izer and the land and the water, why should we not expect them to grow their own food grain instead of looking to us to supply it?

Mr. McAshan. I certainly hope they will. But their record is not good in that respect, Senator.

Senator Miller. Well, their record in some areas where they have had rain, and where they have been adopting the hybrid seeds and fertilizers, has indicated a dramatic progress, and Ford Foundation people who have been over there for 10 years are very much encouraged by the progress in just the last 2 or 3 years with hybrid seeds.

Mr. McAshan. Yes. And they are using these hybrid seeds from Mexico that the Ford Foundation and Rockefeller Foundation helped develop down there. And certainly that is good. I am all in favor of it.

Senator Miller. So is everybody else. But I am trying to find out what you mean by saying that you can't expect—I assume that you meant you can't expect India, for example, to become self-sufficient in foods and fiber for many, many years. I am wondering if you take a dim view of that 5-year target. I personally do not, unless there is a shortage of rainfall. But I like to think that India if it implements its programs and makes progress, particularly as dramatically as it has in the last year and a half, would not be one of those less-developed that you refer to.

Mr. McAshan. I agree with you 100 percent, Senator, that we should do everything that we can in helping them implement their programs, and to even require it in return for our giving them this wheat in the meantime.

Senator Miller. We are doing that. But I may say, I don't share your pessimism, that India is one of those less-developed countries that cannot be expected to become self-supporting for many, many years. By many, many years you are talking about 10, 15, 20, 30, or 40 years?

Mr. McAshan. Well, I hope you are right.

Senator Miller. I hope so, too.

You say if India can get more wheat by exporting textiles and buying wheat, then by attempting to raise wheat is India not reducing its efficiency in world markets? Assuming certain things, I suppose the answer would be obvious. Are you implying that India can get more wheat by exporting textiles such as jute or cotton instead of growing wheat? Are you implying that?

Mr. McAshan. I believe that, yes, sir. And they do a fine job of exporting heavy cotton goods all over the Orient.

Senator Miller. I know that. But are you implying that they should accentuate that and let the growing of additional rice and wheat go by the board?

Mr. McAshan. I was really using that as an example only of the benefits of trade, Senator Miller. But it is true that India is a very fine producer and exporter of cotton textiles.

Senator Miller. That is so. But as you probably know, Congressman Pogue was quite insistent last fall that India stop using some of its very fertile land for growing cotton and replace it with wheat or food grains so that they could more adequately supply their food needs, and if they needed cotton they could buy from us, buy cotton

from us. Now, that seems to me to be directly opposite to what you are advancing here.

Mr. McAshan. No, sir, that is the same principle I am talking about. If we can do it better and they can do it better, then we ought to trade.

Senator Miller. But your example is directly opposite to that.

Mr. McAshan. My example was just used for illustration.

Senator Miller. You said in your statement that you did not know what President Johnson meant by "temporary preferential tariff advantages for the developing countries" in his Punta del Este talks. It seems to me that he went further than that. He was talking about temporary preferential tariff advantages for the developing countries and extended not only by the United States, but by other developed countries. And now, do you recognize that that was a sine qua non in his discussion, that it wouldn't be the United States alone, but it would be the United States in consonance with other developed nations which would extend these advantages?

Mr. McAshan. Yes, indeed. And I am sure that there is deep feeling in South America against the so-called Associated Trade Area countries that the European Economic Community favors in Africa at the expense of, say, the Latin American countries who are also producers of tropical products and are trying to get in that same market. It would certainly be in order to require that Latin America receive the same kind of treatment in Europe, if we are able to do so, as those associated African nations.

Senator Miller. You are suggesting, then, that the United States unilaterally get into this preferential tariff advantage, are you?

Mr. McAshan. While we were limited to a Western Hemisphere Common Market of which we were a party, yes, sir. If we are talking now about a long-range trade policy throughout the world I agree with you 100 percent that we ought to bring in the EEC and the EFTA as well if we can.

Senator Miller. Thank you.

Chairman Boggs. I have a few questions, but first I would like to hear from Dr. Danielian.

Would you give us your statement, Doctor?

STATEMENT OF N. R. DANIELIAN, PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

Mr. Danielian. Mr. Chairman, I appreciate the opportunity to appear before this committee which has taken on the important task of reviewing U.S. trade policy, particularly because I have just returned from an 8-week trip to major European centers investigating this very subject. The suggestions contained in this brief paper are based on extensive studies of postwar trends in international trade and payments, backed by the experience of our member companies which comprise a representative segment of the American economy, production, and employment. These companies are vitally concerned with the success of our foreign economic policy and the interest of free

world security and prosperity. At the outset I think it important to state that they are "outward looking" international business corporations with worldwide operations; therefore, they have a stake not only in the growth and vitality of our own country but in that of other free world countries as well.

New Factors Influencing the International Economy

New forces and conditions have emerged in the world since the reciprocal trade agreements program was adopted, particularly since World War II, which require a review of U.S. foreign economic policy. The most important of these factors are:

1. The grouping of important trading partners of the United States into blocs; for example, the European Economic Community (EEC), the European Free Trade Association (EFTA), and the Latin American Free Trade Area (LAFTA) which is to be merged into a Latin American common market, and other similar plans stirring in the Pacific, even in Africa, requires a reassessment of the basic premises of U.S. foreign economic policy.
2. Communist countries have ambitions to become major factors in world trade and investment under the principle of competitive coexistence, and they have asked for unconditional most-favored-nation treatment.
3. There is a rise of economic nationalism in the world which has hampered efforts to liberalize trade.
4. The important role that international corporations have come to play in world trade and investment is a new phenomenon, not yet clearly understood.
5. The importance of advanced technology and the conditions for its transfer in the course of world trade and investment are receiving worldwide attention and must be considered in any future trade policy.
6. The character of U.S. trade, both imports and exports, has changed radically since World War II, and the significance of this change for future trade policy needs serious study.
7. The demands of less developed countries for trade concessions from the developed countries pose new problems.
8. U.S. balance-of-payments deficits and their relation to trade policy have not received adequate attention.

Summary of Conclusions

Our analysis of the meaning of these changed conditions and emerging trends leads us to the suggestion that the United States should:

1. Adopt a conditional most-favored-nation policy in relation to developed countries and trading blocs, East and West alike.
2. Seek review and amendment of some of the basic postwar agreements, such as GATT, to conform with current realities.
3. Proceed with the organization of a North Atlantic Free Trade Association, starting with Canada, and later extending it to the United

Kingdom and other EFTA countries, when—as seems probable—their bid for membership in the EEC fails. Provision should be made for associate membership for the Latin American common market, Australia, New Zealand, Japan, and others under clearly defined conditions. Within the framework of this North Atlantic Free Trade Association, we should be prepared to offer less-developed countries unconditional most-favored-nation treatment.

4. Codify the rules and regulations under which government-generated technology is made available abroad. This may require legislation to define and limit the conditions under which the results of government-financed research and development can be transferred.

5. Revise our antitrust laws and our tax laws and regulations so as to permit American business to compete more effectively abroad.

6. Avoid the cumbersome and rigid commodity agreements proposed by the less developed countries, because they will result in uneconomic allocation of resources. Instead, we should encourage them to direct their resources into more productive employment.

Let us now consider the reasons for these recommendations.

Trading Blocs

In the negotiation of GATT, the United States accepted the principle of unconditional most-favored-nation treatment. But in article 24, we agreed to a provision which made possible trade blocs, permitting trade concessions to their members but not to outsiders, a patent violation of the principle of unconditional most-favored-nation treatment. GATT has really blurred the definition of a nation as understood under trade treaties. There are now some nations more favored than others. We must either redefine the meaning of the word "nation," or develop a set of new principles which apply to trading blocs.

In the recently concluded Kennedy Round of trade negotiations, the EEC demonstrated how difficult trade blocs can be in multinational negotiations based on the unconditional most-favored-nation principle. They held up the negotiations for years while they put their own affairs in order. When they finally came to the negotiating table they made it clear that the internal agricultural policy, a highly protectionist one, which they had agreed on while making everybody else wait, was more important than the general liberalization of world trade and was not negotiable.

The importance of the discrimination inherent in trade blocs to the growth and distribution of world trade can be seen in tables 1 and 2. Since the EEC was formed under the Treaty of Rome in 1958 to 1966, world exports by value have just about doubled. The United States increased its exports by about 70 percent. However, the EEC saw its exports, including intra-EEC trade, go up by 130 percent. But, its exports to the rest of the world kept pace at about the world average, doubling during this period, while exports among member countries within the EEC trebled.

TABLE 1.—GROWTH OF TRADE (EXPORTS) BY REGION AND SELECTED COUNTRY, 1953-66

[In billions of dollars and percentages [1]]

Year	Total world trade [2]		European Economic Community				European Free Trade Association				United Kingdom		United States		Canada		Latin America [3]		Japan	
			Extra-EEC		Intra-EEC		Extra-EFTA		Intra-EFTA											
	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100
1953	$74.1	66	$10.1	50	$4.0	39	$10.1	72	$2.3	68	$7.5	78	$15.8	85	$4.2	81	$7.6	74	$1.3	31
1954	76.9	68	11.1	58	4.7	47	10.5	75	2.4	73	7.8	82	15.0	77	4.0	79	7.9	74	1.6	41
1955	84.3	74	12.7	66	5.6	55	11.6	81	2.6	76	8.5	87	15.4	79	4.4	85	8.0	78	2.0	54
1956	93.6	81	13.6	68	6.4	61	13.0	88	2.8	79	9.3	93	18.9	93	4.9	92	8.6	86	2.5	64
1957	100.5	86	15.3	75	7.2	66	13.7	90	3.0	83	9.7	95	20.7	98	5.1	93	8.7	89	2.9	72
1958	95.9	84	15.9	80	6.9	66	13.3	89	2.8	81	9.3	91	17.8	85	5.1	93	8.2	90	2.9	74
1959	101.4	91	17.1	90	8.2	82	14.0	94	3.0	88	9.7	95	17.4	85	5.4	96	8.3	96	3.5	88
1960	112.9	100	19.5	100	10.2	100	15.0	100	3.5	100	10.3	100	20.4	100	5.6	100	8.6	100	4.1	100
1961	118.2	105	20.4	103	11.9	115	15.7	103	3.8	109	10.8	102	20.6	101	5.8	109	8.7	101	4.2	107
1962	124.1	111	20.6	104	13.6	131	16.4	107	4.1	116	11.1	104	21.3	104	5.9	113	9.2	110	4.9	103
1963	135.3	119	21.6	108	15.9	152	17.6	116	4.6	122	11.9	108	22.9	114	6.5	124	9.7	113	3.4	147
1964	151.9	131	24.2	118	18.4	172	18.7	118	5.3	145	12.3	113	26.0	128	7.7	145	10.6	116	6.7	181
1965	164.4	141	27.1	131	20.8	193	20.7	128	5.8	156	13.7	119	27.0	129	8.1	149	11.1	121	8.5	235
1966	180.5	153	29.4	142	23.2	214	22.2	132	6.3	162	14.7	123	29.9	141	9.6	170	11.9	129	9.8	265

[1] Percentages are based on volume of trade data calculated in million metric tons.
[2] Excluding Soviet bloc countries.
[3] Including Cuba.

Source: European Economic Community, Monthly Statistics, 1967, No. 2, p. 17.

TABLE 2.—GROWTH OF TRADE (IMPORTS) BY REGION AND SELECTED COUNTRY, 1953–66

[In billions of dollars and percentages [1]]

Year	Total world trade [2]		European Economic Community				European Free Trade Association				United Kingdom		United States (f.o.b.)		Canada (f.o.b.)		Latin America [3]		Japan	
			Extra-EEC		Intra-EEC		Extra-EFTA		Intra-EFTA											
	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100	Amount	Percent, 1960 =100
1953	75.9	62	11.0	51	4.0	39	12.5	62	2.4	68	9.4	71	10.9	73	4.4	84	6.5	79	2.4	44
1954	79.3	66	12.1	57	4.6	47	13.1	66	2.6	73	9.5	72	10.3	68	4.1	79	7.4	93	2.4	46
1955	89.2	74	13.7	64	5.6	55	15.1	75	2.8	76	10.9	80	11.4	76	4.6	89	7.5	93	2.5	49
1956	98.5	79	16.0	72	6.3	61	15.8	76	3.0	79	10.9	80	12.7	82	5.6	107	7.9	96	3.2	61
1957	108.2	84	17.8	78	7.0	66	16.9	80	3.2	83	11.4	83	13.2	83	5.7	102	9.3	110	4.3	77
1958	101.4	83	16.1	79	6.8	66	15.7	81	3.0	81	10.5	83	13.2	87	5.4	93	8.5	102	3.0	63
1959	106.5	89	16.2	83	8.1	82	16.8	88	3.2	88	11.1	88	15.4	103	5.7	104	7.9	95	3.6	80
1960	119.1	100	19.4	100	10.2	100	19.4	100	3.6	100	12.7	100	15.0	100	5.7	100	8.4	100	4.5	100
1961	124.3	104	20.5	106	11.7	115	19.6	102	4.0	109	12.3	98	14.6	98	5.7	102	8.7	103	5.8	131
1962	131.7	112	22.4	118	13.4	131	20.4	107	4.2	116	12.6	101	16.2	112	5.9	106	8.8	107	5.6	125
1963	143.1	120	24.7	130	15.7	152	21.7	112	4.7	122	13.5	105	17.0	117	6.1	106	8.7	107	6.7	148
1964	160.0	132	26.9	139	18.0	172	25.6	121	5.5	145	15.4	117	18.6	124	6.9	121	9.6	115	7.9	170
1965	174.2	142	28.6	146	20.4	193	26.1	130	6.1	156	16.1	118	21.3	140	8.0	139	9.6	115	8.1	173
1966	190.9	155	30.7	156	22.9	214	27.2	(4)	6.7	(4)	16.7	121	25.4	(4)	9.1	(4)	(4)	(4)	9.5	208

[1] Percentages are based on volume of trade data calculated in million metric tons.
[2] Excluding Soviet bloc countries.
[3] Including Cuba.
[4] Not available.

Source: European Economic Community, Monthly Statistics, 1967, No. 2, p. 16.

Over the same period, imports of the United States doubled. Those of the EEC increased by 2.3 times. Here again, however, EEC's imports from the rest of the world grew at about the world rate, while imports from member countries trebled.

It is clear that the discriminatory arrangements possible in such a trade grouping make it possible to increase trade among the members while restricting the ability of those outside to compete.

We will not be able to deal effectively with such trading blocs as the EEC under the unconditional most-favored-nation principle. Letting them have the advantage of every concession we make to any other member of GATT leaves us with no basis for bargaining hard on important items of discrimination. We will have to come to bilateral negotiations with such groups on a conditional most-favored-nation basis if we are to hold our own.

East-West Trade

The growth of trade between the Communist countries of Eastern Europe and Western Europe and Japan, and the clearly demonstrated interest of all the parties to see it increase further, make it obvious that we must anticipate the time when Communist countries become important factors in world trade and, perhaps, on a one-way basis, investment as well. They have expressed an interest in normalizing trade relations with the United States: they ask access to our markets on an unconditional most-favored-nation basis; they want to buy up-to-date U.S. technology; they want access to U.S. credit sources. Our Government has responded favorably on many occasions.

It is to be hoped that conditions may so develop that these goals can be realized. In its proper context we shall have some suggestions along these lines. But here we must consider the implications for U.S. trade policy of such developments.

I am aware of the fact that the administration is recommending "conditional" most-favored-nation treatment for these countries, subject to bilateral trade agreements for short durations, renewable and cancellable for cause. But this does not meet their real desire for nondiscriminatory treatment.

Ultimately we must universalize our trade policy. But it is not feasible to extend unconditional most-favored-nation treatment to State-controlled economies.

They need not resort to tariffs or other indirect devices to control imports nor worry about cost of production in exports. It is difficult to envisage how, in such States, industrial property rights or investments, should they be allowed, could be protected, since the citizens of these countries have such limited rights in these matters. The only effective means of protection will lie in our ability to bargain hard, and if need be, to withdraw concessions. This could not be readily done under the unconditional most-favored-nation principle. Here again, we must restort to bilateral negotiations under the conditional most-favored-nation principle, with emphasis on reciprocity.

Nationalism

Nationalism, particularly in economic matters, is rising all over the world, in developed and developing countries alike. This can be seen in the efforts of the EEC, under French pressure, to attain agricultural self-sufficiency; local content requirements in most South American countries; and preferential treatment of indigenous trading companies in Japan. These are only a few examples. Continued adherence to the unconditional most-favored-nation principle leaves us without any adequate means of dealing with these increasingly important nontariff barriers to the growth of our trade. In response to such actions, emphasis must be placed on nondiscriminatory nationality treatment and reciprocity. To enforce this, the United States must make trade concessions conditional on some of these impediments being removed.

International Corporations

The rise of international corporations and their importance to world production and trade is inadequately understood. They are responsible for a substantial portion of our exports, and they have proved an effective means of spreading technical competence and economic progress.

International trade and investment are inextricably related. They are risky and expensive, requiring commitment of time, money and personnel, as well as experience in dealing with other peoples and governments. Traditional attitudes about small- verus large-scale business, however applicable at home, do not necessarily apply in world trade. We must help small businesses to pool their resources in foreign trade, and help the larger ones to do a more effective job. This may require a good hard look at our antitrust laws as they apply to foreign operations, and to tax laws and regulations as they apply to export business.

Technology

All the world, East and West, is aware of the advantages of technological progress as applied to large-scale business. In fact, most of the world envies U.S. industry, not only for its inventiveness, but also for its daring to take risks and apply up-to-date methods in production and marketing. This is the greatest comparative advantage the United States possesses in economic competition. But we cannot be complacent. There are all kinds of suggestions under discussion for the transfer of this technology to other countries. Western Europe, Eastern Europe, and the less-developed countries all want access to this technology and know-how. This is now a major preoccupation in Europe, and engages the interest of NATO and OECD, as well as the COMECON and UNCTAD countries. And, of course, once they get it they expect to compete with us.

Much of this technology is in private hands, with proprietary rights which cannot be divested. In certain fields, however, such as atomic power, electronics, communications, space, computers, defense production, health and agriculture, the U.S. Government is in posses-

sion of valuable rights. It is in these areas where suggestions have been made for intergovernmental negotiations. What we do with these rights and how we dispose of them will have a profound effect on the competitive position of the United States. Here again, there is a whole range of economic and legal problems that remain unexplored. A codification of U.S. Government practice and legislative criteria as to when, where and under what conditions the U.S. Government can dispose of such rights abroad is urgently needed.

Changing Patterns of U.S. Trade

A review of recent trade statistics of the United States shows that we have become primarily suppliers of agricultural raw materials, chemicals, raw and semifinished products, and machinery. We have become importers of end-use consumer products. These are shown in tables 3, 4, 5, 6, and 7.

This results from two factors. First, other countries exclude, by tariffs, quotas, variable levies, internal taxes and other devices, many of those products which we can produce economically; and, second, other countries are, in many products, simply lower-cost producers than we are. We cannot accept this challenge indefinitely unless we are given a fair chance to compete where we have some advantages. Here again, a policy of reciprocity based on conditional most-favored-nation treatment is necessary.

TABLE 3

[In millions of dollars]

	U.S. trade in food and related products, beverages, tobacco, and live animals, 1946–66 [1]			U.S. trade in chemicals, 1946–66 [1]		
	Exports	Imports	Balance	Exports	Imports	Balance
1946	2,553	1,406	1,147	471	85	386
1947	3,423	1,740	1,683	819	94	725
1948	2,871	2,003	−868	760	98	662
1949	2,587	2,087	500	755	106	649
1950	1,757	2,642	−885	711	152	559
1951	2,793	3,007	−214	972	175	797
1952	2,482	3,000	−518	802	208	594
1953	2,216	3,186	−970	799	252	547
1954	2,057	3,278	−1,221	986	260	726
1955	2,502	3,101	−599	1,073	270	803
1956	3,189	3,176	13	1,229	276	953
1957	3,165	3,467	−302	1,457	668	789
1958	2,952	3,646	−694	1,405	800	605
1959	3,172	3,649	−477	1,543	874	669
1960	3,458	3,491	−33	1,763	818	945
1961	3,716	3,521	195	1,787	732	1,055
1962	3,992	3,766	226	1,843	765	1,078
1963	4,421	3,942	479	1,922	705	1,217
1964	4,971	4,097	874	2,358	707	1,651
1965	4,521	4,013	508	2,402	781	1,621
1966	5,191	4,590	601	2,676	957	1,719

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 4

[In millions of dollars]

	U.S. trade in mineral fuels and related materials, 1946–66 [1]			U.S trade in crude materials, inedible, except fuel, 1946–66 [1]		
	Exports	Imports	Balance	Exports	Imports	Balance
1946	752	162	590	1,058	1,836	−778
1947	1,275	260	1,015	1,300	1,968	−668
1948	1,149	432	717	1,126	2,282	−1,156
1949	870	485	385	1,508	1,709	−201
1950	777	595	182	1,601	2,758	−1,157
1951	1,392	601	791	1,957	3,917	−1,960
1952	1,303	690	613	1,559	2,998	−1,439
1953	1,041	762	279	1,244	2,520	−1,276
1954	970	829	141	1,649	2,170	−521
1955	1,141	1,034	107	1,555	2,639	−1,084
1956	1,508	1,282	226	2,022	2,696	−674
1957	1,814	1,556	258	2,533	2,766	−233
1958	1,071	1,641	−570	1,708	2,365	−657
1959	853	1,559	−706	1,823	2,925	−1,102
1960	814	1,571	−757	2,772	2,881	−109
1961	763	1,690	−927	2,761	2,550	−211
1962	799	1,825	−1,026	2,209	2,654	−445
1963	946	1,874	−938	2,472	2,672	−200
1964	911	1,996	−1,035	2,952	2,841	109
1965	947	2,222	−1,275	2,856	3,034	−178
1966	978	2,262	−1,284	3,076	3,266	−190

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 5

[In millions of dollars]

	U.S. trade in machinery, 1946–66 [1]			U.S. trade in transportation equipment, 1946–66 [1]		
	Exports	Imports	Balance	Exports	Imports	Balance
1946	1,242	32	1,210	1,044	5	1,039
1947	2,303	54	2,249	2,155	6	2,149
1948	2,202	107	2,095	1,437	35	1,402
1949	2,296	114	2,182	1,129	13	1,116
1950	1,951	123	1,828	1,004	24	980
1951	2,462	186	2,276	1,384	40	1,344
1952	2,719	251	2,468	1,231	61	1,170
1953	2,746	246	2,500	1,273	58	1,215
1954	2,612	240	2,372	1,464	57	1,407
1955	2,860	277	2,583	1,586	97	1,489
1956	3,568	354	3,214	1,794	199	1,595
1957	3,976	431	3,545	1,784	431	1,353
1958	3,653	481	3,172	1,574	670	904
1959	3,685	673	3,012	1,497	957	540
1960	4,093	721	3,372	1,911	742	1,169
1961	4,488	786	3,702	1,651	573	1,078
1962	4,871	949	3,922	1,719	719	1,000
1963	5,065	1,036	4,029	1,744	751	993
1964	5,998	1,304	4,694	2,023	901	1,121
1965	6,906	1,799	5,107	3,214	1,148	2,066
1966	7,681	2,693	4,987	3,484	2,138	1,349

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 6.—U.S. TRADE IN OTHER MANUFACTURED GOODS AND OTHER TRANSACTIONS,[1] 1946–66[2]

[In millions of dollars]

	Exports	Imports	Balance		Exports	Imports	Balance
1946	2,381	1,501	880	1957	4,095	3,904	−191
1947	3,858	1,728	2,130	1958	3,391	3,561	−170
1948	2,757	2,265	492	1959	3,183	4,776	−1,593
1949	2,644	2,214	430	1960	3,885	4,792	−907
1950	2,020	2,710	−690	1961	3,741	4,805	−1,064
1951	2,854	3,216	−362	1962	3,832	5,572	−1,740
1952	2,956	3,717	−761	1963	4,170	6,024	−1,854
1953	2,822	4,101	−279	1964	4,825	6,753	−1,928
1954	2,988	3,641	−653	1965	4,815	7,522	−2,707
1955	3,448	4,236	−788	1966	5,256	8,636	−3,380
1956	3,873	4,908	−1,035				

[1] The combined total is calculated as a residual prior to 1957.
[2] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

TABLE 7.—U.S. TRADE IN NONFOOD CONSUMER GOODS 1946–66[1]

[In millions of dollars]

	Exports	Imports	Balance		Exports	Imports	Balance
1946	1,075	489	586	1957	1,333	1,524	−191
1947	1,527	374	1,153	1958	1,271	1,710	−439
1948	1,131	461	670	1959	1,274	2,424	−1,150
1949	913	410	503	1960	1,328	2,458	−1,130
1950	808	556	252	1961	1,357	2,200	−843
1951	1,155	693	462	1962	1,400	2,707	−1,307
1952	1,019	715	304	1963	1,513	2,889	−1,376
1953	1,130	802	328	1964	1,715	3,388	−1,673
1954	1,144	830	314	1965	2,402	4,111	−1,709
1955	1,276	1,064	212	1966	2,860	5,808	−2,948
1956	1,314	1,260	54				

[1] 1946–56 data not fully consistent with 1957–66 data due to use of different series.

Source: U.S. Department of Commerce, Balance of Payments Statistical Supplement (revised edition) and Overseas Business Reports.

Ambitions of Less-Developed Countries in Trade Policy

The ambitions of the less-developed countries, as expressed in various forums, require sympathetic consideration. But what we undertake to do must be consistent with our own long-range economic strength and stability and must promise results in a foreseeable future. Commodity agreements are a rigid and uneconomic way of giving foreign aid and unjustifiably impose the cost on a selected group of consumers. They retard the reallocation of resources to more productive and useful enterprises and industries. We have learned from sad experience that more money is not the answer if it gets into the wrong hands or is used the wrong way and for the wrong objectives. Foreign aid with strict application of conditions for self-help, and under conditions which protect our balance-of-payment position, is more sensible, provided the money is spent on worthwhile projects, than commodity agreements or automatic compensatory financing.

