropriate;

(*e*) collaborate in seeking feasible methods to expand trade for the purpose of economic development, through international harmonization and adjustment of national policies and regulations, through technical and commercial standards affecting production, transportation and marketing, and through export promotion by the establishment of facilities for the increased flow of trade information and the development of market research; and

(*f*) establish such institutional arrangements as may be necessary to further the objectives set forth in Article XXXVI and to give effect to the provisions of this Part.

ANNEX A

LIST OF TERRITORIES REFERRED TO IN PARAGRAPH 2 (*a*) OF ARTICLE I

United Kingdom of Great Britain and Northern Ireland
Dependent territories of the United Kingdom of Great Britain and Northern Ireland
Canada
Commonwealth of Australia
Dependent territories of the Commonwealth of Australia
New Zealand
Dependent territories of New Zealand
Union of South Africa including South West Africa
Ireland
India (as on April 10, 1947)
Newfoundland
Southern Rhodesia
Burma
Ceylon

Certain of the territories listed above have two or more preferential rates in force for certain products. Any such territory may, by agreement with the other contracting parties which are principal suppliers of such products at the most-favoured-nation rate, substitute for such preferential rates a single preferential rate which shall not on the whole be less favourable to suppliers at the most-favoured-nation rate than the preferences in force prior to such substitution.

The imposition of an equivalent margin of tariff preference to replace a margin of preference in an internal tax existing on April 10, 1947 exclusively between two or more of the territories listed in this Annex or to replace the preferential quantitative arrangements described in the following paragraph, shall not be deemed to constitute an increase in a margin of tariff preference.

The preferential arrangements referred to in paragraph 5 (*b*) of Article XIV are those existing in the United Kingdom on April 10, 1947, under contractual agreements with the Governments of Canada, Australia and New Zealand, in respect of chilled and frozen beef and veal, frozen mutton and lamb, chilled and frozen pork, and bacon. It is the intention, without prejudice to any action taken under sub-paragraph (*h*) † of Article XX, that these arrangements shall be eliminated or replaced by tariff preferences, and that negotiations to this end shall take place as soon as practicable among the countries substantially concerned or involved.

The film hire tax in force in New Zealand on April 10, 1947, shall, for the purposes of this Agreement, be treated as a customs duty under Article I. The

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† The authentic text erroneously reads " part I (*h*) ".

renters' film quota in force in New Zealand on April 10, 1947, shall, for the purposes of this Agreement, be treated as a screen quota under Article IV.

The Dominions of India and Pakistan have not been mentioned separately in the above list since they had not come into existence as such on the base date of April 10, 1947.

ANNEX B

LIST OF TERRITORIES OF THE FRENCH UNION REFERRED TO IN PARAGRAPH 2 (*b*) OF ARTICLE I

France
French Equatorial Africa (Treaty Basin of the Congo [1] and other territories)
French West Africa
Cameroons under French Trusteeship [1]
French Somali Coast and Dependencies
French Establishments in Oceania
French Establishments in the Condominium of the New Hebrides [1]
Indo-China
Madagascar and Dependencies
Morocco (French zone) [1]
New Caledonia and Dependencies
Saint-Pierre and Miquelon
Togo under French Trusteeship [1]
Tunisia

ANNEX C

LIST OF TERRITORIES REFERRED TO IN PARAGRAPH 2 (*b*) OF ARTICLE I AS RESPECTS THE CUSTOMS UNION OF BELGIUM, LUXEMBURG AND THE NETHERLANDS

The Economic Union of Belgium and Luxemburg
Belgian Congo
Ruanda Urundi
Netherlands
New Guinea
Surinam
Netherlands Antilles
Republic of Indonesia

For imports into the territories constituting the Customs Union only.

ANNEX D

LIST OF TERRITORIES REFERRED TO IN PARAGRAPH 2 (*b*) OF ARTICLE I AS RESPECTS THE UNITED STATES OF AMERICA

United States of America (customs territory)
Dependent territories of the United States of America
Republic of the Philippines

[1] For imports into Metropolitan France and Territories of the French Union.

The imposition of an equivalent margin of tariff preference to replace a margin of preference in an internal tax existing on April 10, 1947, exclusively between two or more of the territories listed in this Annex shall not be deemed to constitute an increase in a margin of tariff preference.

ANNEX E

LIST OF TERRITORIES COVERED BY PREFERENTIAL ARRANGEMENTS BETWEEN CHILE AND NEIGHBOURING COUNTRIES REFERRED TO IN PARAGRAPH 2 (*d*) OF ARTICLE I

Preferences in force exclusively between Chile on the one hand, and

1. Argentina
2. Bolivia
3. Peru

on the other hand.