Less-developed countries also seek preferential treatment for their exports of raw materials and manufactured goods. This request might best be met by offering them unconditional most-favored-nation treatment under the North Atlantic Free Trade Association proposal.

U.S. Balance of Payments Deficits

The persistent U.S. balance-of-payments deficits require that we consider all these factors. Clearly we are not earning enough abroad to do all the things we, as a nation, want to do. Unless the factors mentioned above are taken into account, we will not be able to earn the required sums to carry out our national objectives abroad.

The stark fact is that U.S. commercial exports are hardly enough to pay for our commodity imports. If you deduct the foreign aid induced exports and the military hardware sales from export figures, it is doubtful that purely civilian commercial imports and exports are in balance. It is the income on investments and services that is paying for a substantial portion of our Government expenditures abroad. Unfortunately, this is not enough. The rest is financed by gold exports and borrowings.

What we need, therefore, is an international incomes policy and a foreign incomes and expense budget. All the factors mentioned above must be considered in this scheme. What trade policy will increase our income? What policies toward international corporations, their exports and investments abroad, will increase their contribution to international income? What policies in the transfer of technology will enhance our earnings and competitive position? What policies toward Eastern countries and less-developed countries will improve economic and political conditions without undermining our economic strength and stability?

I hope this committee will consider our suggestions and also add its prestige to the proposal that the Administration prepare annually, a foreign incomes estimate, and a foreign incomes and expense budget, and adopt constructive policies to enhance the income and balance the international budget.

Mr. Danielian. In completing, Mr. Chairman, I hope it is understood that this paper, which was prepared in Vienna and over the Atlantic this weekend as I was flying back to this hearing, is a personal statement. It has, I believe, the general sympathetic agreement of most of our member companies. But these suggestions should really stand on their own. And I hope that the committee will give careful consideration particularly to this last suggestion, which, I think, is long overdue in the management of our international economic affairs.

Thank you very much.

Chairman Boggs. Thank you very much, Doctor.

Mr. Gilbert, last week we had Mr. Younger here, formerly British Minister of State, and now Director of the Royal Institute of International Affairs. In his testimony he discussed the so-called technological gap in Europe, and he felt that we should pay more attention to this problem. What is your feeling about that?

Mr. Gilbert. I think this is a so-called problem that has received a tremendous amount of attention. But I haven't noticed that much of the attention really goes to the problem. It seems to me that the technological gap, the extent that it does exist, is a gap in management. Research and science are international, and they flow across the world without being hampered by boundaries. I think what American industry has which is envied by the European is the capacity, fairly quickly,

to take a scientific development and through management and engineering move it into production. We are ready to throw away old processes where the equipment is still capable of producing if we can see a way to do it better. And this, I think, has not been the characteristic of European industry. They have tended to want to hold on to everything that still works, repair it and repair it and repair it And the management is not directly oriented toward the techniques, if you like, of moving from invention to product with dispatch.

I don't know how this can be taught. There is a great deal of effort, as you know, over the years. Our graduate schools of business administration have staffed European colleges working in the same area. And there is practically a branch of the Harvard Business School at the Graduate School of Business Administration in Australia. And I think our educational institutions have made a tremendous effort to move out insofar as techniques can be taught. But I believe myself that it is a question of management's point of view, some bonus, some capacity that somehow or other I think American industry by and large has developed.

Chairman Boggs. Last week we had Ambassador Roth here. And he said that he is beginning a study at the request of the administration on whether or not U.S. exporters need additional incentives, and also the relationship which exists between foreign investment in exports by American manufacturers. In connection with the last problem, do you mind commenting on the widespread view held by American industry that continued restrictions on U.S. foreign investment abroad will over the long run harm the growth of U.S. exports?

Mr. Gilbert. I would expect that this would be probably correct. I am not certain at this point how much real restriction on foreign investment has resulted from the voluntary payments program. I think that it has been a great stimulus to use the European capital market and avoided an excessive movement of funds from this country particularly to the European area.

I haven't seen any evidence of any real productive, proposed productive investment by an American company which has, in fact, been stopped by the so-called voluntary program. I think it has made many more people conscious of the fact that a private decision can have an effect on national problems. And to that extent I would say that the results of the so-called voluntary program have been good.

Continued for too long, and if allowed to trend over into a controlled situation rather than a voluntary restraint, then I think it holds real dangers, not only for international business, but for the national economy. And, of course, there is always a minority of people who get into government who think the government can run things better than the people who run them. If they ever came into ascendancy, I think we would have some very serious national problems resulting from controls of foreign investment.

I think it is clear that, maybe just by coincidence, or maybe it is just a sign that people are energetic and competent in the area, I think it is clear that a surprisingly large portion of American exports are conducted by the international companies which also invest abroad. And certainly to do an effective job. In a world market one cannot be solely an exporter. One does have to have local installations.

For some companies, perhaps, only a well-financed sales company is necessary, and for others, some local manufacturing and some exports are essential. I don't think there is any magic answer to it. And I think business can come up with a better answer on its own peculiar problems than anybody could by a formula.

Chairman BOGGS. Mr. McAshan, would you be good enough to comment on the question of East-West trade which has been discussed here by a number of witnesses?

Mr. MCASHAN. Really, I can do no more than to endorse the report which was brought back by Mr. Blackey last year when he was a member of that committee which visited in Central Europe and Eastern Europe and Russia.

Senator SYMINGTON. Who is Mr. Blackey?

Mr. MCASHAN. Mr. Blackey is the chairman of the Caterpillar Tractor, I believe it is, Senator Symington, but he acted as reporter for that group.

Senator SYMINGTON. Thank you.

Mr. MCASHAN. They came back very strongly in favor of opening up a trade particularly with the Eastern European countries, Czechoslovakia, Poland, Hungary and those countries, not only for trade itself, but so that those countries could learn more about us and could see the way we lived and could learn what a difference there was between communism and democracy. And at the same time he felt that that would offer a good market, added market for our manufactured articles that we are now exporting today.

Chairman BOGGS. Would any other members of the panel care to comment on it?

Mr. BALGOOYEN. I would like to comment, if I may.

I agree pretty much with Mr. McAshan's statement with regard to the East-West trade. He made the first point that what the East is interested in, many of the Communist States, is in buying U.S. technology. I think we all know that as a matter of principle Communists do not believe in world trade as such, they believe in self-sufficiency. The only reason that they are interested in world trade is that they might be able to get something that they couldn't produce themselves, particularly in the way of technology and new processes. And that is what their chief interest is. And I think it is particularly unjustifiable to extend credit terms to Communist countries, because that comes a little bit too close to providing aid to the countries that are doing everything that they can to bring down our private enterprise system, and to cause us difficulties in Vietnam, Latin America, Africa, the Near East, and every place else.

I know that it is a cliche, but it is a very popular one, to say that trade brings peace. I don't think that there is anything in the history of the world that proves that trade necessarily brings peace. I think you could demonstrate just as easily that trade is frequently a cause of conflict and war.

I certainly don't think that we should extend unconditional most favored treatment to state-controlled economies. I don't think that there is any way in which we can be at all sure that we can protect any investment that we may make in state-controlled economies or in Communist countries. And there I agree with Mr. Danielian. And I

am very cool toward any effort to increase trade with Communist countries. I think that the Russians have demonstrated in the Vietnam war that they haven't changed their attitude at all toward us. They demonstrated this a year ago—at the Tri-Continental Communist Conference in Havana, where Rashidov, the chief Soviet delegate, was more virulent in his expressions against the United States than were the Red Chinese or Fidel Castro.

So, I think that we are just kidding ourselves to think that the Russians are going to become more friendly and amenable to us by increasing our trade with them.

Chairman BOGGS. Mr. Gilbert?

Mr. GILBERT. I have only one comment, which I think is a very practical one.

We talk of extending the most-favored-nation position to the Russians as though the Russians were in a position to be a part of those normal world trading situations. As a practical matter, it is my understanding that the Russians now have agreements with various European countries. Each one of them is a negotiated trade agreement providing balance of trade within the terms of the trade agreement, with specific areas of exports and imports agreed on in advance between England and Russia, for example, and between France and Russia, and between West Germany and Russia. None of these agreements contemplate an excess of foreign exchange being in Russian hands. They are all self-balancing. So, that as a practical matter the only trading that could be done on a realistic basis with a state-controlled economy is that our country can negotiate the import of "X" dollars worth of ABC products into Russia in return for an agreement to import a corresponding dollar amount of Russian products that we wanted.

So, I think that talking loosely in terms of extending the most favored nation tends to raise specters which are quite inconsistent with the practicalities. I think if we are to negotiate an agreement that the Russians would buy $100 million worth of earth-moving equipment, and in return take $100 million of caviar, I don't think this raises the specters that we are talking about.

Chairman BOGGS. Dr. Danielian?

Mr. DANIELIAN. I appreciate the support Mr. Balgooyen has given to my statement, but I would like to restate my position as precisely as possible.

I made an inquiry in most of the European countries this summer about their experience in trade with Eastern Europe, speaking with bankers and businessmen and ministers of government. Their reaction was that they preferred to do business, for instance, with the Eastern European countries rather than the undeveloped countries because of their good credit, they performed precisely on the contracts. This is the view of the Swedes and the Danes and the others that I have spoken with, and the Italians, who do a very considerable amount of business with the Eastern European countries.

So, on the basis of economic behavior and international behavior, the business seems to be A 1.

And secondly, there is a definite quantitative limit to the amount of business you can do with these people because of their lack of

capacity to export products that we need. In most of the West European countries, as a matter of fact, there is a specific quota arrangement on imports from Eastern European countries, so that the quantities are limited. And this is supported by other studies we have made. I am not really afraid of their ability to compete in our market and to subvert our market, certainly at present. The amount of trade that we might anticipate in the foreseeable future will probably, even granting the trade concessions that they want, be in the range of possibly $200 million a year, in each direction, which is not very much. In the long run the dimensions may be different. So, I think the most-favored-nation principle is not the important thing. The question that we must confront essentially is, what kind of technology are we willing to give to them, and are we willing to extend credit to them to buy this. This is where really the important decision is going to be, not in the area of trade policy, whether it is going to be conditional or unconditional treatment in our markets.

Chairman BOGGS. Thank you very much.

Senator Symington?

Senator SYMINGTON. Thank you, Mr. Chairman.

Mr. Balgooyen, I was astonished at your observations about trade. The Germans were over here several years ago and said that ever since the end of World War II they have been doing their best to trade as much as they can behind the Iron Curtain. As a result, they sell more behind the Iron Curtain and buy more from behind the curtain, than any other country.

We asked how their credit was. They said excellent. We asked how about Yugoslavia? They said Yugoslavia they no longer considered a Communist country economically.

Then before the Secretary of the Treasury, at that time Mr. Dillon, and the Secretary of Commerce, at that time Mr. Hodges, I asked if there was any other country in the world that was not doing its best to sell everything it could behind the Iron Curtain except the United States.

They both said no, that we were the only developed country in the world which wasn't trying to promote its trade behind the curtain.

I asked if the reason that De Gaulle recognized Red China, following the British example, was because that country was not developing its trade as were the British and others.

They both said that was one of the reasons. This is all on the record.

As I understand it, what you want to do in Central and South America is for us to become nationalistic politically. On the other hand, it seems to me that while we as a nation are getting more internationalistic politically, defending everybody all over the world, we are becoming more nationalistic economically, while other countries are doing exactly the opposite. They in turn are becoming more nationalistic politically, furthering their trade in an effort to become more internationalistic economically.

With that premise, I would ask this question. How long do you think we can operate a war in Vietnam that is costing $70 million a day and keep several hundred thousand troops in Germany? This morning the British announced a broad reduction in their troops in the Middle East. We have a good many more Americans in South

Korea than the South Koreans have troops in Vietnam. How long can we continue to finance and defend the so-called free world if we don't try to increase our trade and thereby increase our volume and thereby obtain costs which in turn will increase profits? What is the objection to following all these other countries we think so important that we are giving our lungs you might say, to defend?

Mr. BALGOOYEN. Maybe I wasn't too clear in expressing my views. I will try to restate them first.

As to the Vietnam war, I make no pretense of being a military expert. I don't know how long it is going to continue or how much it is going to cost. So, I am in no position to comment on that.

Senator SYMINGTON. I mentioned this because, in our way of life our taxes can only come from one source, income including profits. It is very clear what country is paying nearly all the gigantic cost of the Vietnamese war.

Mr. BALGOOYEN. Except to say that I don't think that any trade concessions we may make to Russia, or any changes we may make in our policies toward trading with Russia are going to change their attitude toward the Vietnam war. I just don't believe that anything we might do in expanding trade with Russia is going to influence them so far as their overall plan to subvert the private enterprise system and to cause difficulties for the United States throughout the world are concerned.

I would not dispute the statement that has been made that the Western European countries are increasing their trade with the Soviet Union and with the Communist countries in general, and yet their credit experience has been good. That wasn't the point that I was making. The point that I was making, really, is that the Soviet Union, for example, has a great deal to gain by trading with the United States and it isn't necessarily true that both sides benefit equally in a foreign trade transaction. They need our technology very badly and the products of this technology. But as I look over the list of things that the Russians are able to export to us, I don't see anything that we need very much unless you consider gold something that we need, and perhaps we do. I don't know what the future of gold is. But I think that it is an unequal trade at best. And I agree with Mr. Danielian, that there isn't a great deal of volume to it anyway you look at it.

And I want to make it clear, too, that when I supported Mr. Danielian's statement I realized that I was going further than he did, and I don't want to be unfair to him, because I am sure he wouldn't take the rigid position on East-West trade that I am taking.

Senator SYMINGTON. Following your reasoning in specifics, every country in the world has heavily increased its resources in the last 15 years, except the United States, the free world countries; some as high as over 500 percent. The only country that has lost has been the United States—nearly 50 percent. Another country—Canada—would have lost if it hadn't made sales which ran into billions—wheat for gold to Russia and China. Do you think it wrong for the United States to sell wheat or cotton for gold to China or Russia if it has heavy stocks on hand? Do you think the debits overbalance the assets in any such transaction?

Mr. BALGOOYEN. First, I am not quite sure as to what you mean when you say every other industrial country has increased its resources while we have decreased our resources by 50 percent. If you are speaking about resources in general, I don't think that that statement could be supported. But if you are talking about foreign exchange receipts or international balance of payments then it is true that our international balance of payments has suffered in recent years, but not because of trade, since we have had a very favorable export balance during all these years. It is because of loans and foreign aid and investment and by short-term international capital movements which have tended to favor the Western European countries, mainly because their interest rates have been higher.

Senator SYMINGTON. I am talking about gold, current assets, not about the gross national product, which, as you know, is a very deceptive figure against which to justify your fiscal and monetary position.

Mr. BALGOOYEN. As far as gold is concerned I certainly couldn't dispute the fact that we have lost gold to the rest of the world. But as I say, it has not been because of foreign trade, because we have a very favorable foreign trade balance, it is because of our policies toward the rest of the world economically and militarily.

You mentioned Vietnam. And that is one drain on our resources. And our aid programs throughout the world are obviously another.

And then we have these international capital movements that we are all familiar with.

So, it certainly isn't a question of trade, because we have been maintaining a very favorable trade balance in every recent year.

Chairman BOGGS. Mr. Balgooyen, just one question.

You have very heavy investments in Latin Ameica. What is your feeling about the area generally? Do you feel that we have been successful there?

Mr. BALGOOYEN. As is somewhat apparent from my testimony, I feel that we haven't been as successful as I would like to see us be in our policies toward Latin America. I think, however, that as our policy is evolving, the trend is good. I think that, in general, the objectives of the Punta del Este Conference were excellent. And I think, also, that some of our expectations were too great. I was at the Punta del Este meeting, and I was quite disturbed by some of the statments that were made by our people that indicated, for example, that by means of the Alliance for Progress illiteracy could be eliminated in Latin America in 10 years, which, of course, is utterly ridiculous.

But I think that we are giving increasing attention to Latin America. And I think we realize more certainly than we did a generation ago that our national interests are intimately tied in with inter-American affairs, and with the development of Latin America.

Unfortunately, the gap that separates the Latin American countries from the industrialized countries is not being narrowed as we hoped that it would be. And one of the reasons, as I have indicated, is that Latin America can hardly expect to industrialize unless it is able to buy imported machinery and equipment from the industrialized countries. And their foreign exchange receipts from exports just don't

allow them a margin—in fact, there is no margin, so far as their trade with the United States is concerned, where they have a deficit. They can't import the equipment that they need, nor the technology that they need. And that is a matter of serious concern.

I think that in the last few years Latin America in general has made quite a bit of progress, in that some of the principal countries are doing things now in the field of economic policy that have long been overdue. And I can see improvement in a number of countries. I think it is particularly marked in the Central America area where they have a Central American Common Market. And the statistics certainly bear that out. Mexico, of course, is an outstanding example of a Latin American country which has made tremendous progress, much faster than the industrialized countries in recent years.

So that there isn't any question that the Latin American countries, if given a certain amount of political and economic stability, can make progress. And I certainly am in favor of the United States doing whatever it can to assist them toward that end.

Chairman BOGGS. Senator Miller, do you have any further questions?

Senator MILLER. Yes; thank you, Mr. Chairman.

Mr. Danielian, it is good to see you before the committee. And I appreciate your very fine statement.

In it you say "we will have to come to bilateral negotiations with such groups on a conditional most-favored-nation basis if we are to hold our own."

Is there any implication in that statement that we need to pass certain legislation here in Congress?

Mr. DANIELIAN. Yes. I think when the time comes, when the administration has prepared recommendations, there will have to be very serious consideration given to such modification of policy and legislative provision to give effect to the conditional most-favored-nation approach to the trade negotiations with other trading blocs.

Senator MILLER. There have been recommendations for foreign trade legislation to continue the authority, or at least some of it, of the Trade Expansion Act. Would that be the appropriate place to make these legislative changes or provisions which you are recommending?

Mr. DANIELIAN. I have been away for 2 months, and I only came back Sunday. And I do not know the nature of these recommendations. And some of the time I was on the other side of the so-called curtain. All last week, for instance, I was in Rumania, in Bucharest. And so I am not aware of the nature of these recommendations. I would have to look at the legislation proposed to see if there is a place for an opportunity to include this policy in a specific form. I think that the sooner we get around to this concept the better for us, because I don't see how we are going to negotiate, for instance, a reduction of nontariff barriers, which seems to be one of the current interests, on a multilateral, 60 or 100 nation, basis. We just simply have got to have negotiating authority which makes it possible for us to talk to the Common Market, for instance.

Senator MILLER. I think you have made a very strong case for it.

And if there are any legislative recommendations which you might have, I think that some of us would be very happy to receive them.

Mr. DANIELIAN. I would be glad to come back at the proper time when the legislation is before the Congress.

Senator MILLER. When you talk about the conditional most-favored-nation principle, what do you mean by that? You give a hint on what you mean when you talk about "conditional" on some of these impediments being removed, such as internal tax matters and other barriers. Is that what you are getting at, when you say "conditional most-favored-nation principle" you mean conditional from the particular country removing or eliminating or modifying some of these internal impediments?

Mr. DANIELIAN. Yes; with the world really being regrouped into larger bargaining units, what this would mean is bilateral negotiations between, say, the United States and EEC, and the United States and EFTA, and the United States and the Latin American Common Market. On the basis of consideration given and reciprocal concessions made, we will grant them most-favored-nation entry to our markets. In other words, the end results would still be free trade, and a more generalized, more inclusive trading community. But people would get into the club only in consideration of having paid a commensurate fee in the way of concessions that have been made reciprocally. Under our present system if we give a tariff reduction to Iceland, however valuable that may be to us and to them, that tariff reduction s available to everybody in the world—the Common Market, Japan and everybody else. That somehow doesn't seem to be quite fair, particularly in view of our present balance-of-payments condition, and the changing pattern of trade which doesn't suggest, in this great Nation of ours, with its technological advance, that the competitive strength that we would like to believe is there exists.

Senator MILLER. You are familiar with the fact that there are recommendations pending for extending the most-favored-nation principle to Eastern bloc countries?

Mr. DANIELIAN. Yes.

Senator MILLER. I take it that you would not be in favor of that, although you might be in favor of extending a conditional most-favored-nation principle to these countries.

Mr. DANIELIAN. Yes, I think it would be conditional on a specific agreement being drawn up where the advantages on both sides will, I hope, be balanced.

Senator MILLER. And then I take it that you would not be in favor of a blanket extension of such authority, but that you would envision that would be on a country-by-country basis for negotiation?

Mr. DANIELIAN. Right.

Senator MILLER. So that the reciprocity that makes this conditional would be forthcoming.

Mr. DANIELIAN. I would go a step further. I will recommend this approach also to the other trading blocs, and in that way we would universalize our trade policy and eliminate the accusation of discrimination.

Senator MILLER. I understand.

Mr. Gilbert, do you think that we were wrong in our position in the Kennedy Round negotiations in asking for a guaranteed access for grains from the Common Market?

Mr. GILBERT. No, I think this was certainly indicated. I think the chances of getting it, of course, were very limited, because the Common Market was in the process of being formed while the negotiations were going on.

Senator MILLER. Yes. But by the time the negotiations were finalized it was well formed and had set its policy up. And as you know, we did not receive the guaranteed access that we requested. Do you think that we were proper in asking for that?

Mr. GILBERT. I think so. I also have the feeling that perhaps what we did get was a sharing of free grain around the world, which perhaps as a practical matter got us more than the access agreement would have afforded us. But I am not an expert on the agricultural side.

Senator Miller. Well I would like to ask you how you justify that statement you have just made. Do you think perhaps that this gave us something just as good?

Mr. GILBERT. I think I would probably have to justify it on the basis of a very great confidence in Ambassador Roth and his staff. And I know that that was his impression, that he would have got more as a practical matter than he would have gotten any other way.

Senator MILLER. I don't recall Ambassador Roth so testifying before this committee. I believe that he indicated some optimism that it might be a suitable matter, but I don't believe that he testified that this was just as good.

Mr. GILBERT. I don't want to put words in his mouth, I think as a negotiated matter he got the best he could for us under the circumstances.

Senator MILLER. On that I agree with you. But I think Ambassador Roth expressed his unhappiness over the fact that this was the best he could do, and he implied that he would have much preferred to have the guaranteed access.

Now, do you think that on our side that we were wrong in taking a position that certain types of imports such as dairy, meats, mink pelts, and the like, should be limited to a certain base percentage of our domesic consumption, with the understanding that as our consumption increases the percentage will stay stable, but the volume within the percentage will go up?

Mr. GILBERT. Can I make an indirect answer to that question and the one before? It seems to me—and I again repeat that I don't try to pass off as an expert on anything agricultural—but it seems to me that what we did export to Europe is a system of agricultural support and controls which they have copied pretty well from ourselves, and that as a citizen I would certainly wish that we didn't and weren't committed to this general approach of price supports and controls. Once we do those internally, we have certainly got to have something which parallels on the inside, or we would be supporting the price of these commodities all over the world. We let them come in with freedom. But I think in effect that that is about what the EEC was doing with its agricultural products. I wish we both would learn not to do it.

Senator MILLER. Yes. Your wish is shared by many people. But you have to deal with the realities. And there has been some criticism that because some of us have sought by legislation to do what I have said with respect to diary and wheat imports, therefore we are violating that basic premise of American foreign trade policy, and that this is very bad. I just wondered if you shared that view.

Mr. GILBERT. I don't take the position that I think it is bad. Everyone of these gives me a real feeling of alarm, not only because of its effect specifically at home, but it seems to me every foolish thing we do in this country is copied abroad very quickly. And before long we end up in a very complicated world that is more complicated than need be.

Senator MILLER. I agree. But you beg the question when you say more foolish. The President just recently issued an order rolling back diary imports considerably. When you realize that diary imports went up from 600 million pounds in 1960–61 to 900 million pounds in 1965, and 2,700 million pounds in 1966, to a rate of 4 billion pounds at the time the President issued the order. I am sure you wouldn't call that a foolish move, would you?

Mr. GILBERT. No, I was not intentionally characterizing a specific move.

Senator MILLER. With that type of a situation, do you think that we are wrong in our approach to try to establish a reasonable base period percentage, and let these other countries share in that prcentage, and thus share in our domestic consumption?

Mr. GILBERT. I think I would like to leave it that it ought to be a great matter of concern to us, and we ought to feel that we were compelled to move in these directions because I feel that we should be very reluctant to move in those directions.

Senator MILLER. Thank you very much.

Chairman BOGGS. Thank you very much, Senator.

Gentlemen, we are very grateful to all of you for your fine discussions. If any of you would care to comment on the question of future negotiating methods that may be needed by the United States, either by way of legislation, or whatever you may suggest, we would be very happy to have those comments.

This subcommittee will meet tomorrow morning at 10 o'clock in the same place, at which time we will have five members of the panel whose names will be incorporated in the record.

We will now stand adjourned.

(Whereupon, at 12 noon, the subcommittee adjourned to reconvene at 10 a.m., Wednesday, July 19, 1967.)

THE FUTURE OF U.S. FOREIGN TRADE POLICY

WEDNESDAY, JULY 19, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs; and Senators Javits and Miller.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman BOGGS. The subcommittee will come to order.

Our witnesses for today's panel are Mr. William Diebold, Jr., of the Council on Foreign Relations; Prof. Robert E. Baldwin, University of Wisconsin; Prof. Richard N. Cooper, Yale University; Prof. John Pincus, the RAND Corp.; and Prof. Lawrence W. Witt, Michigan State University.

We appreciate all of you gentlemen taking the time to come and help the subcommittee. Other members of the committee will be along shortly. We will get started.

Mr. Diebold, may we hear from you first?