ANNEX F

LIST OF TERRITORIES COVERED BY PREFERENTIAL ARRANGEMENTS BETWEEN LEBANON AND SYRIA AND NEIGHBOURING COUNTRIES REFERRED TO IN PARAGRAPH 2 (*d*) OF ARTICLE I

Preferences in force exclusively between the Lebano-Syrian Customs Union, on the one hand, and

1. Palestine
2. Transjordan

on the other hand.

ANNEX G

DATES ESTABLISHING MAXIMUM MARGINS OF PREFERENCE REFERRED TO IN PARAGRAPH 4 † OF ARTICLE I

Australia	October 15, 1946
Canada	July 1, 1939
France	January 1, 1939
Lebano-Syrian Customs Union	November 30, 1938
Union of South Africa	July 1, 1938
Southern Rhodesia	May 1, 1941

ANNEX H

PERCENTAGE SHARES OF TOTAL EXTERNAL TRADE TO BE USED FOR THE PURPOSE OF MAKING THE DETERMINATION REFERRED TO IN ARTICLE XXVI

(based on the average of 1949-1953)

If, prior to the accession of the Government of Japan to the General Agreement, the present Agreement has been accepted by contracting parties the external

† The authentic text erroneously reads " Paragraph 3 ".

trade of which under column I accounts for the percentage of such trade specified in paragraph 6 of Article XXVI, column I shall be applicable for the purposes of that paragraph. If the present Agreement has not been so accepted prior to the accession of the Government of Japan, column II shall be applicable for the purposes of that paragraph.

	Column I (Contracting parties on 1 March 1955)	*Column II* (Contracting parties on 1 March 1955 and Japan)
Australia	3.1	3.0
Austria	0.9	0.8
Belgium-Luxemburg	4.3	4.2
Brazil	2.5	2.4
Burma	0.3	0.3
Canada	6.7	6.5
Ceylon	0.5	0.5
Chile	0.6	0.6
Cuba	1.1	1.1
Czechoslovakia	1.4	1.4
Denmark	1.4	1.4
Dominican Republic	0.1	0.1
Finland	1.0	1.0
France	8.7	8.5
Germany, Federal Republic of	5.3	5.2
Greece	0.4	0.4
Haiti	0.1	0.1
India	2.4	2.4
Indonesia	1.3	1.3
Italy	2.9	2.8
Netherlands, Kingdom of the	4.7	4.6
New Zealand	1.0	1.0
Nicaragua	0.1	0.1
Norway	1.1	1.1
Pakistan	0.9	0.8
Peru	0.4	0.4
Rhodesia and Nyasaland	0.6	0.6
Sweden	2.5	2.4
Turkey	0.6	0.6
Union of South Africa	1.8	1.8
United Kingdom	20.3	19.8
United States of America	20.6	20.1
Uruguay	0.4	0.4
Japan	—	2.3
	100.0	100.0

Note: These percentages have been computed taking into account the trade of all territories in respect of which the General Agreement on Tariffs and Trade is applied.

ANNEX I

Notes and Supplementary Provisions

Ad *Article I*

Paragraph 1

The obligations incorporated in paragraph 1 of Article I by reference to paragraphs 2 and 4 of Article III and those incorporated in paragraph 2 (*b*) of Article II by reference to Article VI shall be considered as falling within Part II for the purposes of the Protocol of Provisional Application.

The cross-references, in the paragraph immediately above and in paragraph 1 of Article I, to paragraphs 2 and 4 of Article III shall only apply after Article III has been modified by the entry into force of the amendment provided for in the Protocol Modifying Part II and Article XXVI of the General Agreement on Tariffs and Trade, dated September 14, 1948. [1]

Paragraph 4

The term " margin of preference " means the absolute difference between the most-favoured-nation rate of duty and the preferential rate of duty for the like product, and not the proportionate relation between those rates. As examples:

(1) If the most-favoured-nation rate were 36 per cent *ad valorem* and the preferential rate were 24 per cent *ad valorem*, the margin of preference would be 12 per cent *ad valorem*, and not one-third of the most-favoured-nation rate;

(2) If the most-favoured-nation rate were 36 per cent *ad valorem* and the preferential rate were expressed as two-thirds of the most-favoured-nation rate, the margin of preference would be 12 per cent *ad valorem*;

(3) If the most-favoured-nation rate were 2 francs per kilogramme and the preferential rate were 1.50 francs per kilogramme, the margin of preference would be 0.50 franc per kilogramme.

The following kinds of customs action, taken in accordance with established uniform procedures, would not be contrary to a general binding of margins of preference:

(i) The re-application to an imported product of a tariff classification or rate of duty, properly applicable to such product, in cases in which the application of such classification or rate to such product was temporarily suspended or inoperative on April 10, 1947; and

(ii) The classification of a particular product under a tariff item other than that under which importations of that product were classified on April 10, 1947, in cases in which the tariff law clearly contemplates that such product may be classified under more than one tariff item.

[1] This Protocol entered into force on 14 December 1948.

Ad *Article II*

Paragraph 2 (a)

The cross-reference, in paragraph 2 (*a*) of Article II, to paragraph 2 of Article III shall only apply after Article III has been modified by the entry into force of the amendment provided for in the Protocol Modifying Part II and Article XXVI of the General Agreement on Tariffs and Trade, dated September 14, 1948.[1]

Paragraph 2 (b)

See the note relating to paragraph 1 of Article I.

Paragraph 4

Except where otherwise specifically agreed between the contracting parties which initially negotiated the concession, the provisions of this paragraph will be applied in the light of the provisions of Article 31 of the Havana Charter.

Ad *Article III*

Any internal tax or other internal charge, or any law, regulation or requirement of the kind referred to in paragraph 1 which applies to an imported product and to the like domestic product and is collected or enforced in the case of the imported product at the time or point of importation, is nevertheless to be regarded as an internal tax or other internal charge, or a law, regulation or requirement of the kind referred to in paragraph 1, and is accordingly subject to the provisions of Article III.

Paragraph 1

The application of paragraph 1 to internal taxes imposed by local governments and authorities within the territory of a contracting party is subject to the provisions of the final paragraph of Article XXIV. The term " reasonable measures " in the last-mentioned paragraph would not require, for example, the repeal of existing national legislation authorizing local governments to impose internal taxes which, although technically inconsistent with the letter of Article III, are not in fact inconsistent with its spirit, if such repeal would result in a serious financial hardship for the local governments or authorities concerned. With regard to taxation by local governments or authorities which is inconsistent with both the letter and spirit of Article III, the term " reasonable measures " would permit a contracting party to eliminate the inconsistent taxation gradually over a transition period, if abrupt action would create serious administrative and financial difficulties.

Paragraph 2

A tax conforming to the requirements of the first sentence of paragraph 2 would be considered to be inconsistent with the provisions of the second sentence

[1] This Protocol entered into force on 14 December 1948.

only in cases where competition was involved between, on the one hand, the taxed product and, on the other hand, a directly competitive or substitutable product which was not similarly taxed.

Paragraph 5

Regulations consistent with the provisions of the first sentence of paragraph 5 shall not be considered to be contrary to the provisions of the second sentence in any case in which all of the products subject to the regulations are produced domestically in substantial quantities. A regulation cannot be justified as being consistent with the provisions of the second sentence on the ground that the proportion or amount allocated to each of the products which are the subject of the regulation constitutes an equitable relationship between imported and domestic products.

Ad *Article V*

Paragraph 5

With regard to transportation charges, the principle laid down in paragraph 5 refers to like products being transported on the same route under like conditions.

Ad *Article VI*

Paragraph 1

1. Hidden dumping by associated houses (that is, the sale by an importer at a price below that corresponding to the price invoiced by an exporter with whom the importer is associated, and also below the price in the exporting country) constitutes a form of price dumping with respect to which the margin of dumping may be calculated on the basis of the price at which the goods are resold by the importer.

2. It is recognized that, in the case of imports from a country which has a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State, special difficulties may exist in determining price comparability for the purposes of paragraph 1, and in such cases importing contracting parties may find it necessary to take into account the possibility that a strict comparison with domestic prices in such a country may not always be appropriate.

Paragraphs 2 and 3

1. As in many other cases in customs administration, a contracting party may require reasonable security (bond or cash deposit) for the payment of anti-dumping or countervailing duty pending final determination of the facts in any case of suspected dumping or subsidization.

2. Multiple currency practices can in certain circumstances constitute a subsidy to exports which may be met by countervailing duties under paragraph 3 or can constitute a form of dumping by means of a partial depreciation of a country's currency which may be met by action under paragraph 2. By " multiple

currency practices " is meant practices by governments or sanctioned by governments.

Paragraph 6 (b)

Waivers under the provisions of this sub-paragraph shall be granted only on application by the contracting party proposing to levy an anti-dumping or countervailing duty, as the case may be.

Ad *Article VII*

Paragraph 1

The expression " or other charges " is not to be regarded as including internal taxes or equivalent charges imposed on or in connexion with imported products.

Paragraph 2

1. It would be in conformity with Article VII to presume that " actual value " may be represented by the invoice price, plus any non-included charges for legitimate costs which are proper elements of " actual value " and plus any abnormal discount or other reduction from the ordinary competitive price.

2. It would be in conformity with Article VII, paragraph 2 (*b*), for a contracting party to construe the phrase " in the ordinary course of trade ... under fully competitive conditions ", as excluding any transaction wherein the buyer and seller are not independent of each other and price is not the sole consideration.

3. The standard of " fully competitive conditions " permits a contracting party to exclude from consideration prices involving special discounts limited to exclusive agents.