STATEMENT OF WILLIAM DIEBOLD, JR., COUNCIL ON FOREIGN RELATIONS

Mr. DIEBOLD. Thank you, Mr. Chairman.

Success seems to me to bring problems rather than a surcease of effort. The Kennedy Round is the culmination of a generation of progress under American leadership to remove barriers to world trade. If it and its predecessors had accomplished less, I think we would be talking here today, as we did at intervals of 3 or 4 years over 30-odd years, about the wisdom of giving the President the power to reduce tariffs, and under what conditions. I think that remains a problem. But it is only a part of the larger problem that we have to deal with. I think trade policy is no longer solely, perhaps not even mainly, a matter of tariff policy. It has broadened.

There are two kinds of problems we face now: Those that were left relatively untouched by the Kennedy Round and those that were opened up in new ways by the Kennedy Round, so that they can only be dealt with by bringing into play matters which have ordinarily not been thought of as being in the forefront of trade policy.

The remaining tariffs on trade in manufactured goods among industrial countries fall into three categories. First, those that have been substantially cut and, for the most part, are lower than they have been in this century. We must ask ourselves: How important are these? Can we conceivably ignore some of them, or is there some way of clearing the ground by perhaps some kind of formula or acceptance of a principle or rule for reducing these tariffs other than by another Kennedy Round, which hardly seems called for at this point?

A second category of tariffs includes those which have been left relatively untouched by the Kennedy Round precisely because it has been difficult for one country, or many of them, to make cuts. And there I think we face some of our hardest problems, which will require new kinds of initiative, perhaps along the lines suggested by Eric Wyndham White, the Director General of GATT of negotiation industry by industry, looking not just to tariffs, but at a range of trade barriers.

In the third category are tariffs which would have been cut if the pattern of bargaining had been somewhat different, that is to say, a country was prepared to cut them if it got an adequate concession in return. I think there is not much to say about them except that they are among the chips for the next round in the card game.

It is now generally accepted that as the tariffs have fallen away, nontariff barriers have become more important than ever. They are nothing new. We spent a lot of time at the end of the war working on problems of quotas and the direct controls associated with exchange controls.

But with those largely out of the way, I think we are now facing a highly variegated array of restrictions of new kinds that do not fall into easily understood patterns.

Negotiating about these will raise several problems. They are too varied, in my opinion, to be covered by any kind of simple rule or comprehensive agreement of the sort that we have over the years evolved to deal with tariffs and quotas. It may be that they are susceptible of an approach that seeks to set up some sort of complaint procedure. Certain of the barriers, either types or individual barriers, can probably be dealt with by agreements, and by establishing something like a code of behavior or rules about them. However, carriers are of differing importance for different countries, so that the logic of approaching them barrier by barrier does not stand up too well to the realities of negotiation and the need to bargain with whatever one has to bargain with. Nor is it likely that negotiation about nontariff barriers can be separated from negotiation about remaining tariffs. The complex pull between the logic of separate treatment and the requirements of more collective treatment will, I think, influence our approach to these things, and have some bearing on where and how we try to deal with them. For the United States I think there are additional problems, in that the nontariff barriers do not fall under any simple legislative arrangement, and the problem of how to negotiate, what kinds of powers the President will have to have, will remain, I think, a troublesome one.

Not the least of the problems in negotiating about nontariff barriers is a lack of agreement as to what, in fact, are barriers. Some are more or less covert trade barriers and have that as their main objective. But

there are others in which the trade barrier effect is incidental to the pursuit of some other objective perhaps. Such a matter as health or safety. We are now seeing international discussions about the automobile safety arrangements which have to be adopted in this country, because they cause problems for foreign producers.

Price rules, and domestic business practice arrangements, all begin to come into the picture. And so all manner of things are drawn into what used to be simple trade negotiations about tariffs and quotas. Not the least of the problems are those surrounding border taxes which raise very complex issues and which are now, I think, only beginning to be properly analyzed.

All this need for getting into new, more complex fields has been the result of success in removing the traditional barriers to trade. And oddly, in a field where there has been much less success, perhaps even retrogression, that is, in agriculture, I find that a somewhat similar conclusion is indicated.

Far more clearly than before we are now made to see that a large part of the structure of trade barriers in agriculture, ours as well as those of the rest of the world, derive from domestic agricultural policies. And therefore, if we want to do something about these barriers, I think we have to be willing to talk internationally about the policies themselves, about such matters as prices, production controls, surplus disposal. There was a start on that in the Kennedy Round, but it failed to come to a successful conclusion, in my opinion, with the exception of the partial success in the grains agreement on surplus disposal.

Now, I do not suggest that it is easy for us or for any other country to undertake this kind of a negotiation, to talk internationally about things which are already difficult domestically. We may not be willing or able, or others may not be, to carry on the negotiations on that basis. In that case it looks as if we must accept the fact that we are facing an impasse of the sort that we have lived with for 20 years or more, but with the important difference that our exports, American exports, will be more seriously affected this time than in the past.

Once again, the problem I mentioned in regard to nontariff barriers arises. For in spite of the logic of treating agriculture separately, that may not work because it is not of equal importance as a trade matter to every country.

With regard to trade with less-developed countries, I think I shall leave the intricacies to others, with perhaps one comment. There is something of a paradox here. It seems to me that more novel ideas are being discussed with regard to LDC trade, in such matters as preferences and commodity agreements than in the other fields where I have said we need new approaches. And yet, in my opinion, some of this discussion of novelties conceals a very old-fashioned and simple problem. And that is the willingness of the developed countries to accept competition from the less-developed ones. If they are not willing to do that, then I think that any of the array of devices that are being talked about will turn out to be rather disappointing to all concerned. However, I do not exclude the possibility that precisely through the discussion of such matters as preferences—which in my opinion should have been treated as the second question, not the first—we might arrive at the basic issue. That is to say, preferences may prove to be the road to providing freer access.

With regard to East-West trade, it seems to me that we are presently in a situation in which we have very little flexibility and that we have gained very little from imposing that loss of flexibility on ourselves. If we are to undertake some change in our policies about East-West trade, the potential gains we should seek are less in commercial or economic matters than in the ability to add trade to the things we can negotiate about with the Communist countries. And this is a quite different matter if one is talking about trade with the Soviet Union than it is with regard to the trade of the Eastern European countries. And yet I think in its different way it is true of both cases. When we are talking about East-West trade we must recognize frankly that there are no proven satisfactory arrangements for organizing trade between state trading countries and market economies. But there are some possibilities. I think that therefore we have to maintain an experimental attitude. And that means as a practical matter, to be able to alter agreements over relatively short periods. I think we should understand that such approaches as bringing more of the Communist countries into GATT are not solutions to problems, but provide ways of discussing the problems perhaps in a better framework than what we have had before.

Now, in these remarks I have tended to break up the trade problem into several different ones, to speak of East-West trade, LDC trade, and trade among the industrialized countries separately. This is right, and at the same time it is wrong. It is right because I think the problems are somewhat different, and require somewhat different approaches. What is wrong about it, a slightly more subtle point, is that there is always a risk of losing sight of the fact that we are talking about a world trading system, not simply a series of pieces. Always in the postwar period, it has been an important part of American trade policy that we have had a picture in mind of what kind of world trading system we were working toward. There have been exceptions that did not fit the picture. East-West trade is one, but it has been a relatively minor thing. But I think we are now at a period when the exceptions are decreasing. Japan, which was always a special problem, still poses certain issues that do not arise otherwise, but is very far along the road toward being a full member of the trading system. It is true that we shall probably work out something with regard to the special problems of the less-developed countries which will make them exceptions to many rules. But I think we shall find that we can no longer deal with a blanket concept of "less-developed countries." We are going to have to look at the more developed and among the less-developed because they have quite different trading interests and require quite different trading arrangements. That will make it important to have some concept of a road along which developing countries might move as they become better able to make their way in the world trading system.

I think, finally, that the definition, or the depiction, of the world trading system we want cannot probably, be very different from what it has been. It is a system in which there is a means of reducing trade barriers, and in which the basic objective is equal treatment in international trade. This may seem banal. I think it is not so when we recall that conception of this objective has been somewhat blurred

or even absent from many discussions in recent years. Many arguments are being made and forces are at work to reduce the scope for equal treatment. Often, I think, people respond to these ideas and pressures without adequate attention to what the alernatives are, or the position this country would be in the kind of trading world we would have if we abandoned equal treatment.

This may seem an old-fashioned sentiment. But I am glad to stand on it, provided you remember, from what I said at the beginning, that the content of trade policy is going to be quite different in the next 10 years from what it has been in the last 30.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Diebold.

Professor Baldwin?

STATEMENT OF ROBERT E. BALDWIN, PROFESSOR OF ECONOMICS, UNIVERSITY OF WISCONSIN

Mr. BALDWIN. The first section of my paper consists of a very brief survey of previous trade negotiations. Since this is background material that you are already familiar with, I shall skip over this part and summarize my main points concerning certain key problems that I think must be handled more adequately in the future than has been done in previous negotiations.

We are now at the point in our tariff-cutting negotiations where most of the tariff protection that was largely superfluous, has been eliminated. Increasingly, we have moved into sectors where significant resource-reallocation effects are produced by tariff cuts. If this remaining hard core of protection is to be reduced significantly at least three important problems should receive more attention than in the past:

(1) We must achieve a better balance of consumer and producer interests in economically vulnerable industries.

(2) We must devote greater efforts to the reduction of nontariff barriers.

(3) We must make the negotiating process more effective in achieving its goal of trade liberalization and expansion.

With regard to the first point—a better balancing of consumer and producer interests—I would urge that the Congress liberalize the adjustment assistance provisions of the Trade Expansion Act. There is only one way whereby consumers can obtain the benefits of lower prices that tariff cuts bring, and yet whereby workers in certain economically vulnerable industries will not suffer a deep and long-lasting reduction in their incomes. This is by a substantial adjustment assistance program that really tries to retrain and relocate workers and employers who have lost their jobs through no fault of their own. The "escape clause" portion of the act, incidentally, should not be changed, I think. This action should only be used in exceptional cases.

There is more and more interest here and abroad in trying to harmonize and reduce the many nontariff barriers that restrict world trade. These include such measures as (1) quantitative restrictions; (2) Government procurement policies; (3) customs valuation practices; (4) border tax adjustments; (5) regulations covering such mat-

ters as safety and health conditions; (6) Government subsidies to domestic industries; and (7) monopolistic practices in the private sector.

There are great opportunities for U.S. export expansion if foreign nontariff barriers can be reduced. The United States also has erected certain restrictive nontariff barriers. However, most of our barriers are represented by clear-cut laws and well-known public regulations. In many foreign countries, on the other hand, informal administrative devices are used to thwart the attempts of U.S. businessmen to sell abroad. It is important to bring these measures out into the open and establish clear-cut rules that do not discriminate against foreigners in cases where the national interest is not involved.

It will take many years to reduce these barriers, but we should start soon to undertake the time-consuming, technical analysis that will be necessary to achieve a significant reduction of these barriers.

My first point concerns improvements in the negotiating process. First, we must greatly improve the level of economic analysis supporting our negotiators. The steps outlined in the Trade Expansion Act for assessing the economic effects of tariff cuts in various industries as well as the possibilities for export expansion look impressive on paper. But the size and level of competency of the staffs of the various departments and agencies involved in this work is quite inadequate for the job. I suggest that the Congress provide a small amount of funds annually for the purpose of undertaking economic studies designed to determine the ability of workers and employers in various industries to adjust to increased import competition. These studies should be undertaken by economists both within and outside of the Government. We should immediately, for example, set up a study that will trace the economic effects of the Kennedy Round cuts as they take place. From this we can get a much better idea of the possible effects of future cuts than we have ever had.

With respect to the nature of the negotiations themselves, I would suggest that the negotiators adopt a less rigid view of the concept of "reciprocity" than is often used and that in the future we do not tie ourselves to any one tariff-cutting technique. Flexibility is essential for tariff-cutting negotiations.

A number of highly competent observers interpret our recent tariff-cutting experience as requiring radical changes in our approach to worldwide trade liberalization. Some of them suggest the formation of free trade blocs between the United States and various other industrial nations. Others propose the abandonment of the most-favored-nations principle in our tariff-cutting policies. While these various proposals have points in their favor, the merits of proceeding along the same general lines as in the last six GATT negotiations to me seem greater, especially if the goal is the economic one of lowering artificial impediments to world trade.

There is still much to be done in reducing the trade-inhibiting effects of nontariff barriers. This will be a very difficult task but there is some evidence to suggest that at least the major industrial countries are willing to proceed toward a harmonization and reduction of some of these barriers. With an effective adjustment assistance program together with an adequate background of economic analysis, a less

rigid view of the reciprocity concept, and a more flexible negotiating approach there is also still much that can be accomplished in the tariff field. We will be hampered by the unwillingness of some countries to reduce their barriers as far as we are prepared to do. But what can be accomplished by a flexible approach to tariff-cutting seems significantly preferable to the longrun economic and political risks involved in regionalization and tariff discrimination. Thus, it is not too early to begin to plan for a seventh round of GATT negotiations aimed primarily at the non-tariff-barrier problem and at expanding trade between developed and less-developed countries, but also designed to achieve further moderate cuts in duties among industrial countries.

Chairman BOGGS. Thank you very much, Professor Baldwin.

Professor Cooper, may we hear from you?

STATEMENT OF RICHARD N. COOPER, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. COOPER. Mr. Chairman, members of the subcommittee, I think it is fair to say that most people are pleased with the outcome of the Kennedy Round. There were some black moments when it looked as though little or nothing might come of it, and that would have marked a severe setback to all those who favor a liberal trading policy. I do not like to tarnish the luster of success, but it is worth pointing out that the actual results of the Kennedy Round do not in some respects mark such a sharp departure from the past which we had been led to expect. It is true that tariff cuts amounted to something like 30 percent on $15 to $16 billion of U.S. trade (taking imports and exports together, and agricultural as well as industrial goods). But these tariff cuts are to be spread over 4 years, and they stem from negotiations which took nearly 5 years. If allowance is made for the very long time over which these cuts should be averaged, the Kennedy Round was only about 45 percent better than the Dillon Round, which was widely regarded as amounting to next to nothing. Moreover, some of the cuts in the Kennedy Round do much less in the way of reducing protection than they appear to, since at least in the textile and metals industries, tariffs on raw materials were often reduced substantially more than tariffs on fabricated products.

To focus on these blemishes, however, would be to do the Kennedy Round an injustice The number of commodities covered was far greater than in the Dillon Round. Moreover, the Kennedy Round preserved the forward momentum of trade liberalization. The proper comparison is not with things as they were, but with things as they otherwise would have been. That is a comparison which we can never make with assurance, but I strongly suspect that "no change" is not a stable situation, that without some movement toward trade liberalization there would be some movement away from it. Protectionist sentiment is always present in all countries, and without some counterforce it is likely to have its sway.

Furthermore, the Kennedy Round did make a modest start—but it is only a start—toward reducing nontariff barriers to trade, especially if Congress eliminates the American selling price method of valuation.

But where do we go from here? I see three possible directions.

First, another broad-coverage negotiation, like the Kennedy Round but with more emphasis on nontariff barriers.

Second, a stalemate in trade liberalization among developed countries, but a cooperative move toward general tariff preferences given by all developed countries to all less-developed countries.

Third, piecemeal trade liberalization involving discrimination both among countries and among industry sectors. Examples of this piecemeal liberalization are already at hand in the trade agreement, between Nigeria and the EEC, in the United States-Canadian auto agreement, and in the Long-Term Textile Agreement—the last also having restrictive features.

Let me say a little about what each of these directions might look like.

The Kennedy Round negotiations were long and wearing. I am sure none of the participants welcome the thought of another Kennedy Round at this time. However, the Kennedy Round faced two hurdles which will not plague such a negotiation in the future. It was the first attempt at an across-the-board negotiation, and new ground rules had to be worked out with respect to what constituted a "bargain." Second, the EEC was being tested for the first time as a negotiating unit, and there were many problems of internal bargaining which had to be worked out. This process was complicated by the insistence of the United States on including agriculture in the Kennedy Round, an area of sharp differences within the EEC and requiring delicate compromise there.

The formative stage on both of these difficulties is now past, and I suspect another Kennedy Round beginning several years from now would go much more smoothly. One tempting approach, in fact, would to be to divide such a negotiation into two parts, the first being a straightforward replication of the Kennedy Round tariff cuts. This would use to good effect the great study and effort already invested in the Kennedy Round just over. The hard negotiations could thus concentrate on those items which escaped deep cuts in the Kennedy Round, and on nontariff barriers.

Generalized trade preferences for less-developed countries is a proposal arising out of complaints in UNCTAD concerning exporting difficulties and problems of market access to the developed countries. Several variants of this have been thoroughly discussed by a group of experts in the OECD. There seems to be much more sympathy now for this idea—and even for trade preferences given on a regional basis—than there would have been in the United States 10 or even 5 years ago. In part this sympathy arises from increasing dispair about the ability of foreign aid to accomplish the job of development; partly because the linkages between aid and development seem to be far looser than was once thought; and partly because national parliaments are increasingly reluctant to appropriate the volume of aid funds thought to be necessary. It is natural to think of growth through exports.

The idea is given further force by recent analysis concerning "effective protection," which argues that fabricating and processing industries can be and often are fully protected by relatively low tariffs combined with duty-free entry of raw materials. A tariff structure

rising with the degree of fabrication tends to locate processing industries near markets rather than near sources of raw materials, thereby depriving the raw material exporting countries of an important and natural entry into manufacturing.

Despite the appealing characteristics of generalized preferences, this course has a number of weaknesses which should not be overlooked.

First, generalized preferences will be extremely diffuse in their effects. Few countries can expect a sudden surge in demand for their exports as a result of them. No doubt they would provide a fillip to development in some areas, both by providing demand and by generating foreign exchange, but there is no panacea for development here.

Second, the advanced less-developed countries are likely to benefit much more than the less advanced less-developed countries. The former will be in a better position to take advantage of the opportunity provided by preferences.

Furthermore, this advantage will come partly and in some cases largely at the expense of the less advanced developed countries who do not get the preferences. But what rationale can there be for giving Argentine goods preferences over Japanese goods, or Mexican goods over Argentine goods, or Columbian goods over Mexican goods?

Third, the existence of large preferential areas would create a serious impediment to future liberalization of trade, since those enjoying the preferences would have a strong vested interest in retaining high trade barriers among other countries. This phenomenon has already been observed in the Kennedy round, where certain concessions were made difficult by a desire to preserve existing degrees of preference with the EEC.

Fourth, as with foreign aid, there is no guarantee that development will follow the opening of preferential markets or that it will be in the right places. Some less-developed countries will benefit, and some individuals within those less-developed countries will benefit; but they may not be the most important countries from the viewpoint of the U.S. interest in economic development, and they may not be the right individuals for fostering development.

What experience we have had to date does not give great encouragement with respect to the development gains from preferential markets. I speak tentatively here, since more careful study needs to be made of experience to date, but my impression is that the Commonwealth preference system can provide illustrations of almost every case possible—rapid growth with preferences in the British market, rapid growth without important preferences in the British market, stagnation with preferences in the British market. The former French territories have not "taken off" into economic growth despite years of preferential access to the French market and more recently to the entire EEC. I have described this process, and some current parallels from the international scene, in an article in the Yale Law Review, which I will be willing to submit for the record, Mr. Chairman, if you wish.

Chairman Boggs. We would be happy to make it part of the record, Mr. Cooper; without objection.

(The article submitted by Mr. Cooper appears on p. 231, following his statement.)

Mr. COOPER. Finally, the United States has given preferential access to Philippine goods since the 1920's. The preferences were mutual in the interwar period, so Philippine manufacturing was subject to stiff U.S. competition in manufactured goods. Since the war, however, the Philippines has imposed duties on American goods. Manufacturing in that country has grown apace, but it has been import-substituting manufacturing, protected by Philippine tariffs, not manufacturing for export. Apparently preferential access to the large U.S. market was not enough; other factors such as supply limitations, inadequate quality control, and marketing difficulties have been more important. It is true, however, that the Philippines engages in some important processing industries notably the production of coconut oil and other coconut products.

The structure of tariffs in the developed countries undoubtedly does impede industrialization in the less-developed countries. Preferential tariff arrangements would help correct this, as the U.S. arrangement does for the Philippines. But preferences are not necessary to do so. Multilateral, nondiscriminatory tariff reductions would also correct this, and could even be geared to reducing the tariffs on highly fabricated products somewhat more than tariffs on semi-fabricated products or raw materials.

I might add, parenthetically, that it is possible that the influence of tariff structures on industrial location, which I do think is an important point, is becoming overemphasized, since the effects on location of the tariff structure in advanced countries are in some instances offset by the commercial policies of the less-developed countries, which often levy export taxes on raw materials. Calculation of the net effect of all commercial policies in developed and less-developed countries alike still awaits careful research.

To sum up, preferential access to developed markets, while possibly helpful in some cases, is neither necessary nor sufficient for economic development. And it would have some positively harmful effects.

The third possible direction I mentioned is piecemeal trade liberalization. That would be far less systematic than generalized preferences. As an economist, I do not like this approach, because industrially and geographically limited preference arrangements are likely to appear here and there, helter-skelter, and the overall economic effect of these arrangements will be unclear. There will be too much tendency to focus on the narrow, "obvious" benefits from any such arrangement and to neglect the overall consequences, including indirect effects. In some cases there would be real benefit, and in others there would be real harm, and it would be difficult to sort them out clearly.

I can perhaps give a hypothetical example to illustrate this. Take the case of free trade in automobile parts between the United States and Canada. Suppose the United States has a tariff on certain key raw materials that go into automobile parts, whereas Canada does not. The free trade arrangement between the United States and Canada, limited to auto parts, may result in Canada producing the parts and exporting them to the United States even though the United States is really the lower cost source of supply at free trade prices.

This kind of outcome, I think, is much more likely than is usually allowed for, and it makes analysis of the total effects of any limited

trading arrangements very difficult. Moreover, effective geographical discrimination is notoriously difficult to administer.

But the more powerful objection to piecemeal trade liberalization rests on political grounds, not economic ones. It would reintroduce into international politics a sharply divisive element—trading privileges. Adherenece to the most-favored-nation principle has served to a considerable extent to insulate international trade from other dimensions of international politics. Abandonment of MFN would open up the possibility—indeed the likelihood—of exchanging trade favors for other favors. In the end our economic objectives could be badly maimed in the process.

It is worth recalling that the economic gain from a system of bilateral and piecemeal preference arrangements is likely to be illusory. In an international trading community in which preferences are generally ruled out, one country may gain by negotiating preferred access to major markets. Individual cases for preferential arrangements can perhaps even be justified. But once all countries move in this direction, the gains are eroded and all countries may end up being worse off than without any preferences, for while each country finds itself in a preferred position in certain markets, it is discriminated against in others; what it gains in one area it may lose in another. In addition, the advanced countries limit unduly their sources of supply, to their own detriment but without any necessary or corresponding gain to the less developed countries.

To sum up, I have an undisguised preference for the first of the three alternative courses of action which I see before us, a repetition of the Kennedy Round type of negotiation. Generalized preferences would be preferable to piecemeal trade liberalization. But as I noted, generalized preferences are neither necessary nor sufficient for economic development, nor indeed even to induce a healthy growth in manufacturing output in the less-developed countries.

A general commitment to freer trade among developed countries would also benefit less developed countries, especially by improving tariff structures; and temporary preferences could be established by giving tariff cuts at once to the less developed countries. This would conform with the infant industry arguments used to justify protection in less-developed countries. Preferential access to markets would be given, but it would automatically fade out over a period of, say 10 to 15 years, while the general tariff cuts come into effect. During this time industries could be established. Even this arrangement, however, would benefit most the most developed of those qualifying for the preferences.

Before closing, I would like to touch on one further aspect of post-Kennedy Round trade liberalization. Extensive liberalization would have important consequences for the regulatory, tax, and balance-of-payments policies of governments. Tariff reductions are not the only factor having such consequences. Reductions in transportation costs such as have been occurring over the past two decades and reductions in nontariff barriers also contribute to a general "loosening" of trade, making production less dependent on proximity to market. These developments allow business firms to locate more freely according to their economic interests, without regard to tariffs and other trade

barriers. This is good. But location may also be influenced by a desire to escape certain national regulations or tax provisions offensive to the firm. Firms can more readily locate "abroad" and export to the nations with the stiff taxes or regulations.

This process can be seen very clearly within the United States in the late 19th and early 20th centuries, when State regulation of corporate enterprise virtually collapsed because of the freedom of trade and the constitutional obligation to honor contracts made in other States. The ultimate solution, adopted in 1933, was to transfer regulatory responsibility to the Federal level; in a similar vein, further trade liberalization will imply a need to cooperate increasingly closely with other countries on such matters concerning business taxation and regulation.

But I would like here to focus on the balance-of-payments issues. There are two sides to this question. First, tariff changes have potential balance-of-payments effects, and the larger and more sweeping the tariff change, the larger will be the likely balance-of-payments effect. One role of "reciprocity" in tariff negotiations, for having a roughly balanced package of tariff reductions between countries, is that it provides a rough method for neutralizing these balance-of-payments effects and thereby insulates moves to reduce protectionism from a desire to protect the value of the national currency.

The other side of this coin is that tariffs or their equivalent could be used as a measure to help eliminate imbalances in payments. At present that GATT permits derogations from its rules for balance-of-payments reasons, and in particular article XII permits the use of trade restrictions by a country in balance-of-payments deficit. The permitted restrictions cover only restrictions on the quantity or value of trade; they apparently do not include special surcharges on imports. Yet both from an economic point of view and from an administrative point of view there is good reason to prefer surcharges over quantitative restrictions. Surcharges permit highly profitable trade to continue; they permit new entry; they do not require favoring some importers or foreign exporters over others; they yield revenue, and thereby help to damp domestic demand, which in many instances of balance-of-payments deficit is desirable. They can be imposed uniformly over a wide range of goods, and thereby have a minimum impact on the structure of tariffs and hence on the degree of protectionism. By the same token, downward tariff adjustments could be made by countries in surplus, also in the interests of better balance of payments equilibrium.

At present the conventions regarding reciprocity in trade negotiations militate against the unilateral reduction of tariffs even when a country acknowledges that would be in its best interests. Countries fear that they would be weakening their "bargaining position" in future tariff negotiations. Similarly, raising tarffs for balance-of-payments reasons leaves trade partners feeling that they have been cheated. It is ironic that measures taken to depress the domestic demand for balance-of-payments reasons—measures which may have much the same effect on imports from trading partners—do not give rise to such complaints, even though in economic terms they may be far more costly to all the parties concerned.

Despite the pressures against the use of tariffs for balance-of-payments reasons, there have been a few occasions on which they have been used. Germany in 1957 reduced its tariffs very substantially in order to help stabilize the domestic economy and reduce a payments surplus; and France made modest reductions in tariffs in 1963 for similar reasons. On the other side, Canada imposed tariff surcharges in 1962, and Britain did so in 1964, although both moves came under extreme criticism and the surcharges were short lived.

Restrictions on imports are obviously suitable only if the balance-of-payments deficit is not expected to last. If it is, the currency should be devalued. But if the deficit is expected to be temporary, it would be preferable to finance it, and this is where the link comes between trade policy and international monetary reform. In the absence, of effective monetary reform, countries may not have adequate financing at their disposal to cover temporary payments deficits, and there will be occasions when temporary restrictions on imports are preferable to alternative courses of action, including the quantitative restrictions now permitted under the GATT.

Rules would have to be developed to prevent abuse of the privilege to impose surcharges for balance-of-payments reasons. Widespread coverage and uniform rates would be necessary to avoid charges of protecting particular industries. It is the currency here which the surcharges are designed to protect and not particular industries.

One way to overcome the feared loss of bargaining power would be to permit countries to time multilateral tariff reductions to correspond to balance-of-payments requirements. Thus, countries in surplus could be asked to reduce their tariffs more rapidly than countries in deficit, although all countries would be committed to ultimate reduction. This is how trade liberalization proceeded in Europe during the 1950's.

I raise these relationships between trade policy and balance-of-payments policy not with any firm view as to what is the best course of action, but with the hope of generating some discussion of two issues which, for the most part, have been kept quite separate.

Thank you, Mr. Chairman.

Chairman Boggs. Thank you very much, Mr. Cooper.

(The article referred to by Mr. Cooper on p. 227, follows:)

NATIONAL ECONOMIC POLICY IN AN INTERDEPENDENT WORLD ECONOMY *

By Richard N. Cooper †

During the past decade there has been a strong trend toward economic interdependence among the industrial countries. This growing interdependence makes the successful pursuit of national economic objectives much more difficult. Broadly speaking, increasing interdependence complicates the successful pursuit of national economic objectives in three ways. First, it increases the number and magnitude of the disturbances to which each country's balance of pay-

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I am grateful to Mr. Leonard Chazen for research assistance.

ments is subjected, and this in turn diverts policy attention and instruments of policy to the restoration of external balance. Second, it slows down the process by which national authorities, each acting on its own, are able to reach domestic objectives. Third, the response to greater integration can involve the community of nations in counter-acting motions which leave all countries worse off than they need be. These difficulties are in turn complicated by the fact that the objectives of greater economic integration involves international agreements which reduce the number of policy instruments available to national authorities for pursuit of their economic objectives. This article touches on all of these facets of higher economic interdependence among industrial nations, both as fact and as objective, but its principal focus is on the third complication—the process of mutually damaging competition among national policies.

There can be little doubt about the great growth in international economic interdependence over the last two decades. Import quotas in industrial countries have been virtually abolished on trade in manufactured products, tariffs have been reduced, and transportation costs have fallen relative to the value of goods. At the same time, the accumulation of capital and the spread of technology have made national economies more similar in their basic characteristics of production; comparative cost differences have apparently narrowed, suggesting that imports can be replaced by domestic production with less loss in national income than heretofore. Whether a country imports a particular good or exports it thus becomes less dependent on the basic characteristics of the economy, more dependent on historical development and on relatively accidental and transistory features of recent investment decisions at home and abroad. An invention in one country may lead to production there for export, but the new product will relatively quickly be produced abroad—or supplanted by a still newer product—and possibly even exported to the original innovating country.

Monetary disturbances, too, are likely to be much more quickly translated into changes in the volume of exports and imports than they were formerly. Under fixed exchange rates, greater than average monetary inflation in one country will invite a more rapid deterioration in the balance on goods and services than was true in the past.

Enlargement of the decision-making domain of the world's great producing firms results in the rapid movement of capital and technical knowledge across national frontiers, thereby contributing to the narrowing of comparative cost differences; but their activity will also quicken the speed with which trade adjusts to new sales opportunities because they have direct knowledge of foreign markets and access to distribution channels.[1]

Finally, as financial markets become more closely integrated, relatively small differences in yields on securities will induce large flows of funds between countries. Banks will increasingly number "foreign" firms among their prime customers: the advantages of inexpensive credit to firms in countries with ample savings and well-functioning financial markets, such as the United States, will be shared increasingly with firms elsewhere.

All of these changes in the characteristics of the international economy during the past decade—and it should be emphasized that economic integration is still far from complete—are crucial to the functioning of the international payments system and the autonomy which it permits to national economic policy formation. These changes mean that in normal periods prospective imbalances in international payments—imbalances which would arise if countries did not respond to reduce them or did not adjust policy measures to forestall them—are likely to be more frequent and of larger amplitude than they have been in the past. "Disturbances" arising from new innovations, from generous wage settlements leading to price increases, and from excess or deficient domestic demand will affect the balance of payments more perceptibly. Whether or not imbalances also last longer depends upon the relationship among the "disturbances:" if they are well distributed among countries and tend equally toward deficit or surplus, the duration of prospective imbalances may well be less than in the past: otherwise it may be longer.

These changes suggest that balance of payments difficulties are likely to be more common in the future, and that they will worsen as the structural changes continue in their recent trend. By the same token, however, correction of im-

[1] A quick response assumes the absence of collusive agreements on price, market-sharing, and the like.

balances in international payments should be easier in the future. Trade flows will respond more sharply to given small "disturbances;" but they should also respond more quickly to policy measures designed to influence them. If a small relative increase in the price level will lead a national economy into greater balance of payments difficulties than heretofore, a relatively small decrease should undo the difficulties. Similarly, international capital flows will respond more rapidly to small differences in national credit conditions; but small differences in national credit conditions directed to correcting the imbalance can induce equilibrating flows of capital. Thus if the national authorities can recognize disturbances early, are willing to use some of the tools at their disposal for correcting imbalances in international payments, and act reasonably quickly in doing so, then the increased sensitivity of international payments to various disturbances need cause no undue difficulty—provided that policy instruments are properly chosen and adequately coordinated among countries.

Interdependence Before 1914

There is a natural inclination to compare the international economy today, especially under the claim that it is becoming more integrated, with the international economy before 1914, when, it is often said, the world was highly "integrated" economically. In the four decades before World War I most of the major countries were on the gold standard (implying fixed exchange rates) most of the time, capital was free to move into or out of most countries, trade was impeded only by comparatively moderate tariffs and quotas were generally absent. Even labor was generally free to migrate from country to country without visas, security checks, and immigration quotas.

In one important sense, however, the comparison is not at all apt. Today national governments are much more ambitious about the objectives of national economic policy than they were in the 19th century. Governments have taken on the responsibility for assuring high levels of employment and, increasingly, a rapid rate of growth; and they attempt actively to influence the allocation of resources and the distribution of income to a much greater degree. These new tasks place greater burdens on the available instruments of policy. Before 1914, by contrast, preoccupation with "defending the currency" was dominant, and the (admittedly more limited) policy instruments at hand were more willingly devoted largely toward that end. Thus the intrusions of international economic integration on national economic policy was more readily accepted because national economic policy was far less ambitious in its aims.

In addition to this important difference, economic relations among industrial countries are probably potentially much closer today than they were even before 1914, despite the characteristics of the pre-1914 world noted above. True, British and French capital moved overseas readily and British investors built railroads around the world. The proportion of Britain's annual savings which went abroad was staggering by modern standards.[2] Nonetheless, communications were far less perfect than they are today and foreign investors ran far greater commercial risks arising from imperfect knowledge (except in the case of colonial bonds which in effect had the sponsorship of the home government).

Despite the freedom of capital to move, it did not in fact move in sufficient volume to erase differences even in short-term interest rates. Over the period 1876–1914 short-term interest rates in New York averaged more than one percentage point higher than corresponding rates in London and there was only a weak correspondence in movement between short-term rates in the two financial centers. Short-term interest rates in London and Paris were much closer together and the correspondence in their movement was higher but still far from perfect.[3] Long-term rates showed similar divergence in their levels and

[2] Alexander Cairncross, Home and Foreign Investment, 1870–1913, 104–06 (1953) estimates that in 1907 no less than 40 percent of British national saving went to foreign investment.

[3] *See* O. Morgenstern, International Financial Transactions and Business Cycles (1959) for an exhaustive study of interest rate movements in the 19th century. The correlation coefficient between monthly averages of the commercial paper rate in New York and the open market discount rate in London was only +.45; the correlation between open market discount rates in London and Paris was +.67. Simple correlations of short-term interest rates in New York, London, Paris, and Berlin can be found in *Id.* at 109.

movement. Response to new investment opportunities was often slow when it came at all.[4]

While tariffs were generally low, barriers to trade in the form of transportation costs were very substantial, although they declined sharply after the introduction of the ocean steampship. Large differences in comparative costs meant trade was socially very profitable, but the composition and level of trade was correspondingly less sensitive to small changes in costs, prices, and quality. Finally, business organizations, far from being international, became truly national corporations in the United States only as World War I approached, and the process was even slower in many European countries.

Thus the alleged integration of the pre-1914 world economy was something of an illusion. While the pre-1914 world was "integrated" in the sense that government-imposed barriers to the movement of goods, capital and people were minimal,[5] those imposed by nature were much greater and economic integration was not high in the sense used here—quick responsiveness to differential earning opportunities.

Countries today are gradually entering a new environment, not merely returning to a state which had once existed. And they confront new problems arising from the combination of more ambitious national and international economic objectives and a higher degree of economic interdependence than has ever existed before. How, in this world, are they to maintain international equilibrium under a regime of fixed exchange rates and at the same time achieve their national objectives? It is now necessary to specify more precisely how conflicts may arise and to indicate some of the ways in which governments have responded to these conflicts.

Economic Objectives and Policy Instruments

A well-known proposition in the theory of economic policy requires that the number of policy instruments be at least as great as the number of objectives (target variables) if all objectives are to be achieved.[6] If the number of instruments is fewer than the number of targets, it will not be possible to reach all of the targets; in the case at least some targets must be given up, and the authorities must choose among them.[7]

A simple example can illustrate the need to have at least as many instruments as targets. Suppose the government of an isolated country has two economic objectives; it would like to assure full employment of its labor force at all times, and it would like its national product to grow at a specified rate each year. It can vary the overall size of the budget deficit or surplus (fiscal policy) to assure full employment. But full employment of resources can be met with a variety of combinations of investment, consumption, and government expendi-

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[4] Morgenstern considers it "remarkable" that such permanent differences could be maintained for hundreds of months; "the interaction of all these highly organized money and capital markets and the vast flows of funds back and forth was not strong enough to overcome fundamental institutional and risk differences." *Id.* at 470.

[5] This is the definition used in B. Belassa, The Theory of Ecoomic Integration (1961).

[6] A useful framework for the discussion of economic policy has been provided by the Dutch economist, Jan Tinbergen. He draws a distinction between three types of economic variables: target variables, instrument variables, and data. Target variables are those to the values of which we attach some social importance *per se, e.g.,* unemployment or the growth in per capita income. Instrument variables, or policy instruments, are those which the public authorities can manipulate directly in order to influence the target variables. Data are other economic variables which influence the target variables. If an economy starts from a position "on target"; that is, with all of its target variables where the authorities want them, then changes in the data are "disturbances" and call for some adjustment in the policy instruments in order to restore the desired values of the target variables. *See* J. Tinbergen, On the Theory of Economic Policy (1952); J. Tinbergen, *Economic Policy: Principles and Design* (1956).

[7] In general, it will be desirable to have more instruments than there are targets. This is especially true where the relationships between instruments and targets are not well-known. More often than not, policy-makers are quite confident about the *direction* in which a given change in a policy instrument will affect the target variables, but they are not at all confident about the extent of the influence. This may be due to simple ignorance with fairly stable structural relationships, or it may be due to a rapid change in the structure of the economy.

In the presence of this uncertainty, it is desirable to have as many policy instruments as possible. None of them will be superfluous, for all can help to keep the target variables as close as possible to their targets. Each instrument variable should be used in proportion to the confidence held in its relationship to the target variables. For a formal analysis of this problem, see Brainard, *Uncertainty and the Effectiveness of Economic Policy,* 57 American Economic Review (May 1967).

ture. Without some other instrument, the desired growth rate cannot be assured. If, however, investment leads to more growth, then monetary policy and fiscal policy together can be manipulated to achieve the two objectives. The higher the growth rate desired, the lower should be the rate of interest. Fiscal policy can then be adjusted to assure full employment. This very simple model apparently influenced thinking in the early years of the Kennedy Administration.

Viewing economic policy as a problem in specifying targets and finding sufficient instruments to reach them helps to illuminate many policy problems confronting national authorities. The objective of greater economic integration has lead many officials to reject both flexible exchange rates and frequent variations in fixed exchange rates as an instrument for maintaining balance of payments equilibrium. A number of other instruments of policy have been ruled out by international agreement on the same grounds, or to avoid a round of retaliation and counter-retaliation that would leave all countries worse off than they were at the outset. Most types of export subsidies, tariff discrimination among countries, increases in tariffs, and discriminatory exchange regulations fall into this category. A number of provisions of the General Agreement on Tariffs and Trade (GATT) are devoted to these exclusions and prohibitions; with specified exceptions, such as the formation of customs unions or free trade areas, trade discrimination is proscribed.[8] So are many types of export subsidies and discrimination in domestic taxation between home and foreign goods. The Articles of Agreement of the International Monetary Fund make similar prohibitions with respect to currency arrangements. The extensive use of these measures in the past, especially in the 1930's, led to widespread retaliation and mutual recriminations, and they acquired a bad name among outward-looking officials. But the price of international rules of good behavior as set forth in the GATT and the IMF Articles has been a reduction in the range of instruments available to national policy-makers.[9]

Some usable policy instruments may be used, as a practical matter, only within a limited range. In the United States changes in the discount rate of the Federal Reserve System and (since 1962) deliberate deficits or surpluses in the government budget are both regarded as legitimate tools of economic policy; but in normal times the public is not likely to countenance a discount rate of 20 percent or a budget deficit of $50 billion. These exceed the range of acceptability; policy instruments have "boundary conditions." In the abnormal situations when such limits become operative, they withdraw an instrument from use. Sometimes these limits are not fully known until they are tested; then we discover that we have more targets (or fewer instruments) than were previously apparent.

It goes without saying that to be attainable economic objectives must be consistent. If they are not consistent, no number of policy instruments will be sufficient. One illustration in the forefront of discussion in most industrial countries involves the relationship between employment and price stability. Given the institution of private collective bargaining, is the target of "full employment" (4 percent unemployment in the United States, under 2 percent in the United Kingdom, each by its own standards and definitions) consistent with "price stability," defined, say, as stability in the consumer price index? Many economists would find a conflict.

This kind of inconsistency can perhaps be overcome by developing new policy instruments.[10] Another kind of inconsistency, especially important to national economies linked through international trade and capital movements, cannot be eliminated through the development of new instruments. Examples are objectives regarding the balance of payments, or the trade balance. Since one country's trade surplus is another country's trade deficit, it is impossible for all countries to succeed in running trade surpluses. The same is true for balance of payments,

[8] Trade discrimination is also permitted, under Art. XIV of the GATT, when currency discrimination is permitted under the rules of the International Monetary Fund. That occurs if the IMF declares a particular country's currency is "scarce" under its Scarce Currency Clause. No such finding has ever been made, even during the period of severe dollar shortage of the late 1940's.

[9] Freedom to use some of these instruments may, in any case have been more apparent than real. As noted below, export subsidies in one country raise exports only if other exporting countries do not also use them, or if importing countries do not offset them with higher duties. But that is precisely what happened in the interwar period.

[10] These new instruments would involve shifting the trade-off between unemployment and price inflation—called the Phillips Curve—enough to make simultaneous attainment of the two objectives feasible. This is the thrust of "incomes policies."

taking into account capital movements.[11] If there are n countries, only n-1 of them can succeed in achieving their independent balance of payments targets;[12] at least one must accept defeat or else fail to target values for its trade position and its balance of payments position, thereby acting as an international residual. It has been suggested that the United States played this role until the late 1950's, by taking a relatively passive position toward its payments position after the termination of Marshall Plan aid.[13]

The requirement of consistency is not merely theoretical. In 1962, for instance, all of the major industrial countries wanted simultaneously to improve their payments positions on current account. While mutual success was not logically impossible in this case, it did imply a correspondingly sharp deterioration in the current account position of the less developed countries taken together, which in turn would require ample financing from the industrial countries in the form of grants or loans. No such increase in capital movements was targeted. Thus national targets were inconsistent.[14]

The Speed of Adjustment

In summary, successful economic policy requires an adequate number of economic objectives, and it requires that these objectives be consistent with one another. If either of these conditions fails, policymakers are bound to be frustrated in their efforts. Before turning to how these frustrations become manifest, however, one other point should be made: growing interdependence can slow down greatly the process by which independently acting national authorities reach their economic objectives, even when all the targets are consistent and there are sufficient policy instruments at hand to reach them. Thus in practice nations may find themselves further from their objectives than would be true with less interdependence.

High interdependence slows the speed of adjustment to disturbances if national policy-makers do not take the interdependence into account. This is because the economic authorities in different countries may be working at cross purposes. An investment boom in one country may raise interest rates both at home and, by attracting internationally mobile funds, in neighboring countries. The first country may temporarily welcome the high interest rates to help curb the boom and may also tighten fiscal policy to keep inflationary pressures in check. But the other countries may fear that higher interest rates will deter investment at home and take steps to lower interest rates. Unless this monetary relaxation is taken into account in framing fiscal policy in the first country, its authorities will find that fiscal policy has not been sufficiently contractionary. But more contractionary fiscal policy will tend to hold up interest rates, so that the monetary authorities in the neighboring countries will find they have only been partially successful in lowering their rates. Even if in the end the whole process settles to a point where the various national authorities are satisfied, it will have taken longer than if there had been close coordination between the authorities in the several countries involved. The greater the interactions between the countries, the longer convergence will take if countries act on their own.

Sometimes, of course, actions in a neighboring country can reinforce those taken at home. If in the above example the domestic investment boom transmitted inflationary pressures to a neighboring country through enlarged imports, then contractionary fiscal policy there will complement contractionary fiscal policy at home. But in this case failure to take into account the interactions between the two countries may lead to *over*-correction and excessive unemployment. This will arise if the authorities in each country decide how much they have to act when

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[11] This assumes that national *definitions* concerning the balance of payments are all consistent, and abstracts from the additional complications created by disparate national definitions of balance of payments "deficit" and "surplus." See Host-Madsen, *Asymmetries Between Balance of Payments Surpluses and Deficits*, IMF, Staff Papers (1962).

[12] Unless, of course, the targets all happen to be consistent, *e.g.*, if the sum of all balance of payments targets happened to add to the annual addition to monetary gold stocks.

[13] Polak, *International Coordination of Economic Policy*, IMF, Staff Papers 199 (1962). The ability of the United States to take a passive position ended around 1959, when the deficit became very large and foreign officials began to call for correction. One interpretation which can be put on the international discussions to establish machinery for creating international liquidity is that it presents a search for a new residual supplier in the international payments system.

[14] Triffin has underlined the dramatic inconsistencies in balance of payments targets in the early 1960's. See R. Triffin, The World Money Maze 118–32, (1966).

acting alone to restore equilibrium; then when both groups act, the total effect will be excessive.

If policy decisions are truly decentralized among nations, in the sense that the authorities in each nation pursue only their own objectives with their own instruments without taking into account the interactions with other countries, then the more interdependent the international economy is, the less successful countries are likely to be in reaching and maintaining their economic objectives. This is due to the greater impact of domestic measures on foreign economies, calling forth correspondingly greater offsetting responses which in turn affect the first country. Under these circumstances, countries must either reconcile themselves to prolonged delays in reaching their objectives or they must coordinate their policies more closely with those of other nations.[15].

It has of course long been true that small countries must watch closely economic developments and policies in their larger neighbors, and they would take these developments into account. For the Netherlands, forecasting German GNP and German economic policies is a critical component to forecasting Dutch GNP. But as economies grow interdependent, the importance of *two*-way interactions increases, so that economically large countries such as Britain, Germany, and even the United States must increasingly take into account developments and policies abroad.

International Competition in Economic Policy

In an interdependent economy, governments do not have full control over the instrument variables needed to influence the trade balance or the balance of payments. Each government can effect the domestic interest rate in an attempt to influence international capital movements or can set tariffs on imports and subsidies on exports to influence the trade balance. But success in influencing capital movements or trade flows depends on what other countries are doing. It is interest rate *differentials*, not the absolute level of interest rates, which includes the movement of capital. And it is domestic tariffs *less* foreign subsidies which influence the level of imports. There are many instruments of economic policy for which relative differences affect international transactions, but the absolute value

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[15] These ideas are complex and are best stated somewhat more formally in a technical footnote.

In matrix notation, let $y=Ax$ describe the relationship between target variables (y) and small changes in policy instruments (x). The matrix $A=[a_{ij}]$, where a_{ij} indicates the impact of instrument x_j on target y_j. Arrange the variables so that all the targets and instruments of one country are grouped together, followed by those of another, etc. A can thus be partitioned, with blocks representing individual countries running along the diagonal, and blocks representing the degree of interdependence, or interaction between the instruments of one country and targets of another, lying off the block diagonal.

Suppose that y^* represents the target values the economic authorities of the various countries would like to reach, that the targets are all consistent, and that there are enough policy instruments to reach them all, giving the authorities the correct values for these instruments. $x=A^1y^*$.

Suppose now that the target variables take on values different from their targets. How do the authorities react? Their reaction functions might be described by the following set or differential equations, $\frac{dx}{dt}=B(y^*-y)=B(y^*-Ax)$, which says that the authorities change their instruments at a rate which depends on how far the target variables are from their targets. If they do not take into account international interdependence, B, the matrix of reaction coefficients, will be a block matrix, indicating that each policy-maker look only at his own target(s).

The solution to this system of linear differential equations takes the form:

$$y_j(t)=y_{j*}+\sum_i K_i e^{-\lambda_i t}$$

where the λ_i are the characteristic roots of BA and the K_i are constants determined by the initial disturbances. For a policy system which works in the sense that $y_j(t)$ will gradually approach y_j^*, the second term on the right is transitory. The system will be more efficient, i.e. achieve the policy targets more rapidly after any disturbance, the more rapidly this term fades away. It will fade more rapidly the larger are the λ_i.

In general, the larger the off-diagonal elements are relative to the diagonal elements, *i.e.*, the higher the degree of ignored interdependence, the smaller the smallest root will be and the longer it will take after any given disturbance to reach the target values y^*. High interdependence which is ignored gives rise to the possibility of overshooting targets several times, and it even gives rise to the theoretical possibility that targets will not be reached at all until the nature of the adjustment process is changed.

Coordinating economic policy involves not only exchanging information on targets and use of instruments, but taking this information into account when using instruments. Convergence to targets is then much faster.

may continue to exert a strong influence on purely domestic decisions. This is true, for example, not only of short- and long-term interest rates, but also of liberal tax benefits to investment, generous depreciation allowances, lax regulation of corporate activities and a host of other measures designed to influence corporate location. It is also true of foreign trade: generous credit arrangements or credit-risk guarantees for exports may encourage total exports without improving the trade balance if other countries are pursuing similar measures.

This feature of policy instruments—that the absolute level of the instrument may have important effects domestically, but that only the level relative to that in other countries influences the balance on trade or payments—raises the question: where do the values of these instruments finally settle? International capital movements between two otherwise isolated countries will presumably be roughly the same whether interest rates are at 7 per cent in one and 5 per cent in the other or at 4 per cent in the first country and 2 per cent in the second.[16] In each case the differential is two percentage points. But what determines whether "community" interest rates settle at the higher level or the lower one? The effects on other objectives may be very different. Economic growth will be inhibited more in the first case than in the second.

This would be of secondary importance if all countries had many policy instruments at their disposal. Each country could compensate for an deleterious effects on domestic objectives arising from the value of instruments determined predominantly by the community as a whole. But as we already noted, the number of instruments and the range of values they can assume are often sharply limited by tradition or law. Indeed, it is highly likely that at any point in time a country will have as its disposal *only* the minimum number of policy instruments that it needs to satisfy important domestic political demands. Policy instruments affect the welfare of particular members of the community as well as national economic objectives, so their use will be resisted. Public expectation is that certain measures, while theoretically conceivable, will in practice not be used. Any attempt to invoke them therefore meets stiff resistance.[17]

The values which policy instruments take on in the community of nations, and the process by which those values are reached, are therefore of strong interest to the individual nations. They may not have sufficient domestic flexibility to offset the damaging effects of policy instruments which are forced to an inappropriate level by international competition among governments. As a result, greater international integration can force choices among national objectives which otherwise would all be attainable.

There are occasions in which most or even all members of the international community will find themselves worse off. The competitive devaluations and tariff wars of the interwar period offer the most striking examples; many of the proscriptions in the GATT and the IMF Articles of Agreement are designed to avoid a repetition of those events.