4. The wording of sub-paragraphs (*a*) and (*b*) permits a contracting party to determine the value for customs purposes uniformly either (1) on the basis of a particular exporter's prices of the imported merchandise, or (2) on the basis of the general price level of like merchandise.

Ad *Article VIII*

1. While Article VIII does not cover the use of multiple rates of exchange as such, paragraphs 1 and 4 condemn the use of exchange taxes or fees as a device for implementing multiple currency practices; if, however, a contracting party is using multiple currency exchange fees for balance of payments reasons with the approval of the International Monetary Fund, the provisions of paragraph 9 (*a*) of Article XV fully safeguard its position.

2. It would be consistent with paragraph 1 if, on the importation of products from the territory of a contracting party into the territory of another contracting party, the production of certificates of origin should only be required to the extent that is strictly indispensable.

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Ad *Articles XI, XII, XIII, XIV and XVIII*

Throughout Articles XI, XII, XIII, XIV and XVIII, the terms " import restrictions " or " export restrictions " include restrictions made effective through state-trading operations.

Ad *Article XI*

Paragraph 2 (c)

The term " in any form " in this paragraph covers the same products when in an early stage of processing and still perishable, which compete directly with the fresh product and if freely imported would tend to make the restriction on the fresh product ineffective.

Paragraph 2, last sub-paragraph

The term " special factors " includes changes in relative productive efficiency as between domestic and foreign producers, or as between different foreign producers, but not changes artificially brought about by means not permitted under the Agreement.

Ad *Article XII*

The CONTRACTING PARTIES shall make provision for the utmost secrecy in the conduct of any consultation under the provisions of this Article.

Paragraph 3 (c) (*i*)

Contracting parties applying restrictions shall endeavour to avoid causing serious prejudice to exports of a commodity on which the economy of a contracting party is largely dependent.

Paragraph 4 (b)

It is agreed that the date shall be within ninety days after the entry into force of the amendments of this Article effected by the Protocol Amending the Preamble and Parts II and III of this Agreement. However, should the CONTRACTING PARTIES find that conditions were not suitable for the application of the provisions of this sub-paragraph at the time envisaged, they may determine a later date; *Provided* that such date is not more than thirty days after such time as the obligations of Article VIII, Sections 2, 3 and 4, of the Articles of Agreement of the International Monetary Fund become applicable to contracting parties, members of the Fund, the combined foreign trade of which constitutes at least fifty per centum of the aggregate foreign trade of all contracting parties.

Paragraph 4 (e)

It is agreed that paragraph 4 (*e*) does not add any new criteria for the imposition or maintenance of quantitative restrictions for balance of payments reasons.

It is solely intended to ensure that all external factors such as changes in the terms of trade, quantitative restrictions, excessive tariffs and subsidies, which may be contributing to the balance of payments difficulties of the contracting party applying restrictions, will be fully taken into account.

Ad *Article XIII*

Paragraph 2 (d)

No mention was made of " commercial considerations " as a rule for the allocation of quotas because it was considered that its application by governmental authorities might not always be practicable. Moreover, in cases where it is practicable, a contracting party could apply these considerations in the process of seeking agreement, consistently with the general rule laid down in the opening sentence of paragraph 2.

Paragraph 4

See note relating to " special factors " in connexion with the last sub-paragraph of paragraph 2 of Article XI.

Ad *Article XIV*

Paragraph 1

The provisions of this paragraph shall not be so construed as to preclude full consideration by the CONTRACTING PARTIES, in the consultations provided for in paragraph 4 of Article XII and in paragraph 12 of Article XVIII, of the nature, effects and reasons for discrimination in the field of import restrictions.

Paragraph 2

One of the situations contemplated in paragraph 2 is that of a contracting party holding balances acquired as a result of current transactions which it finds itself unable to use without a measure of discrimination.

Ad *Article XV*

Paragraph 4

The word " frustrate " is intended to indicate, for example, that infringements of the letter of any Article of this Agreement by exchange action shall not be regarded as a violation of that Article if, in practice, there is no appreciable departure from the intent of the Article. Thus, a contracting party which, as part of its exchange control operated in accordance with the Articles of Agreement of the International Monetary Fund, requires payment to be received for its exports in its own currency or in the currency of one or more members of the International Monetary Fund will not thereby be deemed to contravene Article XI or Article XIII. Another example would be that of a contracting party which specifies on

an import licence the country from which the goods may be imported, for the purpose not of introducing any additional element of discrimination in its import licensing system but of enforcing permissible exchange controls.

Ad *Article XVI*

The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.

Section B

1. Nothing in Section B shall preclude the use by a contracting party of multiple rates of exchange in accordance with the Articles of Agreement of the International Monetary Fund.

2. For the purposes of Section B, a " primary product " is understood to be 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.

Paragraph 3

1. The fact that a contracting party has not exported the product in question during the previous representative period would not in itself preclude that contracting party from establishing its right to obtain a share of the trade in the product concerned.

2. A system for the stabilization of the domestic price or of the return to domestic producers of a primary product independently of the movements of export prices, which results at times in the sale of the product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market, shall be considered not to involve a subsidy on exports within the meaning of paragraph 3 if the CONTRACTING PARTIES determine that:

(*a*) the system has also resulted, or is so designed as to result, in the sale of the product for export at a price higher than the comparable price charged for the like product to buyers in the domestic market; and

(*b*) the system is so operated, or is designed so to operate, either because of the effective regulation of production or otherwise, as not to stimulate exports unduly or otherwise seriously to prejudice the interests of other contracting parties.

Notwithstanding such determination by the CONTRACTING PARTIES, operations under such a system shall be subject to the provisions of paragraph 3 where they are wholly or partly financed out of government funds in addition to the funds collected from producers in respect of the product concerned.

Paragraph 4

The intention of paragraph 4 is that the contracting parties should seek before the end of 1957 to reach agreement to abolish all remaining subsidies as from 1 January 1958; or, failing this, to reach agreement to extend the application of the standstill until the earliest date thereafter by which they can expect to reach such agreement.

Ad *Article XVII*

Paragraph 1

The operations of Marketing Boards, which are established by contracting parties and are engaged in purchasing or selling, are subject to the provisions of sub-paragraphs (*a*) and (*b*).

The activities of Marketing Boards which are established by contracting parties and which do not purchase or sell but lay down regulations covering private trade are governed by the relevant Articles of this Agreement.

The charging by a state enterprise of different prices for its sales of a product in different markets is not precluded by the provisions of this Article, provided that such different prices are charged for commercial reasons, to meet conditions of supply and demand in export markets.

Paragraph 1 (a)

Governmental measures imposed to ensure standards of quality and efficiency in the operation of external trade, or privileges granted for the exploitation of national natural resources but which do not empower the government to exercise control over the trading activities of the enterprise in question, do not constitute " exclusive or special privileges ".

Paragraph 1 (b)

A country receiving a " tied loan " is free to take this loan into account as a " commercial consideration " when purchasing requirements abroad.

Paragraph 2

The term " goods " is limited to products as understood in commercial practice, and is not intended to include the purchase or sale of services.

Paragraph 3

Negotiations which contracting parties agree to conduct under this paragraph may be directed towards the reduction of duties and other charges on imports and exports or towards the conclusion of any other mutually satisfactory arrangement consistent with the provisions of this Agreement. (See paragraph 4 of Article II and the note to that paragraph.)

Paragraph 4 (b)

The term " import mark-up " in this paragraph shall represent the margin by which the price charged by the import monopoly for the imported product (exclusive of internal taxes within the purview of Article III, transportation, distribution, and other expenses incident to the purchase, sale or further processing, and a reasonable margin of profit) exceeds the landed cost.

Ad *Article XVIII*

The CONTRACTING PARTIES and the contracting parties concerned shall preserve the utmost secrecy in respect of matters arising under this Article.

Paragraphs 1 and 4

1. When they consider whether the economy of a contracting party " can only support low standards of living ", the CONTRACTING PARTIES shall take into consideration the normal position of that economy and shall not base their determination on exceptional circumstances such as those which may result from the temporary existence of exceptionally favourable conditions for the staple export product or products of such contracting party.

2. The phrase " in the early stages of development " is not meant to apply only to contracting parties which have just started their economic development, but also to contracting parties the economies of which are undergoing a process of industrialization to correct an excessive dependence on primary production.

Paragraphs 2, 3, 7, 13 and 22

The reference to the establishment of particular industries shall apply not only to the establishment of a new industry, but also to the establishment of a new branch of production in an existing industry and to the substantial transformation of an existing industry, and to the substantial expansion of an existing industry supplying a relatively small proportion of the domestic demand. It shall also cover the reconstruction of an industry destroyed or substantially damaged as a result of hostilities or natural disasters.

Paragraph 7 (b)

A modification or withdrawal, pursuant to paragraph 7 (*b*), by a contracting party, other than the applicant contracting party, referred to in paragraph 7 (*a*), shall be made within six months of the day on which the action is taken by the applicant contracting party, and shall become effective on the thirtieth day following the day on which such modification or withdrawal has been notified to the CONTRACTING PARTIES.

Paragraph 11

The second sentence in paragraph 11 shall not be interpreted to mean that a contracting party is required to relax or remove restrictions if such relaxation

or removal would thereupon produce conditions justifying the intensification or institution, respectively, of restrictions under paragraph 9 of Article XVIII.