But competition among policies was not thereby banished on all fronts. For example, interest rates shot upward in 1965 and 1966 to levels one to two percentage points higher than those which had prevailed in most countries in 1964. Some of the increases were designed to curb domestic demand; others were defensive, to limit capital outflow. Even after domestic economies had cooled down, it took a dramatic meeting of finance ministers at Checquers, England, in early 1967, to reverse the process. Four other types of policy instruments having these characteristics have been used in the effort to strengthen the balance of payments of various countries: restrictions on government procurement, government-sponsored export promotion, tax incentives to domestic investment, and changes in domestic tax structure. The United States, faced with large payments deficits during the early sixties, made or considered moves in all of these areas: but in each case there was ample precedent abroad for doing so.

Government purchases for government use are specifically excluded from coverage by the GATT rules governing international trade.[18] The result is that a

[16] This must be qualified to the extent that interest rates influence total savings in two countries.

[17] The inflexibility of potential policy instruments is summed up in the adage. "Any *old* tax is a good tax." Changes in taxes not only affect marginal decisions—that may be the objective—but also capital values which the marketplace has adjusted to allow for the old tax. Thus changes in taxes often result in capital gains for some and capital losses for others.

[18] GATT, Art. XVII(2).

conspicuously small proportion of a government purchases, by any government, is from foreign suppliers who compete with domestic producers. In the United States the Buy American provision—which since 1954 officially gives preferential treatment of six to twelve per cent (in addition to tariffs) to domestic over foreign competitors for the Government's custom—has existed since the 1930's. But in 1962 a number of government agencies, including most importantly the Department of Defense, raised the preference accorded to domestic suppliers as high as 50 per cent.[19] Foreign aid expenditures by the American government are even more restricted. Starting with development loans in 1959, such expenditures were tied increasingly to purchases in the United States, until by 1965 only a limited class of expenditures was not so tied, regardless of the price advantages offered by foreign suppliers.

The government procurement practices of other countries are more difficult to document, since most governments do not require open bidding on government purchases with well-publicized preferences for domestic producers, such as those found in the Buy American provisions. Many countries follow the practice of tying foreign assistance, either by law or skillful selection of projects and recipient countries, to purchases from the donor country. This is as true for those donors with fully employed economies as for those with excess capacity and case, and merely stimulates additional imports—and it is as true for donor countries in balance of payments surplus as for those in deficit. Canada, Japan, and the United Kingdom tie the bulk of their foreign assistance, and France ties some expenditures. France and the Netherlands give virtually all of their foreign assistance to colonial or former colonial areas, where de facto aid-tying takes place through the long-established trading firms. German aid often originates with requests from prospective exporters who have found projects in recipient countries eligible for foreign assistance by German criteria.[20]

Many of these practices, of course, arise not only from balance of payments considerations but also from protectionist sentiment. Domestic producers apply strong political pressures on their governments to buy at home—the more so when the goods are to be "given away." But weakness in the balance of payments often strengthens their arguments and increases public acceptability of such restrictive measures.[21]

Government activities are not solely restrictive of trade. On the contrary, a second range of practices involves all kinds of schemes, except direct subsidies proscribed by GATT, to promote exports of goods and services. Governments sponsor trade fairs, product exhibitions, and other advertisements for the products of their exporters; they insure commercial and so-called non-commercial risks involved in exporting; and they often help to finance exports directly. No major industrial trading nation can be found without a government or government-sponsored agency for insuring and/or extending credit for exports. Some countries, such as France and Italy, give especially favorable treatment to export paper in their banking systems or at their central banks. And export credit is often exempt from general credit limitations to restrict domestic demand. All of these measures really subsidize exports, although it is often impossible to identify the amount of the subsidy to any particular sale.

The United States established the U.S. Travel Service in 1961 to attract foreign tourists to the United States. European governments have been aiding tourism much longer, and each year spend substantial amounts for the purpose of attracting foreign tourists. Moreover, expenditure for tourist promotion has been growing rapidly, doubling every two to four years. In addition to straightforward publicity, most European countries subsidize the hotel industry either through preferential tax treatment or through low-interest or government-guaranteed

[19] The Department of Defense also introduced, and then raised, a margin of preference to American suppliers for its procurement for use by American forces abroad, which procurement was not subject to the Buy American Act (41 U.S.C. § 10). The change added an average of 26 per cent to the budgetary cost of those items shifted from overseas to domestic procurement. *See* testimony of Charles Hitch, Comptroller of the Defense Department, *Hearings on Balance of Payments Before a Subcomm. of the Senate Comm. on Banking and Currency*, 89th Cong., 1st Sess., at 156 (1965).

[20] On national practices and their economic effects, see Cooper, External Assistance and the Balance of Payments Donor Countries, U.N. Doc. E/Conf. 46/141, Vol. V, at 360–73 (1965).

[21] When the European common market is finally established, member governments will be obliged to give equal access to suppliers throughout the E.E.C.

loans.[22] In most countries these programs date from the late fifties or the early sixties.

Subsidies to domestic investment is the third area in which governments have moved to improve their international payments positions. Investment subsidies for manufacturing and agriculture improve the competitiveness of a country's products in world markets. Some countries give direct tax incentives to new investment in plan and equipment, such as the investment tax credit of 7 per cent adopted by the United States in 1962 and the 30 per cent investment allowance in the United Kingdom. Japan permits greatly accelerated depreciation of assets. A rough impression of the influence of these arrangements can be gained from Table 1, which indicates the speed with which new equipment can be written off, taking into account investment allowances and tax credits. Table 2 indicates the susbtantial incentive to invest which accelerated depreciation and investment allowances provide in some countries by reducing corporate profits taxes.

Under a regime of fixed exchange rates, government subsidy for domestic investment is similar to a devaluation of the currency in that it improves the cost competitiveness both of the country's export products and of its products which compete with imports.[23]

Subsidies to investment are obviously motivated by considerations extending well beyond the balance of payments; economic growth has become a target of economic policy in its own right, partly for political and strategic reasons (arising in part from the "economic race" with the Soviet Bloc), partly because rising standards of living are universally desired. But balance-of-payments considerations do play an important role in the decision to inaugurate investment incentives. Britain for years has emphasized the need to enlarge and improve its capital stock to compete more effectively in world markets. And former U.S. Secretary of the Treasury Dillon, testifying on behalf of the U.S. investment tax credit in 1962, argued that the measure was required "if U.S. business firms are to be placed on substantially equal footing with their foreign competitors in this respect. It is essential," he said, "to our competitive position in markets both here at home and abroad, that American industry be put on the same basis as foreign industry. Unless this is done, increased imports and decreased exports will unnecessarily add to the burden of our balance of payments deficit." [24]

TABLE 1.—PERCENTAGE OF INVESTMENT IN PLANT MACHINERY ALLOWED TO BE WRITTEN OFF F OR TAX PURPOSE

	In 1st year	By 5th year	Cumulative total over asset life
Belgium	22	92	(1)
Canada	30	71	100
France	25	76	100
Germany, Federal Republic	20	67	100
Italy	25	100	(1)
Japan	43	68	(1)
Netherlands	26	86	110
Sweden	30	100	100
United Kingdom [2]	55	91	130
United States [3]	29	78	114

[1] Not available.
[2] Including an investment allowance of 30 percent.
[3] Including an estimate for the effect of an investment tax credit of 7 percent.

Source: Report of the Committee on Turnover Taxation, London: Her Majesty's Stationery Office, Cmnd. 2300, March 1964, p. 52; and Revenue Act of 1962, hearings before the Senate Committee on Finance, 87th Cong., 2d sess., Apr. 2, 1962, p. 82.

[22] ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, TOURISM IN O.E.C.D. MEMBER COUNTRIES 22 and Annex I (1963).

[23] Investment subsidies differ from straightforward currency devaluation, however, in that the improvement in competitiveness varies from industry to industry according to the capital-intensity of the productive process, and in general they encourage the use of more capital intensive methods of production.

[24] HEARINGS ON H.R. 10650 BEFORE THE SENATE COMM. ON FINANCE, 87th Cong., 2nd Session, pt. 1, at 83 (1962). It is noteworthy, moreover, that investment incentives are usually directed at the manufacturing industries, *e.g.*, those whose goods are important in international trade. An important exception in some countries is housing.

TABLE 2.—STATUTORY AND EFFECTIVE CORPORATE INCOME TAX RATES

	Earnings fully retained		Earnings fully distributed	
	Statutory rate	Effective rate [1]	Statutory rate	Effective rate [1]
Belgium	30	30	30	30
France	50	46	50	46
Germany, Federal Republic	56	53	32	30
Italy	36	32	15	13
Luxembourg	45	32	45	32
Netherlands	45	37	35	29
United Kingdom	54	39	24	18

[1] Computed on the basis of straight line depreciation on the assumption of a constant before tax rate of return of 20 percent over the life of the investment and a market rate of interest of 5 percent.

Source: Peggy Brewer Richman, "Depreciation and the Measurement of effective Profits Tax Rates in the European Common Market and the United Kingdom," National Tax Journal XVII (March 1964), p. 90.

Changes in the structure of domestic taxation, and in particular the "mix" between direct and indirect taxes, constitutes a fourth area in which governments have moved, or have been tempted to move, to improve their national trade positions GATT rules prohibiting export subsidies have been interpreted to preclude remission of direct taxes on exports but to permit remission of indirect taxes. Thus taxes on the corporate profits arising from export cannot be rebated, but manufacturers excise taxes or turnover taxes can. Similarly, countries are permitted to levy indirect taxes, but not direct taxes, on imports. Because of this asymmetry in border tax adjustment, it is possible under fixed exchange rates for a country to stimulate exports and to impede imports by shifting its tax structure from direct taxes to indirect taxes, provided that direct taxes affect prices.

The GATT rule is based on the classical economic assumption that indirect taxes are shifted entirely to the purchaser, while direct taxes are not shifted at all, being absorbed entirely (in the case of the corporate profits tax) by the firm. Recent work in the field of public finance suggests, however, that there may be much less difference in the price effects of, say, corporate profits taxes and manufacturers' excise taxes than was once thought to the be the case.[25] To the extent that indirect taxes are partially absorbed by the producer, or that profits taxes are partially shifted forward to the consumer, the GATT rules regarding border treatment of national taxes allow some "subsidy" to exports and a country can improve its trade position by switching from corporate profits taxes to excise or turnover taxes.

Some countries have made tax changes in this direction, and others have been urged to do so. Sweden reduced its income tax and imposed a general sales tax in 1960; in mid-1964 Italy reduced payroll taxes (which are not rebatable) and, to recoup the revenue, increased turnover taxes (which are rebatable). The German government in 1967 approved a change from a turnover to a value-added tax which will improve the export competitiveness of German products;[26] and Britain has been periodically urged to increase its indirect taxes and lower the direct corporate taxes, although a special committee set up to examine the matter rejected the proposed change.[27] Similar changes have been proposed for the United States.

Once again, many considerations have influenced these proposals; in some cases there may be powerful arguments for making the change regardless of the effects on the balance of payments. But it is interesting to note that these proposals have come alive only since the late 1950's, as international competition has stiffened, and that improvement in the trade balance is often mentioned

[25] M. KRZYZANIAK & R. MUSGRAVE. THE INCIDENCE OF THE CORPORATION INCOME TAX, chs. 6, 8 (1963); Stockfish, *On the Obsolescence*, PUBLIC FINANCE 125–148 (1959).

[26] Because rebates under the turnover tax, due to complications in calculating the exact burden of the tax on each commodity, are lower than the values of rebates—and import levies—that would be permissible under the GATT rules.

[27] REPORT OF THE COMMITTEE ON TURNOVER TAXATION, CMND. NO. 2300 (1964) In late 1964, however, Britain did increase tax rebates on exports by extending the definition of rebatable excises to include taxes on fuels and office supplies and equipment. The rebates were estimated at about 3 per cent of the value of affected exports.

explicity as an important reason for making the change. The Committee for Economic Development has stated, for example, that "a major advantage of a general excise tax (over a corporate profits tax) is that it would tend to improve the ability of the United States to compete with others in world markets," and it goes on to argue that the United States must "equalize" its tax structure with that of the Common Market as tariffs between the two trading areas are reduced.[28]

All of these policy measures have a common characteristic. Taken by one country alone, each represents a concealed devaluation of the currency, at least with respect to a selected class of transactions. But like devaluation, these measures are effective only if other countries do not respond in kind. To each country, tying foreign aid and giving preference to domestic producers in government procurement may appear to offer a means to improve the balance of payments; and indeed in the short run it may do so. But if all countries follow the same practices, the benefit to each is much reduced and some countries will have their payments positions worsened as a result. In the meantime, the total real value of foreign aid has been reduced by reliance on high cost suppliers, and inefficient production has been fostered.

The same thing is true of the other measures discussed. General adoption of export promotion schemes and government-sponsored tourist publicity will surely have a much greater effect on the total level of world exports and tourism than on the payments position of any one country, since the measures will largely cancel one another and leave only residual effects on the balance of payments. Similarly, if all countries adopt sepcial tax incentives for domestic investment, the net improvement in competitiveness—which depends as much on incentives abroad as on those at home—will be haphazard and unpredictable. The principal effect may well be not on any one country's balance of payments position but on the total investment and the rate of growth in the world economy at large—so long as these effects are not nullified by a competitive rise in long-term interest rates! Finally, an effort to raise exports and impede imports through changes in domestic tax structure may have little overall effect on foreign trade and leave countries with tax structures which many would prefer not to have.

At any point in time there are often cogent and persuasive arguments for introducing one or more of these measures to improve the balance of payments. If other countries did not respond in kind, the desired improvement would be forthcoming. But if other countries act likewise, the measures largely cancel out. Not only is the purpose of the move nullified, but all countries may find themselves worse off in terms of their other objectives. As a rule, individual countries cannot act unilaterally without inviting reaction. If they are successful, they are quickly emulated by their neighbors, so that the initial gains are transistory at best. Countries often must act in self-defense, in response to the behavior of their trading partners. This is particularly so when measures to reduce one country's deficit do not reduce the surpluses of the surplus countries but increase the deficit of another deficit country or move countries in balance into deficit. These third countries then feel compelled to respond defensively and their actions in turn increase the deficit of the initial country. Moreover, many of the measures thus taken are difficult to reverse—countries do not readily contract export credit programs or lengthen the periods of depreciation allowable for tax purposes.[29]

Today there is little obvious competition among policies, such as the round of tariff increases in the late twenties and the competitive depreciations of the early thirties. But more subtle and sophisticated methods can substitute, albeit imperfectly, for currency depreciation. Taken in sequence by different countries, these measures produce a kind of ratchet effect. We then have a series of competitive depreciations in disguise.

In this case it is balance of payments difficulties, actual or feared, which give rise to the undesirable competition in policies. Competition for the location of industry can also weaken economic policy in the area of regulation and taxation, due to the mobility of business. To attract new firms or to keep the firms they

[28] COMMITTEE FOR ECONOMIC DEVELOPMENT, REDUCING TAX RATES FOR PRODUCTION AND GROWTH 39–40 (1962).

[29] There are some exceptions. Measures which are subject to a time limitation can be allowed to lapse. As an anti-inflationary measure, Germany finally permitted its provisions for accelerated depreciation to lapse in 1960— after the years of large payments surpluses.

have, local authorities may eschew tax or regulatory measures which in the view of the authorities would benefit the community as a whole, but for the possibility of driving away investment.

National governments have not yet engaged in a scramble to adjust their policies to be most attractive to foreign-owned business firms; on the contrary, a number of countries are concerned about the amount of foreign control already present. Differences in taxation and other measures relating to business activity do, however, affect international corporate location, and some beginnings of national competition for this location can be seen. Luxembourg liberalized its depreciation allowances and offered an investment allowance in 1962 in what appeared to be a deliberate move to attract foreign investment for operations throughout the European Common Market. Belgium and the Swiss cantons have also adopted tax and other features designed to attract foreign enterprise.[30]

Policy Competition Within the United States

This intrusion of outside considerations on "domestic" policies is a familiar phenomenon to Americans, who can observe at close hand relationships among the States of the Union. The United States represents, by itself, a large and highly integrated trading economy. Under the Federal system, governmental entities with important responsibilities are often much smaller than the regional "economies" which they serve. Though nominally sovereign in many areas, the states are in fact closely circumscribed in what they can do, and they are sometimes compelled in self-defense to take repugnant measures. Corporate regulation and tax policy both illustrate this process.

State corporation laws were originally the most popular and effective way of regulating incorporated businesses.[31] In 1886, for example, Massachusetts passed new corporation statutes designed to prevent fraud or mismanagement by firms incorporated in the state. The directors and officers of Massachusetts corporations were made personally liable to creditors if the firms' debts exceeded their capital. The valuation of new stock had to be approved by the State Commissioner of Corporations. So long as similar laws prevailed in other industrial states, Massachusetts corporations had little to gain from incorporating elsewhere.

The system of corporate regulation through state law became unstable during the following two decades. First New Jersey, then Delaware began to exploit the provisions in the U.S. Constitution prohibiting impediments to interstate commerce and requiring that contracts made in any state be honored in any other state. New Jersey liberalized its laws of incorporation in 1896 by allowing new stock valuation to be entirely at the discretion of the corporation directors; it had earlier permitted debts to exceed capitalization. Both provisions laid the basis for the Standard Oil Company and other giant firms incorporated in New Jersey. The state benefitted from a modest tax on the value of corporate capital.

New Jersey's bid for corporations undermined the regulatory corporation laws of other states. Massachusetts corporations, for example, could circumvent regulation simply by incorporating in New Jersey, and a strict Massachusetts law would fail in its purpose. In 1902 a special Massachusetts commission reported "a general practice" of organizing corporations outside Massachusetts to do business within the state. The commission drafted a new, permissive corporation law which was enacted virtually without change a year later. The restrictions of 1886 were largely eliminated.

In a series of laws starting in the first decade of the twentieth century Delaware relaxed greatly its restrictions on incorporation, and in the end maintained virtually no requirements regarding the capital structure of a corporation registered in the state. Directors were not closely bound by their charters in issuing new stock. Illinois had tried to police the capital structure of corporations, but in 1933 it virtually adopted the latest Delaware revisions of 1927 and 1929, illustrating a kind of Gresham's Law in corporate regulation. In the same year, however, the Federal government undertook much greater responsibility for regulating public stock issues under the Securities and Exchange Act.

State taxation provides a second illustration of the severe constraints imposed on the states by close competition with their neighbors. Wide taxing powers are

[30] Furthermore, the relaxation in France's tough policy on foreign investment may have been dictated in large measure by the prospect of losing investment to other members of the EEC which would nonetheless have free access to the French market.

[31] This history is taken largely from Dodd. *Statutory Developments in Business Corporation Law, 1886–1936*, Harv. L. Rev., 27, 32–35 (1937).

nominally reserved to the states. Yet while authorities in state taxation complain bitterly about the large differences in tax structure and tax treatment of business income and commodities from state to state, these differences are very narrow compared with those between countries. Commodity taxation is predominantly at the retail level—the administratively simpler manufacturers' excise tax is virtually non-existent—and the rates are very close to one another, particularly between contiguous states. State taxation of corporate income also tends to be much the same from state to state, and differences in rates, coverage, and definition of taxable income have narrowed over time.[32]

The reasons for increasing uniformity are obvious enough. The freedom of commodities, capital, and persons to move from state to state without legal impediment, and the ease with which they do so, reduces greatly the scope for wide differences in tax treatment since both purchasers and sellers will leave the high tax states. A striking example of the pressures toward uniformity is provided by North Carolina's adoption in 1957 of a new tax law which changed the basis for calculating state taxes on the net income of corporations engaged in interstate commerce. The new law had the effect of reducing the tax burden on out-of-state corporations making interstate sales from bases in North Carolina and, moreover, it relieved in-state corporations from paying North Carolina income taxes on income derived from out-of-state sales.[33] The tax change was frankly designed "to encourage more industry to locate and expand in the State." [34] Within three years South Carolina and Virginia had adopted essentially the same formula, as the governor of South Carolina explained, "to keep competitive." [35]

Under this pressure of acute competition for industry, measures are taken which benefit industrial firms but which, since most states are following similar practices, may not much affect the actual location of industry. It is not surprising, therefore, that there are perennial cries for greater coordination of state taxation, and even for uniformity. In 1957 the National Conference of Commissioners on Uniform State Laws approved a model Uniform Division of Income for Tax Purposes Act which would eliminate the pointless competition among states in their tax laws. But to date only three states have adopted the approved act in its entirety, and even then not without modification;[36] no state acting alone has much incentive to adopt it. Hence, even state tax commissioners and others who might be supposed to be jealous of states' rights have called on the federal government to impose uniformity on state taxation of corporations engaged in interstate commerce (which means in effect virtually all direct taxes on business).[37]

A noteworthy feature of this competition among the states is that much of it arises from the mobility of business. Taxation and regulatory activities are less effective if the range of feasible business locations exceeds the jurisdiction of the taxing of regulatory authorities. State regulatory laws began to lose effect around the turn of the century when American corporations increasingly became truly national in their operations.

To some extent, however, similar problems arise from mobility of persons, especially when a metropolitan area is made up of several governmental jurisdictions, persons working in the area can choose to live where taxes are lowest even while enjoying the public benefits of the central city.

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[32] *See Special Subcommittee on State Taxation of Interstate Commerce of the Committee on the Judiciary, State Taxation of Interstate Commerce*, H.R. Rep. No. 1480, 88th Cong., 2d Sess., 95–136 (1964). *See also*, J. MAXWELL, THE FISCAL IMPACT OF FEDERALISM IN THE UNITED STATES (1946) especially Ch. XIII.

[33] The first of these two features recalls some of the tax privileges of foreign corporations setting up sales offices in Switzerland. The second, amounting to a remission of direct taxes on export sales, would at the international level be a clear violation of GATT rules.

[34] Advertisement in N.Y. Times, Nov. 17, 1957.

[35] STATE TAXATION OF INTERSTATE COMMERCE, *supra* note 32, at 123–26.

[36] *Id.* at 133.

[37] The situation is actually somewhat more complicated than this implies. States, faced with rapidly increasing needs for revenue, widened their business taxes considerably during the fifties to include a number of taxes touching significantly on interstate commerce. In 1959 the Supreme Court in Northwestern Portland Cement Co. v. Minnesota, 358 U.S. 450 (1959), upheld the right of Minnesota to tax the net income of an out-of-state business arising from sales in the state. A series of decisions on related cases made clear the wide taxing powers of the states. The business community was alarmed, and in late 1959 Congress passed a law limiting the rights of states to tax interstate commerce. Many states resented the limitation of their taxing powers, but—caught between rising revenue needs and competition with other states—urged the Congress to legislate *uniform* standards for defining tax base, apportioning income, etc. *See Hearings on State Income Taxation of Mercantile and Manufacturing Corporations Before a Special Subcommittee of the House Committee on the Judiciary*, 87th Cong., 1st Sess. at 367 (1961).

In Summary

In a highly integrated economic area which surpasses in size the jurisdiction of governments, each group of policy-makers is subject to such strong interactions with the surrounding area that the constraints actions become very severe. Indeed, in the hypothetically limiting case, these constraints determine entirely the course of action each jurisdiction must take. The region—or the nation—in a highly integrated economy becomes analogous to the perfect competitor—or at best the oligopolist—in a market economy. The range of choice it has, consistent with economic survival, is very small; for the most part it simply adapts its behavior to stimuli from outside. Awareness of the high interactions will eventually inhibit action.

A. C. Pigou and John Maynard Keynes pointed out long ago that the sum of individual decisions by consumers and producers may not always be optimal for society as a whole (and hence for its members), even though its members may be acting individually on entirely rational grounds.[38] Some kind of collective action is therefore required to produce an optimal outcome.

The same can be true among nations, or among regions within a nation, if the interactions among their decisions are sufficiently strong. One jurisdiction gropes for new instruments in an attempt to improve its position. If it succeeds, others follow and there is a competition in policies which defeats everyone's objectives and in fact can even lead all participants *away* from their national or local objectives, like the members of a crowd rising to their tip-toes to see a parade better but in the end merely standing uncomfortably on their tip-toes.[39]

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[38] A. Pigou, The Economics of Welfare (1932). This was also the central underlying message of J. Keynes' General Theory of Employment, Interest, and Money, (1936).

[39] A recent illustration of this, drawn from the United States, is provided by the growing use by States and municipalities of their privilege to float tax-exempt securities for the purpose of raising funds for new businesses locating there. This practice was used by only three states as recently as 1956 with such issues totalling less than $2 million; but by 1966 these issues had been made in 28 states and exceeded $500 million. As the process spreads, the actual effect on the location of industry diminishes, and the net effect will simply be to erode the Federal corporate tax base and to raise interest charges on all tax-free state and municipal securities, thus in the end hurting the protagonists in the process.

A simple game offers a suggestive if inexact analogy to the consequences of policy competition. Consider a "game" in which each of two persons must name an even number between two and ten. If they name the same number, each player receives half of that number. If they name different numbers, the player naming the lower number wins the number he named; the other player wins nothing. The "payoff matrix" for either player looks like this:

Number chosen by 1 player	Number chosen by the other player				
	2	4	6	8	10
2	1	2	2	2	2
4	0	2	4	4	4
6	0	0	3	6	6
8	0	0	0	4	8
10	0	0	0	0	5

Maximum joint gains are reached if both players choose ten; in that case each of them wins five. But for each player the choice of "eight" dominates the choice of "ten" in the sense that the payoff is sometimes higher and is never lower, no matter what the other player chooses. If the choice of "ten" is ruled out by both players on these grounds, the choice of "six" then dominates the choice of "eight" by reasoning similar to that above; and so on, until both players end up choosing "two" as the only safe strategy yielding some sure payoff.

The mutual gains from cooperation are obvious in this case, and should be obvious to both players. The temptation to cheat will always be present, but if the game is played again and again the long-run loss from deviating from a jointly agreed choice of "ten" should induce both players to stick to their agreement. If, however, this kind of game is extended to include many players—each player wins if he names the lowest number, alone or in common with others, but nothing if someone else names a lower number—any one player may feel he can violate the agreed conventions to his own benefit without inducing retliatory action by all the others. Since *all* the participants may reason in this way, all may be made worse off than necessary.

International trade and financial policies have something of this character: *if* all the other players adhere to the rules which benefit all, any one of them may gain by deviating from them, and therein lies the risk of unraveling. The rules will be workable only if all play by them.

An invisible hand seems to be working in the area of economic policy as well as in the market place. Competition in the market place is alleged to lead to the most efficient allocation of resources. Whatever the merits of this claim, we can be much less confident that competition among policies will be optimal. Governments seek many ends, not the efficient allocation of resources alone; and the process of policy competition can certainly thwart some of those objectives.

Existing rules of international behavior as set forth in GATT and in the IMF Agreement do limit the use of direct and straightforward means of policy competition such as open export subsidies and multiple exchange rates, and they therefore slow the process of policy competition since the more subtle and sophisticated methods—loopholes in GATT and the IMF Agreement—usually involve strong domestic considerations which delay their implementation. But existing rules do not fully accomplish the air of preventing self-defeating policy competition and of freeing domestic policy measures to pursue largely domestic objectives. Moreover, the pressures on domestic policy are likely to become greater as the world economy becomes more interdependent. Freedom of action in economic policy formation can be lost through the need for each country to compete in policies with its competitors in commerce.

To minimize adverse effects from this competition, countries can coordinate closely their national economic policies, attempting to define and reach an optimum combination of policies for the community as a whole. This route involves extensive "internationalization" of the process of economic policy-making, transferring this governmental function to the larger integrated area.[40]

Alternatively, countries can attempt to remove the major source of pressure on their actions—deleterious effects on their international payments positions—by providing each country with ample liquidity to finance any deficit and allowing it to go its own way. Or this goal can be accomplished by reversing the process of economic integration, artificially breaking down or reducing the numerous economic links between countries. While some movement can be seen on all three of these fronts, actions in the United States and Europe in the mid-sixties seemed dangerously pointed toward the third alternative.

Chairman Boggs. We will be pleased to hear from Mr. Pincus at this time.

You may proceed, sir.

STATEMENT OF JOHN PINCUS, THE RAND CORP.

Mr. Pincus. Mr. Chairman and gentlemen, after hearing Mr. Cooper's succinct and brilliant paper, I am not sure that it is really necessary for me to say anything. But for the purpose of disagreement, I will say a few words.

I don't look upon the future of U.S. trade policy as being primarily an economic matter. I think that the future of the U.S. international economic policy could most usefully be considered by both the legislative and executive branches against the broader background of U.S. foreign policy objectives.

Now this raises a basic difficulty in recommending or adopting any set of future trade policies in today's perspective, because the U.S. Government has not yet developed a set of international political goals which is consistent with the realities of the emerging world power situation as of today. It is easy enough for all of us to say

[40] The same is true for regulation and taxation as well as balance of payments policies. A governmental unit spanning a territory which equals or exceeds the locational domain of the firm can make and enforce regulations without inviting socially undesirable relocation of industry. As the locational domains of business firms increase, it is necessary also for the jurisdictions of governments to increase correspondingly—at least in some dimensions—if subsequent "policy competition" among governments is not to result in practices and policies which are socially sub-optimal. Water and air pollution control provide topical examples. It is this, rather than the narrower question of possible misallocation of resources, which suggests that the pressure for "harmonization" of policies—*i.e.*, joint decisions—makes sense.

that the United States seeks a stable world order in which each nation is free to pursue its own destiny, safe from both external aggressions and those forms of internal subversion that if successful would aid the interests of powers hostile in the United States. Such statements had a very specific meaning in the first two decades after World War II. They took policy in the form of our aid to the reconstruction of Western Europe, and the containment of Soviet expansion, in efforts to promote the economic growth and political ability of the underdeveloped countries. Today all of that is changing rapidly.

A variety of factors account for the changing political scene: the emergence of China as a prospective major military power, the increasing political independence of Western Europe from the United States, the analogous growth of a restricted political independence in Eastern Europe, and the increasing evidence that there is little—and I would virtually say, no—relation between economic aid and political stability in underdeveloped countries. All of these issues offer testimony that the political vistas before us are likely to be incompatible with present world views, acted on not only by the U.S. Government, but also by the governments of other major countries, whether they be friendly, hostile, or neutral to the United States. In a world where the United States and the Soviet Union are dominant but not paramount powers, with China emerging as a lesser, but nonetheless formidable world power, and the underdeveloped countries clearly marching to their own drummers, our preconceptions about a world order based on the earlier uneasy Soviet-United States balance are becoming increasingly incompatible with reality in the world as it faces us today; and will, I suggest, become more and more incompatible.

Now these are, of course, far broader issues than U.S. trade policy which is our concern today. But I do not agree with Mr. Cooper in saying that it is useful to insulate economic policy from politics. My disagreement is not a matter of value systems, I just don't think it is possible to divorce trade policy from politics.

Therefore, I believe that the changing world political scene is among the basic factors which should influence the nature of trade policy decisions that the United States does make. And I suggest that this factor must lead us to a thorough reconsideration of our foreign trade, aid and investment policies.

U.S. international economic policy is now based on the concept of a liberal nondiscriminatory world trading system, with four exceptions to the general principle:

First, we maintain special barriers to trade with unfriendly nations.

Second, we maintain special barriers to products that can compete too effectively with high cost U.S. production, whether of farm or factory, as Mr. Witt points out in his testimony.

Third, we accept discrimination as long as we consider that the discrimination helps our political interests—the EEC, the EFTA, the proposed Latin American Common Market, the Central American Common Market, and other blocs, which I am sure will emerge and which we will accept.

And, fourth, we also intervene in capital markets and in the regulation of U.S. Federal procurement policies to protect, as deemed desirable, the U.S. balance-of-payments position.

Now, I believe it is an open question—I haven't prejudged it—as to whether either the basic policy or the exception will in the years ahead be the most appropriate technique for promoting American interests. And I interpret these interests broadly, in terms of the world picture.

Obviously this is something which I cannot cover in 15 minutes of testimony today. And I don't know enough about the subject to do it, anyway. So, let me address myself to a more modest analysis, and a more restricted range of subjects: the future of U.S. trade policies toward developing countries. The following remarks are not based on any more extensive reconsideration of policies which I believe must be evaluated as a matter of interest to the U.S. Government.

In more specific framework, there are four elements that seem particularly relevant today. The first is preferential treatment for the manufactured products of poor countries in the market of rich nations.

The second is to increase the mutual interests of the United States and the underdeveloped countries in expanding their trade and investment ties.

The third is to deal with the problems besetting the commodity trade that currently provides 85 percent of underdeveloped countries' export earnings.

And the fourth is to improve, by a more intensive technical analysis, our knowledge of the effects of alternative trade policies on the economic interests of the United States and other nations.

These four matters themselves raise policy issues of some complexity, which in this statement, for brevity's sake, receive bare mention, or in some instances, not even that.

Tariff Preferences

My first subject is tariff preferences. I favor the extension of tariff preferences by the United States and the other rich countries to underdeveloped countries. These preferences would confer upon the poor countries a competitive advantage in the U.S. market over nonpreferred suppliers, in the same manner that Commonwealth preferences and EEC preferences now provide for the countries that qualify under their systems. In order to avoid an excessive competition among different preferential systems, or the creation of divisive rich-poor trading blocs, it would be best if a general preferential system could be based on common principles subscribed to by all preference-granting and preference-receiving nations. However, any system actually adopted should allow flexibility to meet the interests of particular counrties. Thus, there are certain products that the United States might wish to exempt from preferential treatment. Sweden might, for example, wish to exempt an entirely different group of products. Some nations might wish to base preferential treatment on some form of global quota system, related to domestic consumption or imports; others might wish to avoid quotas, and rely primarily on escape clause mechanisms. At the present stage of our knowledge concerning the effects of such alternative systems, it would be premature to insist that all nations adhere to one general preferential formula to the exclusion of all others. As Mr. Greenwald pointed out in his testimony here on

July 12, many complex issues of policy and administration remain to be worked out before the United States and other nations can reach agreement on an appropriate system of preferences.

If possible, however, a few common elements do seem desirable: (1) preferences should be given from all rich countries to all poor countries, with the definition of a poor country being left to the sole discretion of the applicant for preferential treatment (members of the Development Assistance Committee of OECD and hostile nations presumably excluded); (2) preferences should be temporary, preferably through the device of progressively lowering existing post-Kennedy Round tariffs down to the preferential level (this, in effect, is what the United Kingdom has been doing by its participation in the successive GATT rounds since 1947); (3) the system should have more than a token effect—it is one thing to exempt from preferential treatment those products for which poor countries are already competitive exporters, and quite another to exempt products for which preferences are likely to catalyze a potential competitiveness into an actual one.

It may well be asked whether preferences are not simply a particularly complicated way of offering to underdeveloped countries advantages that they might receive anyway from most-favored-nation reduction, as in the Kennedy Round. The answer, briefly, is no. First, on political grounds, the governments of underdeveloped countries believe that they are particularly disadvantaged in the international competition for the fast-growing world market for manufactured products. Most-favored-nation reductions clearly do little to mollify this view. Second, Kennedy Round tariff reductions appear to have been considerably larger for manufactured products of interest to rich countries than for those manufactured products that poor countries are presently or potentially capable of exporting. This fact simply reinforces poor countries' conviction that general trade liberalization is primarily a device for enriching the wealthy. Third, preferences can act as a stimulus to underdeveloped countries to look at the opportunities afforded by world trade, as a counterweight to their often costly and self-defeating preoccupation with the encouragement of import-substituting industry. The potential gains to both rich and poor countries are evident and potentially large.

Rich countries are often concerned with the balance-of-payments effects of their trade policies. It should be noted in this connection that the growth of LDC exports may well offer the United States certain potential balance-of-payments advantages under a general preferential system, particularly if that system is accompanied by other policy measures.

Expanding Trade and Investment Interests

This leads to the second major policy issue that I am raising today: Increasing the mutual interests of the United States and the underdeveloped countries in expanded trade and investment ties. In 1964 Mr. David Horowitz, governor of the Bank of Israel, proposed that rich countries guarantee the flotation of bonds in their capital markets, the proceeds to be used by an international agency, such as the World Bank, for relending to underdeveloped countries. He also sug-

gested that governments of the rich countries subsidize these loans by appropriating relatively modest amounts for interest subsidy, in recognition of the pressing debt service problems of many underedeveloped nations.

This scheme, as advanced by Governor Horowitz, suffered, in the U.S. view, from two cardinal defects. First, it was generally believed that most of the proposed borrowing would take place in the United States or Eurodollar markets, both of which are the primary current sources for U.S. domestic and foreign capital investment, as well as for the normal borrowings of the World Bank. Second, because the aid was to be administered by an international agency, it would presumably be untied, thereby possibly further aggravating America's balance-of-payments difficulties.

It is not necessary, however, to choose between endorsing the Horowitz proposal as originally advanced and rejecting the principle entirely. The Export-Import Bank of Washington, D.C. lends money to finance exports of American equipment abroad, largely to underdeveloped countries, at rates of interest which reflect the implicit U.S. Government guarantee involved. If the United States wants to maintain and enlarge its trade and investment ties with underdeveloped countries, it is free to authorize a similar institution to borrow funds directly in the U.S. market, to be relent to underdeveloped countries at terms and conditions that would depend on the present and prospective international solvency of the borrower. A modest interest subsidy fund appropriated by Congress could cover the differential between the Government guaranteed market borrowing rates and the lower rates that some underdeveloped countries could afford to pay.

This relending facility should, as long as the United States faces balance-of-payments problems, be tied to the purchase of American equipment.

In addition to building and perpetuating markets for American goods, such a device offers the additional advantage of linking the underdeveloped countries to U.S. capital markets. The Government of Mexico today, for example, borrows certain amounts annually in the New York market. As nations receiving these loans progressively develop their economies, the activities of such a proposed relending agency might be limited simply to guaranteeing bond issues of these countries without subsidy provision, and in the longer run, without intervention by the U.S. authorities.

Ultimately, of course, appropriations for foreign aid and bond issues floated in the New York market to be relent under subsidized interest rates, are simply alternative ways of tapping U.S. capital resources, although the latter method obviously encourages far more trade per dollar of appropriated funds. The method that I am now suggesting allows the tapping of capital markets to be done on the basis of mutual material advantage without the lengthy and, I suggest, frequently unprofitable process of annual congressional hearings, to say nothing of the great temptations faced by the foreign aid agency to allow relatively short term considerations to dominate the allocation of funds.

This is not to say that foreign aid is or should be devoid of short-term political goals or of regular congressional review. It should be a basic role of the foreign aid agency, under the general policy authority of the Department of State, to use foreign aid to further U.S. political interests as appropriate. But this is no reason to allow U.S. commercial interests in the economic development of underdeveloped countries to fall within the province of an agency whose dominant goals are necessarily and legitimately political.

Therefore, I suggest that the executive and legislative branches should seriously consider the establishment of an American development bank with authority to borrow in the market and relend at variable terms and conditions to underdeveloped countries in order to help them finance purchases of American equipment.

Commodity Policy

The third matter on my list is commodity policy—international action to affect world trade in the food and raw materials produced and exported by underdeveloped countries. First, a few words about existing policies. The U.S. Government now follows a policy of examining, on a case-by-case basis, international commodity agreements aimed at stabilizing prices and, in effect, thereby raising the incomes of commodity exporting nations above the levels that would prevail in a free market.

These agreements are in some way similar to rich countries' policies for their own domestic agriculture. It is also the policy followed by unofficial agreement in world markets for such products as petroleum, aluminum and, to a lesser degree, copper. The U.S. currently participates in two official international commodity agreements: the International Coffee Agreement and the International Wheat Agreement. Tin and olive oil are also subject to international commodity agreements, to which the United States is not a signatory. Among products of primary interest to underdeveloped countries, only three other products can seriously be considered as likely candidates for international price fixing agreements: cocoa, tea, and sugar.

It is time, and I suggest long past time, that the United States agreed to an international cocoa agreement. We have been negotiating for 9 years, with negotiations regularly breaking up over trivial issues; 1 or 2 cents a pound difference in proposed floor prices; the size, financing and composition of buffer stocks, if any, et cetera. It may well be true, as Senator Long has said, that some commodity agreements are objectionable on the grounds that they transfer incomes from poor people in rich countries to rich people in poor countries. But, by and large this is not true of cocoa, which is produced mainly by small farmers in West Africa. Furthermore, free market cocoa prices fluctuate excessively from year to year, thereby making it almost impossible for a cocoa farmer to relationally plan his investment in new trees, spraying, fertilizing, et cetera. This fluctuation also increases the difficulties faced by governments of cocoa exporting countries in following a rational foreign exchange policy.

A world tea agreement is not necessary. There are only four major exporters: India, Ceylon, Tanzania, and Uganda. If the governments of these four nations choose to reach a price stabilizing agreement, there is nothing to prevent them; it is a very different case from that of the 40-odd countries that export cocoa.

Futhermore, most of the tea entering rich countries is imported by the United Kingdom, which would be unlikely to consent, voluntarily, to an international agreement raising the world price of tea.

An international sugar agreement is similarly unnecessary. Most of the world's sugar already moves at prices above those which would prevail in a free market, thanks to the special arrangement offered to exporters by the United States, EEC and the United Kingdom. The other major sugar importers, Canada, Japan and some of the other Western European countries are also free to offer premium prices to the countries whose sugar they normally buy. An international agreement today would be politically unacceptable because of the issues raised by marketing Cuba's supplies. If the Soviet Union or other countries wish to pay Cuba premium prices for its sugar, that is their concern—there is no reason for the United States to be involved in an international agreement which brings it no advantage and which creates difficulties in the international scene.

There are no other major commodities moving in world trade for which the price-fixing commodity agreements can be negotiated that will significantly benefit underdeveloped countries.

On the other hand, there is a considerable, and yet largely unexplored, potential for using commodity agreements as a device to promote efficient world production of commodities, using temporary subsidies to benefit those nations whose exports decline as a consequence of shifts in production.

I should point out that while that possibility would considerably increase world economic efficiency, our experience in these fields has not been in particular successful. If the United States were to go to underdeveloped countries and suggest that a more rational world order of commodity production be established, we would first have to put our own house in order.

Trade Policy Alternatives

Let me come to my fourth point, analysis of trade policy alternatives. As Mr. Baldwin said today in another connection, we don't know very much about the effects on production, trade, and balance of payments of the various policy alternatives that face the United States at the conclusion of the Kennedy Round. The U.S. Government has an opportunity over the next few years to support a detailed and searching analysis of the economic and political implications of various alternative trade policies, both singly and in combination. The decisions that the Congress and the Executive make in the next few years will have profound effects on a world trade level which is now approaching $200 billion annually. For an expenditure of not more than $1 or $2 million annually over the next few years, the United States could come to the conference table with a much sounder knowledge than it now has of the implications for itself and for other countries of specific economic policies.

Some of these issues that I have just discussed are too difficult to be resolved effectively by simple introspection. Other analytical issues cannot be resolved in the short run by any expenditures of funds, no matter how great, because the analytical tools have not yet been developed to cope with the problems. But in this age of the electronic computer, and with the constant improvement of data on production and trade, we are dealing in trade policy with issues whose results are too complicated to guess at, but in many cases not too complicated to analyze by detailed examination of data.

This analysis will cost money. I feel reasonably confident in saying that the return from such an investment might be among the most profitable investments Congress could have the wisdom to make in the field of foreign policy.

Thank you.

Chairman Boggs. Thank you very much.

Mr. Witt, we will hear from you. And then the members of the committee will ask questions.

STATEMENT OF LAWRENCE W. WITT, PROFESSOR OF AGRICULTURAL ECONOMICS, MICHIGAN STATE UNIVERSITY

Mr. Witt. Mr. Chairman, and gentlemen, my special topic this morning is on agriculture. Each of the people before me has commented in some degree on agricultural problems. And I find that there is a bit of overlap, and I will refer to some of these comments, as I go along.

Most of my comments look beyond the Kennedy Round toward future international negotiations on trade restrictions and policies. The range for action in the agricultural arena is greatly limited by pressure from a variety of political forces that feel that trade policy is central to national policies for agriculture and for national development. In this case I am very close to the position with which Mr. Pincus started his testimony. To clarify this point, let us look at the developed and the developing nations separately.

Many developed nations use import restrictions or export assistance as devices to implement their particular farm policy. Trade restrictions are used by importing nations to increase the income to low income farmers and to provide equitable returns to agricultural resources. Subsidies by exporting nations seek to achieve the same objectives. For individual nations of Western Europe, 75 percent to nearly all farm commodities receive price benefits from such measures, in contrast to less than half in the United States. Instead, and in addition, the United States has used CCC purchases and storage, land retirement and direct payments to attain similar objectives.

Thus, in effect, the implied position of the United States in negotiating trade policy with developed nations, asks them to put the major share of their farm price policy on the negotiating table while putting only part of our policy into the discussion. Understandably, the agricultural leadership in the European developed nations feels that existing farm policy is threatened to a greater degree. They take political action to prevent change and to avoid the necessity for a long struggle to hammer out a new farm program. With 25 to 40 per-

cent of the voters in or close to agriculture, the strength of this political resistance is strong. The only solution, if there is one, requires that a basis be established for negotiating over the entire area of agricultural policy. Here I find myself saying much the same thing as Mr. Diebold said.

The hopes for agriculture in the Kennedy Round were not fully realized, primarily for this reason; namely, the political aversion to concessions that would require a reformulation of existing agricultural policy. Even so, some progress has been made. The commitment to supply a substantial quantity of grains as international food aid (thus subtracting them from European food supplies), coupled with rising incomes and shifts toward a greater consumption of animal products, on the part of European countries, will benefit the food and feed grain producers of Canada and the United States, despite the absence of major changes in European trade restrictions.

The political forces in the developing nations take on a different focus. Their national leaders understand well the importance of primary products as the major exports of these nations, and the vital role which exchange earnings play in national development. And they know that the developed nations are their major customers. Past instabilities in these markets, slow rates of growth in the demand for primary products, and fears that exchange earnings will continue to be inadequate, support a strong political approach among the developing nations toward the developed economies. The formation of UNCTAD (United Nations Conference on Trade and Development) in 1964, with its first conference in Geneva, provided a forum for the organization of new political forces in the world trade arena that will not be easily satisfied. Professor Baldwin has also commented in this vein. While we and Western Europe might agree among ourselves that certain exceptions to free trade that discriminate in favor of our national producers are politically necessary, the developing nations press for instant removal of all discriminations against them. And more, they press for discrimination in their favor and against the production and exports of developed nations. And in fact they would not object if there were discrimination against domestic producers in the developed nations.

These political pressures from developing nations will intensify with the 1968 UNCTAD Conference in India; thus a second reason for looking beyond the Kennedy Round into our foreign policy area.

I turn now to summarize quickly the more specific economic material in the study paper prepared for this committee. Agricultural products constitute over 20 percent of U.S. exports, and nearly a third of the total world trade. For most developing nations, agricultural and other primary products dominate their export picture.

While the volume of agricultural trade is expanding, it is declining as a proportion of the total. Thus, trade does not provide a reliable engine of economic development. Growth is hindered by basic characteristics of demand and by policies. With higher incomes, food absorbs a smaller share of the added income. Also, the policies of developed countries support domestic production at the expense of imports, and thus limit the potential exports of agricultural nations. The resulting complex leads to international markets without consistent rules and with conflict increasingly focused on agriculture.

Let me turn for a moment to ii of our study paper. Developing countries face special problems because of price instability and advanced country policies. The nature of the demand for agricultural products exposes these commodities to fairly wide price fluctuations, which leads to government intervention to influence the market, such as minimum export prices, domestic price supports, subsidies to export, marketing boards, and international commodity agreements. In technical terms, this basic characteristic is a low elasticity of demand with respect to price; that is, a small increase in volume brings a larger decrease in the price received. This traditional concept has been less valid during the past decade, primarily because of the increased ability of major consuming nations to maintain economic stability, but still is important. In consequence, the less developed countries, as they examine their agricultural trade potentials, hesitate to expand most farm exports greatly. Although some have done so successfully, most nations fear that larger volumes of exports will lead to lower prices and lower foreign exchange earnings. This point is more telling when the Nation provides a significant fraction of the total world trade in its principal export commodity.

Consequently, the developing nations argue that: (1) they are discriminated against in favor of the domestic producer of competing products; (2) their exports are subject to substantial price instabilities; and (3) their most logical industries face especially high rates of protection which force them to export raw materials and to turn to import substitution industries. Neither of these is an optimum solution in terms of economic logic and comparative advantage, for them or for us. In our paper we give an example showing that a modest tariff of 5 percent on raw materials and 15 percent on processed goods, becomes a 35-percent protection for the importing nations processing industry.

Mr. Cooper has already touched on this, and also Mr. Pincus.

I have already suggested that the trade prospects are favorable for the export of red meat and feed grains to most developed nations. Some shifts in patterns of trade will occur if membership in the EEC is expanded, or if new regional groupings develop.

The population—food supply problem is a prominent feature of the developing countries. The problem stems primarily from the accelerated rates of population growth, which overwhelm the very creditable increases in food production occurring in many of the developing nations. Concessional exports will be required for some time to come. A substantial program of family planning can influence the need for a food aid program after 1980, but the potential heavy consumers of concessional food aid during the 1970's are already born. Without population control, the "need" for food aid will increase continuously.

The relation of trade and domestic interests is becoming evermore comprehensive and interrelated. The United States has a complex pattern of interests in agricultural trade. This interest includes but goes far beyond the economic interest in a large volume of exports. It includes trade from developing countries as a partial substitute for foreign aid. It includes the support which growth in trade can make to improved economic welfare of people around the world. It includes

the economic welfare of U.S. farmers and marketing agencies who produce and distribute for the export market. It includes the simple humanitarian interest in making bread, rice, and better nutrition more possible than before. These and more are elements of the broad U.S. interest in agricultural trade.

These interests continue to present the United States with major challenges and opportunities for policy leadership. Our efforts should seek to increase the competitive structure of world markets and at the same time to encourage cooperation among nations in dealing with food aid and the trading problems of less developed countries. Exploration of appropriate policies and possibilities for coordinated international action needs to continue on such important issues as: (1) methods of reducing the conflict between domestic agricultural policy and international trade policy, (2) provision and financing of all aid including food aid, (3) preferential trading relations and reduction of barriers on imports from developing countries, (4) financial arrangements and marketing aids to permit expanded trade and improved export possibilities for developing countries, and (5) the purpose and role of international commodity arrangements in future improvement of international agricultural markets. Because of timing, it is especially important that we, with other developed nations, prepare a realistic, coordinated policy position before the 1968 UNCTAD Conference in India.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Pincus.

We will begin the questioning with Congressman Reuss.

Representative REUSS. Thank you, Mr. Chairman.

Mr. Cooper, you point out the link between trade policy and monetary reform, in that the existance of the new international monetary medium makes it possible to finance balance-of-payments deficits longer than would otherwise be the case, and hence yields less of a temptation to adopt restrictive trade devices. I think that is a point you are making on the second to the last page. In that connection, we note in this morning's paper that the meeting of the Ministers in London on international monetary reform has currently broken up without any substantial agreement having been reached. I gather that what must have happened was that the French maintained their insistence on some kinds of a drawing right with a fairly harsh repayment provision, so that it really didn't even come close to constituting an international asset. And our negotiators, I gather, must have stuck—properly—to our position, that unless there was something approaching a new international monetary medium which the central bank would be willing to hold, any agreement would be illusory.

I now come to my question. In your judgment, is the United States well advised to stick to its guns, or would it be in our interest to sign any kind of agreement just for the sake of having an agreement at an international monetary meeting?