Paragraph 12 (b)

The date referred to in paragraph 12 (*b*) shall be the date determined by the CONTRACTING PARTIES in accordance with the provisions of paragraph 4 (*b*) of Article XII of this Agreement.

Paragraphs 13 and 14

It is recognized that, before deciding on the introduction of a measure and notifying the CONTRACTING PARTIES in accordance with paragraph 14, a contracting party may need a reasonable period of time to assess the competitive position of the industry concerned.

Paragraphs 15 and 16

It is understood that the CONTRACTING PARTIES shall invite a contracting party proposing to apply a measure under Section C to consult with them pursuant to paragraph 16 if they are requested to do so by a contracting party the trade of which would be appreciably affected by the measure in question.

Paragraphs 16, 18, 19 and 22

1. It is understood that the CONTRACTING PARTIES may concur in a proposed measure subject to specific conditions or limitations. If the measure as applied does not conform to the terms of the concurrence it will to that extent be deemed a measure in which the CONTRACTING PARTIES have not concurred. In cases in which the CONTRACTING PARTIES have concurred in a measure for a specified period, the contracting party concerned, if it finds that the maintenance of the measure for a further period of time is required to achieve the objective for which the measure was originally taken, may apply to the CONTRACTING PARTIES for an extension of that period in accordance with the provisions and procedures of Section C or D, as the case may be.

2. It is expected that the CONTRACTING PARTIES will, as a rule, refrain from concurring in a measure which is likely to cause serious prejudice to exports of a commodity on which the economy of a contracting party is largely dependent.

Paragraphs 18 and 22

The phrase "that the interests of other contracting parties are adequately safeguarded" is meant to provide latitude sufficient to permit consideration in each case of the most appropriate method of safeguarding those interests. The appropriate method may, for instance, take the form of an additional concession to be applied by the contracting party having recourse to Section C or D during such time as the deviation from the other Articles of the Agreement would remain in force or of the temporary suspension by any other contracting party referred to in paragraph 18 of a concession substantially equivalent to the impairment due

to the introduction of the measure in question. Such contracting party would have the right to safeguard its interests through such a temporary suspension of a concession; *Provided* that this right will not be exercised when, in the case of a measure imposed by a contracting party coming within the scope of paragraph 4 (*a*), the CONTRACTING PARTIES have determined that the extent of the compensatory concession proposed was adequate.

Paragraph 19

The provisions of paragraph 19 are intended to cover the cases where an industry has been in existence beyond the " reasonable period of time " referred to in the note to paragraphs 13 and 14, and should not be so construed as to deprive a contracting party coming within the scope of paragraph 4 (*a*) of Article XVIII, of its right to resort to the other provisions of Section C, including paragraph 17, with regard to a newly established industry even though it has benefited from incidental protection afforded by balance of payments import restrictions.

Paragraph 21

Any measure taken pursuant to the provisions of paragraph 21 shall be withdrawn forthwith if the action taken in accordance with paragraph 17 is withdrawn or if the CONTRACTING PARTIES concur in the measure proposed after the expiration of the ninety-day time limit specified in paragraph 17.

Ad *Article XX*

Sub-paragraph (h)

The exception provided for in this sub-paragraph extends to any commodity agreement which conforms to the principles approved by the Economic and Social Council in its resolution 30 (IV) of 28 March 1947.

Ad *Article XXIV*

Paragraph 9

It is understood that the provisions of Article I would require that, when a product which has been imported into the territory of a member of a customs union or free-trade area at a preferential rate of duty is re-exported to the territory of another member of such union or area, the latter member should collect a duty equal to the difference between the duty already paid and any higher duty that would be payable if the product were being imported directly into its territory.

Paragraph 11

Measures adopted by India and Pakistan in order to carry out definitive trade arrangements between them, once they have been agreed upon, might depart from particular provisions of this Agreement, but these measures would in general be consistent with the objectives of the Agreement.

Ad *Article XXVIII*

The CONTRACTING PARTIES and each contracting party concerned should arrange to conduct the negotiations and consultations with the greatest possible secrecy in order to avoid premature disclosure of details of prospective tariff changes. The CONTRACTING PARTIES shall be informed immediately of all changes in national tariffs resulting from recourse to this Article.

Paragraph 1

1. If the CONTRACTING PARTIES specify a period other than a three-year period, a contracting party may act pursuant to paragraph 1 or paragraph 3 of Article XXVIII on the first day following the expiration of such other period and, unless the CONTRACTING PARTIES have again specified another period, subsequent periods will be three-year periods following the expiration of such specified period.

2. The provision that on 1 January 1958, and on other days determined pursuant to paragraph 1, a contracting party "may ... modify or withdraw a concession" means that on such day, and on the first day after the end of each period, the legal obligation of such contracting party under Article II is altered; it does not mean that the changes in its customs tariff should necessarily be made effective on that day. If a tariff change resulting from negotiations undertaken pursuant to this Article is delayed, the entry into force of any compensatory concessions may be similarly delayed.