Mr. COOPER. I was very disheartened by what I read in the paper this morning about the lack of agreement among the finance Ministers on international monetary reform. From what I know of the European, which I guess is the French, position on the monetary reform, I would not recommend accepting it just for the sake of agreement. Countries are going to be faced with balance-of-pay-

ments difficulties from time to time. The purpose of reserves or international lines of credit is to permit countries to finance these occasional balance-of-payments deficits without having to do violation to their other objectives, both national and international.

I do not fear a repetition of the 1929 debacle. Most Western governments are sufficiently committed to their domestic economic objectives to carry through with action to prevent a deep depression. The real threat I see in severe balance-of-payment deficits is precisely to the areas that we have been talking about this morning, trade policies. Deficits which cannot be financed, and about which there is a sufficient uncertainty that a change in exchange rate seems inappropriate are likely to be stopped by interferrence with trade and other international transactions.

I see no reason to think that forces leading to imbalance of payments are likely to diminish in the future. On the contrary, they will perhaps increase, for a number of reasons. It will therefore be necessary to have an adequate flow of new international reserves to permit financing of larger and more prolonged deficits. I don't mean by this that I see a perpetual deficit for the United States. I am talking about the international payments system as a whole. And Countries need larger reserves to finance these deficits and to feel comfortable about doing it; that is, they must feel free to use those reserves rather than modify their policies to defend reserves.

As I understand the French position on monetary reform, it would do very little to provide that kind of financing. I would say even that a straightforward increase in IMF quotas such as we had in 1965, with mitigation of gold subscriptions, would be preferable, and should not be denigrated.

Representative REUSS. Mr. Pincus, you've made a suggestion in your paper which I quote: "The executive and legislative branches should seriously consider the establishment of an American development bank with authority to borrow in the market at variable terms and conditions to underdeveloped countries in order to help them finance purchases of American equipment." I think that is a good idea. However, don't we have such an institution—the Export-Import Bank—which lately, it turns out, has been getting into antics not having to do with development? That to the side, the Export-Import Bank does have the power to go to the market with participation certificates—maybe not enough from our standpoint, but it does have that power. It can relend at variable terms and conditions—maybe not as much as you have in mind, but, of course, it can charge a 7-percent interest rate on some loans, and then use the money it gets to be able to charge a 2 or 5 percent interest rate. And to the degree that it does, it may be the wrong people and the wrong commodities. And finally, it is restricted, of course, to financing purchases of American equipment. So, why couldn't the Export-Import Bank, with maybe a few refinements substantially be what you have in mind?

I suspect it could.

Mr. PINCUS. I suspect it could, also.

The kind of thing I have in mind would involve some annual or biannual appropriation of the interest subsidy, because I am thinking of larger sums of money than the Export-Import Bank is now operat-

ing with. And there is a certain international competition among export credit agencies, which is in effect what the Export-Import Bank is—a long-term supplier of export credits.

I feel that the Export-Import Bank's potential has been greatly underrated by people who concern themselves with the welfare and development of the underdeveloped countries, because there is a tendency to feel that it is nothing but a device for selling American merchandise abroad. What I am saying is that I think it should have much greater flexibility. As a realistic matter, flexibility would have to include much longer terms. In some cases, for the poorer countries, the interest rate would have to approach zero. This means that an interest subsidy would have to be appropriated. The Export-Import Bank could not go to one country and say, you will have to pay 12 percent to compensate for the low rate we are charging another borrower. The answer would be, no, we will get our export credits elsewhere, at rates lower than 12 percent.

I think that in trying to do something to ameliorate the economic conditions of underdeveloped countries, however much one might wish it could be so, Congress or other departments cannot do it solely on the basis of considerations divorced from the U.S. material interest. What lubricates trade is the coincidence of material interest. I am saying that some of these countries are so poor now that that lubrication process is going to take a long time, and cost the United States a certain amount of money. In my personal opinion, it is going to take much more money than the Export-Import Bank now has at its disposal, and it is going to take some form of interest subsidy which would be even larger than that implicit in the present operations of the Export-Import Bank. I believe on the other hand to have the foreign aid agency do it, opens up a series of vistas that I find impalatable for the economic development of those countries, and also quite possibly for the interest of the United States, in that short term considerations might then tend to dominate.

Representative REUSS. Thank you.

Chairman BOGGS. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Pincus, do you draw any distinction between rich countries with a balance-of-payments deficit and rich countries with a balance-of-payments surplus?

Mr. PINCUS. In this testimony I have said that as long as the United States has a balance-of-payments problem, the Export-Import Bank, or some revision of it, should tie the loans. I think that the struggle to achieve untied aid in the international arena is fruitless. I think every major trading nation is mercantilist. If it has a balance-of-payments surplus, it wants to keep it. If it doesn't have one, it wants to get it. By simple arithmetic we have to recognize that that is impossible.

However, we do have a balance-of-payments deficit for reasons that obviously take us too far afield to discuss now. I see no reason whatsoever why we should not follow the same policies followed by Western European nations who are doing the same things, extending tied export credits, and nonetheless maintaining a fairly substantial balance of payments of surpluses. We have no leverage that we are will-

ing to exercise to force them to change their policies. I don't see why we shouldn't follow the same policies ourselves. It is the coincidence of material interests that lubricates economic activity.

Senator MILLER. So, the preferences from a rich national with a balance-of-payments deficit should be the same as the preference extended by a rich nation with a balance-of-payments surplus, is that your position?

Mr. PINCUS. No, that is not my position. What I say is that a country with a balance-of-payments deficit should look, among other factors at the balance of payments influence on it of the preferential systems it chooses to adopt. And you can make your preferences by product in such a way as to affect your balance of payments, you can do it by recipient nation in such a way as to affect your balance of payments; you can do it by escape clauses and quotas; and you can do it by many devices that we haven't yet considered.

I think, in essence, the principal point I have made in this testimony is that the Government is perfectly willing to go into negotiations that involve billions and billions of dollars of trade annually, but is not willing to spend a few million dollars a year on electronic computers to find out what the various of balance of payments implications of alternative trading systems are. That is the concern of Congress. It just seems to me to be extraordinarily shortsighted.

Senator MILLER. The reason that prompted my question was your—was where you said preferences should be given from all rich countries to all poor countries. But you didn't necessarily mean that identical preferences should be given, that this should be within the framework of trying to cope with the balance-of-payments deficit on the one hand, or the balance-of-payments surplus on the other.

Mr. PINCUS. That is what my testimony states.

Senator MILLER. Now, to carry that a step further, should these preferences be the same for poor nations with a balance-of-payments surplus as for poor nations with a balance-of-payments deficit?

Mr. PINCUS. Poor nations with a balance-of-payments surplus are a problem that has worried the foreign aid agency in recent times, because it was pointed out to AID, look, you are giving money to countries which are building up their foreign exchange reserves. Now, that to me is not a convincing argument. I am sure one could devise a method to keep all underdeveloped countries' foreign exchange reserves at zero, but I don't see the utility of it. They are not building them up because of some desire to have money in the bank rather than develop the country. These things can be cyclical. One year the price of coffee is high, and at another time it is low.

Senator MILLER. In that case, there would be no distinction that you would make on the preferences?

Mr. PINCUS. I don't see any undeveloped country that I know of—unless you look to Kuwait as a less developed country—which is regularly building up a balance-of-payments surplus.

Senator MILLER. In considering preferences for an undeveloped country, shouldn't one of the factors be its balance-of-payments situation?

Mr. PINCUS. Not in my opinion.

Senator MILLER. Mr. Cooper, you testified as follows: Restrictions

on imports are obviously suitable if the balance-of-payments deficit is not expected to last. That is, the currency should be devalued.

Are you thinking of any particular countries with respect to this devaluation?

Mr. COOPER. No.

Senator MILLER. Do you have any examples?

Mr. COOPER. No. There are many historical examples. If a country is facing a serious balance-of-payments deficit, and if there is just nothing in the cards so far as anyone can see to reduce it in the foreseeable future, then that is a prima facie evidence that the country is in "structural disequilibrium" to use the term in the IMF articles of agreement. Under the IMF rules, that country ought to change the parity of its currency. That is the accepted solution for such a disequilibrium.

Senator MILLER. I am not denying the validity of your statement. But I am pointing out that it might be difficult to apply. I was wondering if you had any countries you would want to name where that point should be applied?

Mr. COOPER. I wouldn't want to name any country where it should be applied now. There are historical examples. The French franc in 1955–1957 was in fundamental disequilibrium. It was devalued in 1957 and again in 1958, but perhaps devalued too much.

Senator MILLER. It may be embarrassing for the United States or any nation to suggest to one of these other nations that they should devalue their currency because things are hopeless.

Mr. COOPER. It has been done, but not publicly. The IMF holds discreet conversations with all of its members.

Senator MILLER. Now, I would like to ask any of you gentlemen at the table if you know how important this American selling price problem is to the Common Market countries? Does anybody have a comment on that? I know that you didn't particularly cover it, but would you like to make a comment on how important to the Common Market the American selling price is?

Mr. BALDWIN. I don't know the exact trade figures, but we know, of course, that the Germans are very much interested in it. They feel that it is important for them, and that if it were removed, they would be abel to increase their exports of chemical products considerably.

Senator MILLER. Is it important to France, too, do you know?

Mr. BALDWIN. I am not sure of that. I know it is the Germans who are pushing the hardest. I imagine there are some chemical products affected by ASP coming from most of the Common Market countries.

Mr. DIEBOLD. I think Switzerland and Britain have an interest in it, too.

Senator MILLER. Thank you very much.

Mr. Witt, you stated: "The commitment to supply a substantial quantity of grains and international food aid (thus subtracting), will benefit the food and feed grain producers of Canada and the United States." We had testimony from Mr. Roth, the other day, that this food aid share on the Common Market would amount to about a million tons a year.

Mr. WITT. I thought it was a total of four and a half million tons.

Senator MILLER. Well, from the Common Market it would be a million tons. Now, my concern is mainly with the Common Market. And what you in effect are saying is that the Common Market

is putting up a million tons of food aid, and this will subtract from the Common Market food supply, and therefore give us a better opportunity for exports. But only 2 or 3 days ago there was an article in the New York Times indicating that the Common Market had decided to increase their support prices for domestic produced grains, and the forecast was that they would substantially increase their production. So, I question whether this will, in fact, subtract from their market.

Mr. WITT. Senator Miller, the question here is: What are we comparing? Is this new price policy a direct consequence of the Kennedy Round negotiation, or would it have come anyway? Which shall be the basis for comparison? But more important, the food that we are discussing is in part denatured and fed to livestock, from France in particular, as reduced internal barriers facilitate flows into other parts of the European Common Market And a certain amount has been subsidized and exported into other parts of the world. Since Europe produces much soft wheat, it is not possible to use it all, and it has been necessary to import high protein wheat to prepare the kind of flour that is needed.

Now in the present situation, with this new agreement we substract a million tons, to be distributed through something like a food-for-progress program on some kind of basis to the developing countries. It is not in Europe to feed to livestock, and it is not there to mix in with the other wheat, and produce flours for the population.

However, if there is in the present or future a deliberate policy on the part of the European countries to increase their food production and their wheat production so as to provide this extra wheat which they are committed to providing for distribution to the rest of the world, to that extent, of course, it is contrary to what I am suggesting here.

If you will permit me, Mr. Chairman, I will be glad to extend my remarks on this matter in a subsequent submission for the record.

Chairman BOGGS. Without objection, you have permission.

(Material subsequently filed by Professor Witt appears below:)

MICHIGAN STATE UNIVERSITY,
East Lansing, Mich., July 24, 1967.

Hon. HALE BOGGS,
Joint Economic Committee, Congress of the United States,
Washington, D.C.

DEAR MR. BOGGS: This letter is a further response to Senator Miller's question at the Hearings last Wednesday, and represents a request to respond to your invitation to extend our remarks.

Professor Sorenson, who worked with me in preparing the study paper, provided me with the enclosed statement on the questions posed by Senator Miller, namely: will the price changes by the EEC lead to a net increase in grains production? You will note from 8 that no net increase is anticipated, but that some shifts in trade may occur This could mean a smaller rate of increase in North American exports to the EEC but greater opportunity elsewhere.

Very truly yours,

LAWRENCE W. WITT.

EXTENSION OF REMARKS OF LAWRENCE W. WITT

The following statement dated June 27, 1967 prepared by George E. Rossmiller is added to comment further on the questions raised by Senator Miller. It is based on research materials developed in a Michigan State University-U.S. Department of Agriculture Project on the EEC, under the direction of Vernon Sorenson and Dale E. Hathaway.

EEC PRICE STRUCTURE CHANGE ANALYSIS

With a change in the EEC price structure as follows, what factors play a part in determining production and consumption shifts and what are the estimated magnitudes of these shifts?

Price changes:

Barley, from $91.25/ton to $96.00/ton.
Corn, from $90.63/ton to $99.00/ton.
Beef, from $66.25/100 kg. to $70.00/100 kg.
Pork, from (?)/100 kg. to $73.50/100 kg. (increase).

1. The effect of these price changes taken together is to raise the price structure of livestock products and feed grains absolutely and relative to wheat. We can say this because beef and dairy products are jointly produced and the feed grain price will influence poultry meat and egg prices. Thus production changes are possible due to relative price changes and consumption changes are possible due both to the rise in price relative to the total economy and the relative shifts within the agriculture price structure.

2. Due to (1) the inflexible farm structure and, (2) a partially offsetting increase in the price of beef (a forage using enterprise) no shift is envisioned as between grain and forage or other crops. Thus the price changes will not affect total grain surface.

3. Some shift into barley from other feed grains, particularly oats, is to be expected. This will be less than one might first expect due to limits, at least in the short run, on the crop rotation pattern and the already rapid rate of decrease in oats and rye surface. But to the extent this shift occurs, projected feed grain production will increase by an amount equal to the difference in barley or corn yields and the yields of those crops they replace times the amount of surface shifted in this manner. Some shift from wheat to barley surface is probable, with a resulting increase in total feed grain production but with an offsetting decrease in wheat production.

4. The price of corn has increased not only relative to other grains but to barley price as well. So from a price point of view pressure exists to shift to corn production even over barley. In practice the direct effect on corn production will be very small because corn surface is already being expanded as rapidly as capital (irrigation in Italy and France) can be provided and varieties can be improved and adapted to soil and climatic conditions. Corn yields in the marginal areas are highly variable due to yearly weather fluctuations and the relatively small change in the barley-corn price ratio is not enough to bring about more than a negligible surface shift from barley to corn. Thus, no change in projected total feed grain production is seen from this source.

5. The increased price of feed grains will have some effect on production in the livestock sector, particularly in those livestock enterprises which must purchase their feed. But so will the price increase for beef and the newly established base price and intervention mechanism for pork. Since the feed grain price is a variable in the formula determining the sluice gate price and import levy for poultry meat and eggs, the sluice-gate price will increase. The poultry meat-feedgrain and egg-feedgrain price ratios will remain about constant so no significant shift in the production trend is probable for these products. The net effect of the barley, corn, and pork price increases is an *increase* in the pork-feed grain ratio. We can expect a surplus situation in pork production. The rate of feed grain use for cattle may decrease slightly. Thus the net feed grain utilization effect, *disregarding for the moment consumption considerations*, will be (1) no change in requirements for poultry meat and eggs, (2) increased requirements for pork, (3) partially offset by decreased requirements for cattle.

6. On the consumption side, a generally higher price will tend to slow the growth in consumption of meat. Since the price of pork will rise relative to poultry, some shift to consumption of poultry at the expense of pork can be envisioned. Beef demand will probably increase consisent with earlier projections since an upward beef price trend was assumed. Increased prices for pork and poultry were not assumed for earlier projections. Thus in net the beef deficit will remain largely unchanged from the projections. The potential pork surplus will be aggravated by the consumption effects of the price structure change. To the extent that demand shifts toward poultry, greater feed grain utilization in the sector will occur. (Modifying conclusion in point 5 above.)

7. This leaves the effect which may well be the most important of all—the possible shift of wheat from export to feed channels. With an increase in feed grain prices relative to the wheat price, wheat becomes a stronger competitor in the feed grain market. Two main factors must be considered in production and one with respect to transportation. The transport question revolves around whether it now becomes more profitable to move wheat from wheat surplus areas (mainly the Paris Basin) to feed grain deficit areas (mainly Netherlands, Northern Germany, and the Po Valley) within the EEC than to import feed grain directly from third country sources. The production questions include (1) will the mix of grain produced and fed on farms include a higher portion of wheat and, (2) to what extent will the mix of feed grain moving in commercial channels shift toward a higher portion of wheat.

The feed mix from farm produced grain will probably not shift significantly since a high portion of wheat is already contained in farm produced feed grain mixes. (In Germany, only 60% of wheat produced in 1964/65 moved through commercial marketing channels—a high proportion of the remainder presumably was fed on the farm.) With respect to locally mixed commercial feed, some shifts in mix to a higher wheat portion may occur. If the change in price ratios is great enough to make movement of wheat to feed deficit areas more profitable than importing from third countries a substantial diversion of export wheat into feed uses can occur.

8. Analysis of effects. We see no change in projected feed grain production levels due to points 2 and 4 above. The effects discussed under point 3 above will result in an increase from the projections of not more than 1 million tons additional feed grain production by 1970, with next year's product shift from these sources being substantially less.

The consumption effects of point 6 coupled with the livestock production effects of point 5 will increase utilization of feed grain by probably at least an equal amount. Thus the effects of points 5 and 6 will cancel those of point 3 leaving the net feed grain production-utilization balance largely unchanged.

The unanswered question, and as indicated above the one of potentially greatest importance, is whether a major diversion of surplus wheat from export to feed use occurs. Some diversion can occur locally, but unless large quantities of surplus French wheat are denatured and shipped to Northern EEC and/or the Po Valley, the implications for U.S. exports should not be great. Whether this diversion will occur can be answered only through direct discussion with trade and EEC officials in Europe who buy grain and compute feed manufacturing costs related to surplus disposal. The price at which surplus wheat can be sold in world markets, as well as internal EEC prices and transport costs will influence the outcome.

If the pork support policy stands and is effective, we expect this to lead to substantial and burdensome pork surpluses. Further, a rise in pork prices causing a demand shift to poultry may create a short term spurt in poultry imports until domestic (EEC) production adjusts. Finally it is doubtful that the policy will stand without further changes because of the additional pressures created by the probable beef deficit and pork surplus.

Source material.—MSU-USDA Project on EEC. Reports by Sorenson, Hathaway, Rossmiller, Mangum, Epp, and Petit.

Senator MILLER. Thank you very much. My time is up.

Chairman BOGGS. Senator Javits?

Senator JAVITS. Gentlemen, I will not detain you very long. I would like to know, first, what is your opinion as to giving up the most-favored-nation principle in order to make the necessary deals with the less-developed countries?

We might start out with Professor Cooper.

Mr. COOPER. It depends on what you mean by giving MFN up in principle. I stated in my testimony that I think the best outcome for the United States, and indeed for the world, would be carrying on with the trade negotiations of the broad-gaged Kennedy Round type, that is, within the MFN context. Personally I would not object to the idea of so-called advance cuts in that context, that is, if we have be-

fore us a period of say, 10 years of trade liberalization on an MFN basis, but phased over time so that the tariff cuts come in small increments, I can see some argument for extending those cuts at once to the less-developed countries. I think that one should not exaggerate the gains from that, and recognize what it really is. It would, in effect, be transferring foreign aid through commodities, with the selection of recipient countries taking place through the market rather than through the foreign aid agency. Nonetheless, in a period as long as 10 years that might stimulate some investment in some less-developed countries. Of far greater importance than preferences in advanced countries' markets are improvements in the tariff structure of the advanced countries. There is much what we might call anecdotal evidence that processing industries are excluded from less-developed countries because of the tariff structure in advanced countries. As a result, they export raw material in a relatively unfinished state.

But this change in tariff structure can be brought about by general across-the-board reduction in tariffs; preferences are not necessary for that.

To sum up, I wouldn't mind breaking temporarily from the MFN principle in the form of advance cuts, but only in a clearly defined context of across-the-board MFN tariff reductions among all industrial countries.

Senator JAVITS. Any other comments?

Mr. Witt?

Mr. WITT. I think I would say essentially the same thing. It is much more important to look at the commodities and the tariff structure here than to look at easing up on—giving them special preferences. They obtain preferences if you deal in commodities that are important to them, without violating the most-favored-nation clause. The recent trade agreements involved many commodities that were of interest to the developed nations. And one of the objections that some of the developing countries are making—whether true or not is another question—is that we have negotiated enough on the commodities that are of major interest today to the developing nations. And we can do a great deal this way.

Senator JAVITS. Mr. Baldwin?

Mr. BALDWIN. I would like to go along with Mr. Cooper on this. I certainly would support the notion of an advance cut of the Kennedy Round tariff reductions to the less developed countries. I also think that we should be quite skeptical about the merits of preferences. It seems to me you inevitably get into the kind of problems that Senator Miller raises and that these will lead to an elaborate system of quotas, not just tariff quotas, but quantitative restrictions among the developed countries and among the less developed countries. Are you going to treat every developed country the same regardless of whether the country has a deficit or not? Or are you going to treat every underdeveloped country the same? Should you treat India the same as some African country, for instance, Kenya? Of course, if you do, India is going to get much more of the benefits from generalized preferences or manufactures. And should the degree of preferences for India differ from the preferences to the developing countries, depending upon the level of development and the balance-of-payments situation? You could also

establish different quotas for each individual commodity. After a while I think you would get into an extremely elaborate system of quotas that will be difficult to administer, and that would lead to increasingly bitter haggling among the developed countries and the less-developed countries. I think, as in the case of the cotton textile agreement, there would be a severe backlash of ill feeling against the United States.

I don't think in the long run it is going to help the less developed countries more than a moderate amount. The problem just isn't one of simply granting small preferences. This growth difficulty arises to a considerable extent from their own elaborate import substitution policies that many countries are undertaking to an excessive degree and which results in excess capacity and high prices on commodities that could be export products, in an attempt to handle their expansion of exports themselves.

We also have some evidence that the Commonwealth preferential system, which was introduced in the early 1930's, did not have much effect on commodities where the tariffs were not too high—as will be the case for many commodities at the ed of the Kennedy Round. We have also found in that experience that the effects were rapidly dissipated. By the end of the 1930's non-Commonwealth countries had caught up and restored their historical shares in the British market.

Thus, I think we are going to get all the drawbacks in terms of the political backlash, and yet not any great economic benefits.

Another point I want to make is that it will begin, I think, to lead to the destruction of our whole principle of free multilateral trade. As you get these quota arrangements applied to less developed countries, you are certainly going to get pressures in the United States to apply them against other developed countries. Why shouldn't you apply a quota against Japanese goods and not just Indian goods? In the long run the less developed countries are going to suffer because of type of extension of quantitative restrictions.

Senator JAVITS. Would the answers be any different if we talked about abandoning the MFN principle with a Latin American Common Market on the same theory that the European Economic Community gives preferences to the former associated countries?

Mr. BALDWIN. I don't think it would make much difference.

Senator JAVITS. It would be the same?

Mr. BALDWIN. These special regional preferences are actually worse than the general ones.

Mr. DIEBOLD. Most of what I originally intended to say was said by Mr. Baldwin and Mr. Cooper. I share very much their view on the preference issue generally. I won't repeat what they have said, but I think there is a problem in the approach that Mr. Pincus was suggesting, because I find a conflict in tendency between some of the things he said.

On the one hand he said we ought to be flexible so that countries could exclude from the preferences those things that they wished to. The aim is to get more done than if we insisted that the United States and every one else do the same thing. I think that is an attractively realistic idea in many ways. But my fear is that, particularly in the case of preferences, it would be one more element in the kind of erosion

Mr. Baldwin was talking about, because each one would not only do what was easiest for him, but he would tend to ask a special quid pro quo, which would tend to make the whole system a complicated one in which the advanced countries would in effect, if not always in form, be looking for special preferences in the undeveloped countries. Indeed, the Common Market did that in their agreement with Nigeria, something I think we should have objected to more strongly than we did.

The other weakness of the flexible approach, it seems to me, is that would be one more factor making the preferences less valuable to the developed countries than people would like to think. It is precisely at the places where important trade gains could be made that preferences will not be given because of competition with the domestic producers.

But I would like to go back to the point that you started with, Senator Javits, leaving aside now the merits or demerits of preferences. If for whatever reason, political or otherwise, the United States were to go into some form of preferential arrangement for some or all less-developed countries, I think we should not think of it as "abandoning MFN." We should think of it rather as a controlled departure from the principle of the most-favored-nation. And if this sounds cynical, I can only suggest that we have had such a controlled departure in the case of Western Europe during the dollar shortage. There were a lot of people in this country that thought that GATT and the ITO were really frauds because the exceptions were more important than the rule. Those exceptions permitted people in balance-of-payments difficulties to discriminate against us primarily. But if we had not had the basic agreement on the equal treatment principle, we should now still be trying to get back some of the things that we got automatically from 1958 on when European currencies became convertible. I would think that any experiments in preferences for less-developed countries, on a hemispheric basis or otherwise, ought to be subject to the other side of what Mr. Pincus talked about, which was the stress on certain broad principles of generality, of temporary limitation, and things of that sort. I think under such rules one can reduce the risk of complete erosion and destruction of the world trading system and a better control the departure from the principle of equality.

Senator JAVITS. Mr. Pincus, do you want to get into this, too?

Mr. PINCUS. I think that the remarks made by the other witnesses today are quite correct, by and large. I am simply approaching it from a slightly different viewpoint. I think Mr. Diebold's comments are correct in talking about the control of departures from MFN. The point about quotas made by Mr. Baldwin is ill taken. Those are tariff-free quotas. They are not quotas as to the total amount of imports that one takes. In other words, 10 percent of what you send me I will allow in duty free, but that doesn't mean that I stop importing the rest at the MFN rate. So, I don't see the relevance of his point.