3. Not earlier than six months, nor later than three months, prior to 1 January 1958, or to the termination date of any subsequent period, a contracting party wishing to modify or withdraw any concession embodied in the appropriate Schedule, should notify the CONTRACTING PARTIES to this effect. The CONTRACTING PARTIES shall then determine the contracting party or contracting parties with which the negotiations or consultations referred to in paragraph 1 shall take place. Any contracting party so determined shall participate in such negotiations or consultations with the applicant contracting party with the aim of reaching agreement before the end of the period. Any extension of the assured life of the Schedules shall relate to the Schedules as modified after such negotiations, in accordance with paragraphs 1, 2 and 3 of Article XXVIII. If the CONTRACTING PARTIES are arranging for multilateral tariff negotiations to take place within the period of six months before 1 January 1958, or before any other day determined pursuant to paragraph 1, they shall include in the arrangements for such negotiations suitable procedures for carrying out the negotiations referred to in this paragraph.

4. The object of providing for the participation in the negotiations of any contracting party with a principal supplying interest, in addition to any contracting party with which the concession was initially negotiated, is to ensure that a contracting party with a larger share in the trade affected by the concession than a contracting party with which the concession was initially negotiated shall have an effective opportunity to protect the contractual right which it enjoys under this

Agreement. On the other hand, it is not intended that the scope of the negotiations should be such as to make negotiations and agreement under Article XXVIII unduly difficult nor to create complications in the application of this Article in the future to concessions which result from negotiations thereunder. Accordingly, the CONTRACTING PARTIES should only determine that a contracting party has a principal supplying interest if that contracting party has had, over a reasonable period of time prior to the negotiations, a larger share in the market of the applicant contracting party than a contracting party with which the concession was initially negotiated or would, in the judgment of the CONTRACTING PARTIES, have had such a share in the absence of discriminatory quantitative restrictions maintained by the applicant contracting party. It would therefore not be appropriate for the CONTRACTING PARTIES to determine that more than one contracting party, or in those exceptional cases where there is near equality more than two contracting parties, had a principal supplying interest.

5. Notwithstanding the definition of a principal supplying interest in note 4 to paragraph 1, the CONTRACTING PARTIES may exceptionally determine that a contracting party has a principal supplying interest if the concession in question affects trade which constitutes a major part of the total exports of such contracting party.

6. It is not intended that provision for participation in the negotiations of any contracting party with a principal supplying interest, and for consultation with any contracting party having a substantial interest in the concession which the applicant contracting party is seeking to modify or withdraw, should have the effect that it should have to pay compensation or suffer retaliation greater than the withdrawal or modification sought, judged in the light of the conditions of trade at the time of the proposed withdrawal or modification, making allowance for any discriminatory quantitative restrictions maintained by the applicant contracting party.

7. The expression " substantial interest " is not capable of a precise definition and accordingly may present difficulties for the CONTRACTING PARTIES. It is, however, intended to be construed to cover only those contracting parties which have, or in the absence of discriminatory quantitative restrictions affecting their exports could reasonably be expected to have, a significant share in the market of the contracting party seeking to modify or withdraw the concession.

Paragraph 4

1. Any request for authorization to enter into negotiations shall be accompanied by all relevant statistical and other data. A decision on such request shall be made within thirty days of its submission.

2. It is recognized that to permit certain contracting parties, depending in large measure on a relatively small number of primary commodities and relying on the tariff as an important aid for furthering diversification of their economies or as an important source of revenue, normally to negotiate for the modification or withdrawal of concessions only under paragraph 1 of Article XXVIII, might cause them at such a time to make modifications or withdrawals which in the long

run would prove unnecessary. To avoid such a situation the CONTRACTING PARTIES shall authorize any such contracting party, under paragraph 4, to enter into negotiations unless they consider this would result in, or contribute substantially towards, such an increase in tariff levels as to threaten the stability of the Schedules to this Agreement or lead to undue disturbance of international trade.

3. It is expected that negotiations authorized under paragraph 4 for modification or withdrawal of a single item, or a very small group of items, could normally be brought to a conclusion in sixty days. It is recognized, however, that such a period will be inadequate for cases involving negotiations for the modification or withdrawal of a larger number of items and in such cases, therefore, it would be appropriate for the CONTRACTING PARTIES to prescribe a longer period.

4. The determination referred to in paragraph 4 (*d*) shall be made by the CONTRACTING PARTIES within thirty days of the submission of the matter to them, unless the applicant contracting party agrees to a longer period.

5. In determining under paragraph 4 (*d*) whether an applicant contracting party has unreasonably failed to offer adequate compensation, it is understood that the CONTRACTING PARTIES will take due account of the special position of a contracting party which has bound a high proportion of its tariffs at very low rates of duty and to this extent has less scope than other contracting parties to make compensatory adjustment.

Ad *Article XXVIII* bis

Paragraph 3

It is understood that the reference to fiscal needs would include the revenue aspect of duties and particularly duties imposed primarily for revenue purposes or duties imposed on products which can be substituted for products subject to revenue duties to prevent the avoidance of such duties.

Ad *Article XXIX*

Paragraph 1

Chapters VII and VIII of the Havana Charter have been excluded from paragraph 1 because they generally deal with the organization, functions and procedures of the International Trade Organization.

Ad *Part IV*

The words " developed contracting parties " and the words " less-developed contracting parties " as used in Part IV are to be understood to refer to developed and less-developed countries which are parties to the General Agreement on Tariffs and Trade.

Ad *Article XXXVI*

Paragraph 1

This Article is based upon the objectives set forth in Article I as it will be amended by Section A of paragraph 1 of the Protocol Amending Part I and Articles XXIX and XXX when that Protocol enters into force. [1]

Paragraph 4

The term " primary products " includes agricultural products, *vide* paragraph 2 of the note ad Article XVI, Section B.

Paragraph 5

A diversification programme would generally include the intensification of activities for the processing of primary products and the development of manufacturing industries, taking into account the situation of the particular contracting party and the world outlook for production and consumption of different commodities.

Paragraph 8

It is understood that the phrase " do not expect reciprocity " means, in accordance with the objectives set forth in this Article, that the less-developed contracting parties should not be expected, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments.

This paragraph would apply in the event of action under Section A of Article XVIII, Article XXVIII, Article XXVIII *bis* (Article XXIX after the amendment set forth in Section A of paragraph 1 of the Protocol Amending Part I and Articles XXIX and XXX shall have become effective [1]), Article XXXIII, or any other procedure under this Agreement.

Ad *Article XXXVII*

Paragraph 1 (a)

This paragraph would apply in the event of negotiations for reduction or elimination of tariffs or other restrictive regulations of commerce under Articles XXVIII, XXVIII *bis* (XXIX after the amendment set forth in Section A of paragraph 1 of the Protocol Amending Part I and Articles XXIX and XXX shall have become effective [1]), and Article XXXIII, as well as in connexion with other action to effect such reduction or elimination which contracting parties may be able to undertake.

Paragraph 3 (b)

The other measures referred to in this paragraph might include steps to promote domestic structural changes, to encourage the consumption of particular products, or to introduce measures of trade promotion.

[1] This Protocol was abandoned on 1 January 1968.

PROTOCOL OF PROVISIONAL APPLICATION OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

1. The Governments of the COMMONWEALTH OF AUSTRALIA, the KINGDOM OF BELGIUM (in respect of its metropolitan territory), CANADA, the FRENCH REPUBLIC (in respect of its metropolitan territory), the GRAND-DUCHY OF LUXEMBURG, the KINGDOM OF THE NETHERLANDS (in respect of its metropolitan territory), the UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (in respect of its metropolitan territory), and the UNITED STATES OF AMERICA, undertake, provided that this Protocol shall have been signed on behalf of all the foregoing Governments not later than 15 November 1947, to apply provisionally on and after 1 January 1948:

(*a*) Parts I and III of the General Agreement on Tariffs and Trade, and

(*b*) Part II of that Agreement to the fullest extent not inconsistent with existing legislation.

2. The foregoing Governments shall make effective such provisional application of the General Agreement, in respect of any of their territories other than their metropolitan territories, on or after 1 January 1948, upon the expiration of thirty days from the day on which notice of such application is received by the Secretary-General of the United Nations.

3. Any other government signatory to this Protocol shall make effective such provisional application of the General Agreement, on or after 1 January 1948, upon the expiration of thirty days from the day of signature of this Protocol on behalf of such Government.

4. This Protocol shall remain open for signature at the Headquarters of the United Nations (*a*) until 15 November 1947, on behalf of any government named in paragraph 1 of this Protocol which has not signed it on this day, and (*b*) until 30 June 1948, on behalf of any other Government signatory to the Final Act adopted at the conclusion of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment which has not signed it on this day.

5. Any government applying this Protocol shall be free to withdraw such application, and such withdrawal shall take effect upon the expiration of sixty days from the day on which written notice of such withdrawal is received by the Secretary-General of the United Nations.

6. The original of this Protocol shall be deposited with the Secretary-General of the United Nations, who will furnish certified copies thereof to all interested Governments.

IN WITNESS WHEREOF the respective Representatives, after having communicated their full powers, found to be in good and due form, have signed the Protocol.

DONE at Geneva, in a single copy, in the English and French languages, both texts authentic, this thirtieth day of October one thousand nine hundred and forty-seven.

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