The second point that I would make is that the preferences offered by advanced countries to underdeveloped countries are by their very nature not going to allow changes in the system of world trade, because domestic producers in the rich countries don't want vast changes made in the domestic structure of production.

Therefore, any system, any preferential system adopted will necessarily be limited in its effect. My arguments for it are essentially two, and I think they are basically political, although phrased in economic terms. One is that I believe that a series of preferential systems are in the cards. Now, if the United States wants to stand back from that, it is their privilege. I just happened to think it is a poor idea to stand back from it.

The preferences system actually adopted by the OECD countries in concert or separately will certainly be such as to have a rather small impact on the actual structure of the production in the developed countries, but they may have the very important effect of doing exactly what some of the earlier speakers said, turning these people's eyes away from high cost import substitution and toward the fact that there is a world market in which they now have at least some feelings as being the victims of discrimination.

Senator JAVITS. Now, to followup that, is that your prescription for the optimum proposition you can offer UNCTAD, what you have just stated?

Mr. PINCUS. On this matter, you mean?

Senator JAVITS. That is what UNCTAD is all about.

Mr. PINCUS. It is about other things. It is about commodities agreements and supplementary finances, the whole bunch of things.

Senator JAVITS. Let's stay on this matter.

Mr. PINCUS. I think I can answer it a little indirectly. One could say to the UNCTAD countries, no preferences. That is what we said in 1964.

Senator JAVITS. Go ahead.

Mr. PINCUS. In 1964 we said we were willing to study the subject. And we studied it. In the spring of 1967 at Punta del Este statements were made that implied a change in our position, I believe. I certainly took the inference that the U.S. Government would back some kind of a general preference system. And this is our present stance in our OECD discussions with other rich countries.

Now, I think from what little I understand of the political economies of most countries, that such a system has two purposes. One is to give the underdeveloped countries not only something that they want, but something that may actually have a beneficial effect on their world economic view.

The second is to do a minimum of "damage" to the interests of the domestic producers in the developed countries. In order to do that, you have to walk a tightrope.

Now, if you are asking me whether walking that tightrope is the only likely stance I can think of in the preferential line, the answer is "Yes."

Senator JAVITS. Gentlemen, just one other question. What do you think of these commodity agreements? Do you like them, or don't you like them?

Now, we have got a new one now coming up as of the result of the Kennedy Round. And there are others being negotiated. On the whole, have they performed, and do you favor this as a policy of the United States?

Mr. WITT. Senator Javits, we have some experience with the predecessors of the commodity agreements, and with a number of commodity agreements. And out of this history most people who examine it decide that the consuming nations, exporting nations, both should be involved, at least if it is an important product. And in this respect I part company with what Mr. Pincus said in his testimony about letting the tea countries get together and exploit Great Britain's tea consumption to the extent that they can. Our experience with the existing commodity agreements on the whole is not very satisfactory. It has solved some short run problems. We find that many people still look at commodity agreements as having potential, whereas they look at exactly the same principle applied in domestic agriculture by the United States and a number of other countries as failures; yet they want to use international commodity agreements on an international basis with much less control of production, over the flow of the commodities. We become very sophisticated on many of the difficulties of wheat programs, corn programs, cotton programs, tobacco programs in the United States. And yet suggest that perhaps international commodity agreements can solve similar surplus problems on the international level. In fact, it is extremely difficult for a less-developed country to go as far as we have been able to go in having some control over production. If a commodity agreement is going to be effective, it means that you must have some influence on both the supply and the demand of the commodity. If you fail to control the supply, you create stocks, you create the necessity for some secondary disposal programs, or the agreement eventually will break down. An effective commodity agreement calls for a good deal more sophistication in management than is feasible in many cases.

So, I think that many people's hopes for these programs are simply not borne out by the practicability of actual operations, except as a short-term solution to a particular problem of price instability under unusual circumstances.

Senator JAVITS. Any other comments?

Professor Cooper?

Mr. COOPER. I would just like to comment briefly on your question about UNCTAD.

I believe that the United States should not feel that it has to go to UNCTAD with a proposal giving preferences. I know there is a feeling that when there is a big international conference, the United States traditionally is expected to take the initiative in those areas, and very often does. I also feel that UNCTAD has been a very useful organization for bringing into public focus many of the problems of the less-developed countries. But I do not think that we should be dragooned for so-called political reasons into policies that we think are not sensible. The political gains, that is, the psychological gains, the Brownie points that we get from such proposals, will be very short lived. We are not going to make friends forever by coming forward with preference proposals in UNCTAD. If it doesn't make sense on its merits or it isn't in our long-term interests, it seems to me we should not feel obliged to put forward some kind of preference arrangement merely in order to appear forthcoming in an international conference.

Chairman BOGGS. Gentlemen, unfortunately, our time is up. The House is in session. I would like to thank each of you for coming. And if any of you care to elaborate on your remarks this morning we would be happy to add the additional material to the record.

Senator JAVITS. Mr. Chairman, may I join with the Chair in thanking the panel. I have rarely seen a more gifted panel. I was just riveted to my seat all morning, although I have a million other things to do. I thank them.

Chairman BOGGS. I agree with you, they are most learned. We are very happy to have had them with us.

We will meet tomorrow at 10 o'clock, when we will hear David Rockefeller, president, Chase Manhattan Bank, and George W. Ball, former Under Secretary of State.

(Whereupon, at 12:15 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, July 20, 1967.)

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THE FUTURE OF U.S. FOREIGN TRADE POLICY

THURSDAY, JULY 20, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 1202, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Bolling, Reuss, Rumsfeld, and Curtis; and Senators Proxmire and Percy.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman BOGGS. The subcommittee will come to order.

I am very pleased today to have two very distinguished witnesses, former Under Secretary of State, George Ball, and Mr. David Rockefeller. Mr. Rockefeller's plane has been slightly delayed in landing.

Mr. Ball, we are very glad to have you here.

I might say that it was largely the work of Secretary Ball and his colleagues that made possible the 1962 act and the Kennedy Round.

So, we have a very experienced and able witness before us this morning.

We welcome your appearance, Mr. Ball.

STATEMENT OF HON. GEORGE W. BALL, FORMER UNDER SECRETARY OF STATE

Mr. BALL. Thank you very much, Mr. Chairman.

Mr. Chairman, and members of the committee:

I

Thirty-three-years ago the United States abruptly reversed the course of its commercial policy and set its compass in a direction that we have been following ever since. The decision to steer by a new chart was born of economic hard times. It was based on the simple, straightforward proposition that our high tariff policies had, by fragmenting world markets, dried up international trade and helped to produce a worldwide depression. By the Reciprocal Trade Agreements Act of 1934 we undertook, through freeing the movement of goods, to stimulate business for our farms and factories, to create jobs, and to help a battered world find its way back toward prosperity.

The enactment of that legislation launched the United States on a sustained period of leadership in international commercial policy. Since then, by a succession of reciprocal trade negotiations, we have changed the trading habits of the world.

Today, with the completion of the Kennedy Round, we are within sight of the fulfillment of the original vision of Cordell Hull and of his intrepid and dedicated disciples, such as Will Clayton. To be sure we still have some distance to go before tariffs cease to be a factor in restricting trade and we should not lose momentum. But we have arrived at what I regard as a significant watershed in world economic progress, and it is a good time for us to take stock of our position. Just as three decades ago we fixed our sights on the tearing down of tariff walls, we should now take new navigational bearings and reset our compass toward a farther horizon.

For our modern world is different in almost every respect from that of 1934. Then a handful of European metropolitan nations dominated one-third of the world's population through colonial structures that were at the same time closed trading systems, while American industry concentrated on our domestic market. It was a very wide world. No one could cross the Atlantic in less than 5 or 6 days, and anyone traveling to the Far East had to set aside months for his visit. Producing and even selling abroad were still thought of as something exotic and quite outside the scope of most American enterprises.

But the modern world is marked by air transport and telephones and teletypes, computers and automation; it is a world in which thousands of American companies no longer make much operational distinction between domestic and international trade. They no longer see their markets or their production limited by national boundaries but do business in every corner of the globe, utilizing raw materials and components, plant facilities and capital, labor and managerial talent wherever they may find them so as to produce the highest yield with the least cost to serve markets wherever they can be developed.

Underlying this activity is an inarticulate premise. However our Government may define the policies of the United States, the great American industrial enterprises have defined their own policies in terms of a world ecnomy. They operate as though that world economy were a fact, and it is, I suggest, sound policy for us to shape our governmental action so as to help give reality to that assumption.

For the widespread development of the multinational corporation is one of our major accomplishments in the years since the war, though its meaning and importance have not been generally understood. For the first time in history man has at his command an instrument that enables him to employ resources flexibility to meet the needs of peoples all over the world. Today a corporate management in Detroit or New York or London or Dusseldorf may decide that it can best serve the market of country Z by combining the resources of country X with labor and plan facilities in country Y—and it may alter that decision 6 months from now if changes occur in costs or prices or transport. It is the ability to look out over the world and freely survey all possible sources of production, to study markets, and to use all of the factors of production with great flexibility that is enabling man to employ the world's finite stock of resources with a new degree of efficiency for the benefit of all mankind.

But to fulfill its full potential the multinational corporation must be able to operate with little regard for national boundaries—or, in other words, for restrictions imposed by individual national governments.

To achieve such a free trading environment we must do far more than merely reduce or eliminate tariffs. We must move in the direction of common fiscal concepts, a common monetary policy, and common ideas of commercial responsibility. Already the economically advanced nations have made some progress in all of these areas through such agencies as the OECD and the committees it has sponsored, the Group of Ten, and the International Monetary Fund, but we still have a long way to go. In my view, we could steer a faster and more direct course if the United States and the other major trading nations were to set a common goal by agreeing that what we seek at the end of the voyage is the full realization of the benefits of a world economy.

Implied in this, of course, is a considerable erosion of the rigid concepts of national sovereignty, but that erosion is taking place every day as national economies grow increasingly interdependent, and I think it desirable that this process be consciously continued. What I am recommending is nothing so unreal and idealistic as a world government, since I have spent too many years in the guerrilla warfare of practical diplomacy to be bemused by utopian visions. But it seems beyond question that modern business—sustained and reinforced by modern technology—has outgrown the constrictive limits of the antiquated political structures in which most of the world is organized, and that itself is a political fact which cannot be ignored. For the explosion of business beyond national borders will tend to create needs and pressures that can help alter political structures to fit the requirements of modern man far more adequately than the present crazy quilt of small national states. And, meanwhile, commercial, monetary, and antitrust policies—and even the domiciliary supervision of earth-straddling corporations—will have to be increasingly entrusted to supranational institutions.

Already we have seen this process beginning to work in Europe where six nations have created an Economic Community dedicated to the achievement of an integrated economy. Hopefully—I would say almost certainly—within the next 1 to 5 years that Community will be enlarged to include at least one other great trading nation, the United Kingdom.

To be sure, the members of the Community are finding the path increasingly hard going as they tackle the cherished prerogatives of nation states. In practical terms they are discovering that their failure to make progress toward political unity is severly holding back the full merger of their economies. Nevertheless, they have recently been able to reach agreement on a common approach to taxation. But they are suffering, and suffering rather querulously, from their inability to agree on a common companies law, or common social policies, or to achieve a sufficient degree of common action in monetary matters. Thus, European businessmen live in a state of anxiety. They are worried that their industries may be swallowed by giant U.S. enterprises. They are concerned that they are losing place in the technological race because their relatively small companies cannot afford

the cost of adequate research and development and thus there is a widening technological gap. They are fretting about the brain drain of their scientifically equipped personnel to America. They are worried because they do not have access to an adequate capital market enabling Europe efficiently to mobilize the savings of its citizens and thus keep pace with American corporate investment.

All these quite legitimate apprehensions stem from the obsolescence of the European political and economic structure, and they will be corrected only when enough Europeans recognize that fact. Meanwhile, I listen with more regret than sympathy to complaints that are founded on a refusal to come to grips with the essential problem. It does no good to talk about a technological gap so long as European companies find it almost impossible to merge across national boundaries because of fiscal impediments and the lack of a uniform companies law, and there is little purpose in talking about the creation of an adequate capital market unless Europe is ready, through greater political unity, to move not merely toward the adoption of common monetary policies, but a common currency.

I suspect that Europe will be able to achieve a fully integrated economy only when the present nostalgic nationalism proves its incapacity to deal with the hard problems of the latter 20th century. Meanwhile, there is much that all of us can do within the limitations of existing political structures to bring about the conditions of a world economy. For we will never be able to put the world's resources to use with full efficiency so long as business decisions are frustrated by a multiplicity of different restrictions by relatively small nation states that are based on parochial considerations, reflect no common philosophy, and are keyed to no common goal.

But in view of the apparent vitality of old habits of thought, is the goal I have suggested a realistic possibility? Certainly it is nothing that will happen overnight. Yet, if we can achieve even a moderate degree of common purpose we may bring about the conditions of a world economy in considerably less than the 34 years it has taken us to reduce tariffs to their present relatively low levels.

The first step is for us to examine in detail the wide spectrum of measures that a world economy implies. Such an examination is a something for the economically advanced nations to undertake together since what we mean as a world economy will, for many years to come, be largely confined to these advanced nations, which lies principally in the Northern Hemisphere and in Western Europe, North America, and Japan. At the same time we should clarify our thinking regarding two other sets of problems: those involving our trading relations with the poorer nations—the underdeveloped or developing countries as they are commonly called—which lie largely in the Southern Hemisphere, and our trading relations with the nations behind the Iron Curtain.

II

There is a common complaint among the less-developed nations that, while the advanced nations have provided foreign assistance, they have largely ignored the trading problems of countries that are only beginning to experience the industrial revolution. The solution strongly

urged in UNCTAD (the United Nations Conference on Trade and Development) is for the advanced countries to offer preferential tariff treatment to the industrial products of the developing nations. This would make it possible, so the argument goes, for the developing countries to earn foreign exchange and accumulate the capital they so urgently need.

A strong theoretical case can be made for this proposal, yet I have never believed that it was politically realistic. Let us, for example, consult our own experience. The weaving of textiles is, after all, the classical case of labor-intensive light industry best suited to the resources and abilities of countries just crossing the threshold of industrialization. Yet, the moment that the developing countries began to send their cotton textiles into our U.S. market in any volume, the pressure from our domestic producers compelled us to restrain imports through a succession of international arrangements.

Since we have denied nondiscriminatory entry to the textiles of the developing countries on the ground that they are produced by cheap labor and thus disrupt our markets, how can one possibly believe that the advanced countries would be prepared to accord the developing countries preferential treatment for their manufactures on a generalized basis?

For it is one of the ironic facts of present day society that while we talk glibly of "trade not aid" and make speeches about the need for the developing countries to earn their own way, the advanced countries find it far easier to provide resources through gifts or long-term loans than to open their markets. The reason for this is, of course, obvious—that the opening of markets creates problems for specific and articulate groups who can translate their unhappiness into political action, whereas the burden of foreign aid falls on the taxpayer.

But if generalized preferences for the developing countries are not, as I see it, the wave of the future, what about discriminatory preferences to specific countries? Should we, for example, as has been often suggested, set up a special trading system with Latin America in which we would grant their products favorable treatment in our market while they would accord reciprocal favorable treament to our products in their markets?

This is the kind of question that cannot be answered intelligently unless we are quite clear as to the whole set of structural relations we envisage between the industrialized north and the preindustrial or semi-industrial south. This is an important question, since the rich nations can never efficiently work together in assisting the poor nations unless they reach some common agreement as to the general shape and structure of the totality of these north-south relations. We have paid very little attention to this problem, but we cannot go on ignoring it forever since pressures are building up that will require us to face it frankly.

The problem is an important one, because it raises the central question as to whether we should continue to cast our relations with the rest of the world in universalist terms or should move avowedly toward some tacitly or explicitly agreed allocation of responsibilities, which cannot and should not be disassociated from the whole question of spheres of influence. At the moment there are two existing systems of north-south relations—rarely acknowledged or differentiated. One

is what we might call the open system. The other consists of a series of closed systems. The basic assumption of the open system is that all industrial countries of the free world will accept responsibility for the economic, commercial, and political well-being of all developing countries without discrimination. They will, through systematic consultation, concert their efforts to achieve that objective. The closed system, on the other hand, assumes that specific industrial countries or groups of countries in the north will maintain special relations with specific developing countries or groups of countries in the south, and will establish preferential and discriminatory arrangements to reinforce these relations. This is the situation, for example, that exists with regard to the African States of the French Community and, to a lesser extent, within the British Commonwealth.

The United States has been the leading proponent of the open system, but the existence of even incomplete closed systems, as in Africa, has led to demands that we extend similar arrangements to Latin America, many of whose products compete directly with those of African nations. Up to this point we have been firmly loyal to the principle of nondiscrimination; but recently the pressure for a special trading regime with Latin America has become more clamorous, in part at least because the European Economic Community has been expanding the closed system, in practice if not in principle.

The activities of the European Economic Community—the Common Market—in this connection are rooted in colonial arrangements. The provision of preferential access to the products of certain African countries resulted initially from the preferential regime that existed within the French community. At the present time, of the 38 independent African States, 18 former French, Italian, and Belgian territories are already associate members of the European Common Market. Two more areas of Africa may well come in: the Maghreb countries of Algeria, Tunisia, and Morocco, and (in the event that Britain enters the Common Market) the 12 African members of the British Commonwealth. After the coup in Nigeria in January 1966, the Nigerian Government signed an as yet unratified agreement with the Common Market for associate membership, which would have entitled Nigeria to the privileges both of the British Commonwealth preference system and the preferential system of the European Community. I am not quite sure what is going to happen to that arrangement, given the present state of turmoil in that unfortunate country.

Talks underway with Kenya, Tanzania, and Uganda broke down last year because the African States refused to grant preferences for imports of the Six in return for full access for their exports to the Common Market, but there are indications that such talks may be revived, since the African States in question have had second thoughts and may now be ready to work out some reciprocal arrangements although insisting on special protection for their own industries. Since the European Community has provided its African associates with more than $1.5 billion of aid over the past 7 years, the African States have found associate membership profitable in addition to the trade advantages; and this does not include substantial grants of aid still provided directly from Paris to the nations of the French community and directly from Brussels to the Belgian Congo.

Three or 4 years ago, when I was in the Government, I initiated a series of talks with the French and British Governments in an endeavor to persuade them to phase out their preferential systems and move toward a regime of nondiscrimination. Those talks met with lukewarm response and their failure led me to conclude that the issue of American policy could not be resolved on any doctrinal basis; but that, sooner or later, if the European Common Market continued to increase the geographical scope of its preferences to Africa, we would be faced with serious problems in other parts of the world. Those problems would become even more acute if Britain should join the Common Market and the preferences now enjoyed by African members of the British Commonwealth be extended so as to give them favored access to the whole Common Market.

To my mind these trends, while undesirable, can scarcely be ignored, and if they continue we shall have to accept them as political facts and shape our policies accordingly. If Europe is not prepared to accept responsibility for the third world on a universalist basis then perhaps some regime of closed systems may be necessary. But in that event should we not go the full way? Should we not seek the benefits of a geographical division of responsibilities?

Should we not insist, in other words, that arrangements for commercial preferences carry with them substantial obligations on the part of the industrialized partner? Thus, for example, if the European Economic Community continues to expand its system of preferences for Africa, should we not make it clear that we will look to the nations of the community to carry the burden of economic assistance, and where necessary political tutelage for those African countries that enjoy such preferences? In practice this would mean an American recognition of the primacy of the European interest in Africa, and consequently the primacy of European responsibility for providing foreign aid, and looking after the education, health, and defense of the African people. We would, in other words, resognize that Africa was a special European responsibility just as today the European nations recognize our particular responsibility in Latin America.

I do not raise this question in the belief that the division of the world into a series of north-south slices is the best solution. I would much prefer to see the other advanced nations take a generalized responsibility toward the poor nations in the south, but if they are not going to do so—and the reason that they are not going to do so is because they haven't gotten their own political structure in modern form—then perhaps we should settle for some sectionalizing of the world that would involve and agreed concentration of effort by particular advanced nations of the north for the benefit of particular poor nations in the south within the framework of preferential trading systems. Such an approach has obvious disadvantages since it would not contribute to the best use of resources, but at the end of the road we may well find that this is the most effective way to share our burdens with the other advanced nations.

III

I shall not attempt this morning to deal with the problem of East-West trade, since that raises a special set of questions bearing on our present and prospective relations with the Communist world. I urge

only that when this committee comes to look at this problem it do so hardheadedly so that we do not continue to deny trading opportunities to American business when the goods are going to be provided anyway by other Western countries if we do not provide them ourselves. In other words, all I am suggesting is that we look at this problem critically and unemotionally and try to free it from the moralistic mush in which it is so often submerged.

Thank you very much.

Chairman Boggs. Thank you, Mr. Secretary. Mr. Bolling?

Representative Bolling. Mr. Secretary, it is a pleasure to hear you again.

I wonder if you would expand a little bit on the last point you made. I think the rest of your statement is very explicit and clear. I have some questions, but I think I will leave them until later. But on that last point which you made very briefly about East-West trade, it is clear to me what you meant, but I wish you would make it more explicit.

Mr. Ball. Mr. Bolling, the problem we encounter again and again in our trading relations with the Iron Curtain, or for that matter, even with Red China, is that our producers are denied the opportunity of making perfectly good sales of their products in the belief that we are hurting the Iron countries by denying them something, when the fact is that they can get these same products elsewhere, and do get them elsewhere. All we are doing is an act of self-flagellation that doesn't advance the American interest.

Part of this, I think, results from a cultural lag on our part. It results from the assumption that the United States has a practical monopoly of technology in the world, that therefore anything that the Iron Curtain countries can buy from the United States is going to be better than what they can buy elsewhere, and that, to the extent that we deny them the opportunity to buy machines or equipment from the United States, they are going to have to get a poorer product somewhere else, and thus they are going to suffer by it. I think in a very large number of cases this is nonsense. In the first place, an enormous number of American companies have licensed their patents and know-how overseas. Europe itself has spurted ahead technologically, as has Japan, and as has Canada. There is very little that we have that other nations don't have where our denial would have any practical effect on whether the Iron Curtain countries would get the product, or not.

We no doubt do indulge a feeling of moral satisfaction from not selling to the Iron Curtain countries. But I think it is rather stupid, because by and large, except for a certain list of strategic goods, with which we are in agreement with the other NATO powers—the so-called Cocom list—most of the things the Soviet Union wants it can buy elsewhere, and there is no particular reason why we should be hard on our own producers.

Now, I would say the same thing with regard to Red China, but with a qualification. The case I was thinking of, specifically, was American wheat. I think it is a terrible shame that we didn't offer our wheat on the market some years ago when Red China was buying from Australia and Canada. The American wheat farmer would have enjoyed a prosperity he has never known in history. The Chinaman got his wheat. He could have bought it just as well from us, and the American

farmer would have enjoyed a certain prosperity, and China would have been in the same position, no matter what happened. It seems to me that this was a situation where we let a kind of primitive morality get in the way of practical good sense.

Representative BOLLING. On that last point, Mr. Secretary, not long ago some of the members of the Kansas City Board of Trade in my district, all of them good Republicans, complained bitterly about the unrealism of our policy on that particular subject. And I took pleasure in telling them that the main effort in seeing to it that we had this moralistic policy came from others than I.

I thank you very much, Mr. Secretary.

Chairman BOGGS. Mr. Rockefeller has just arrived. We will go ahead with him.

STATEMENT OF DAVID ROCKEFELLER, PRESIDENT, CHASE MANHATTAN BANK

Mr. ROCKEFELLER. Mr. Chairman and members of the committee, first of all, let me apologize for my delay. I was unfortunately held up over at the airport for an hour and then was sent to Dulles.

For the record, my name is David Rockefeller. I am president and chairman of the executive committee of the Chase Manhattan Bank.

I appreciate very much, indeed, the invitation to appear before a group which, in my opinion, is contributing significantly to better public understanding of U.S. trade policies in the wake of the most sweeping tariff reductions in the history of international trade.

The subject that engages your attention also holds special interest for me for two reasons: first, because it is so directly relevant to what I regard as the major challenges of our time; second, because a good part of my own life has been devoted to studying various aspects of world trade, though I hasten to add that I assert no claim whatever to expert knowledge in this enormously complex area.

Over the past 2 weeks, you have heard testimony from a number of illustrious witnesses about the impact of the worldwide lowering of tariffs. At this early date, any technical evaluation of the over 6,000 U.S. tariff changes is impossible and must await detailed analysis. But a good guess might be that as a direct result of the Kennedy Round, U.S. exports and imports will rise by around 5 percent, with the gain spread over a period of 5 years or more.

This relatively modest percentage impact translates into an increase of close to $3 billion in total U.S. foreign trade. So, you can readily see what it could bring in terms of export opportunities as well as somewhat stiffer import competition. In some instances, substantial adjustments may be required. For this reason, I fully support President Johnson's proposal to improve the adjustment assistance provisions of the Trade Expansion Act, so that both industry and labor will find it easier to obtain prompt and adequate aid if adversely affected by the tariff cuts.

The great promise of the Kennedy Round, as I see it, is the effective increase in export opportunities brought about by the reciprocal reductions in foreign tariffs. I feel strongly that U.S. businessmen should approach the results in this affirmative manner, seeking to supply new

foreign markets rather than worrying about greater import competition at home. And it seems to me the expanded opportunities for additional sales abroad should outweigh any adverse import competition, resulting in a net benefit to our balance of payments.

For one thing, the roughly reciprocal tariff reductions should assist U.S. trade more than that of Western Europe if only because we start out from the competitive advantage of running a substantial trade surplus—something on the order of $4 billion this year. So, even if U.S. imports were to increase by a larger percentage than exports, our trade balance still would improve.

The Kennedy Round tariff cuts will reduce the inherently discriminatory impact of the European trade blocs. Eight years ago, when European countries began to eliminate tariffs among themselves, exporting from the United States became relatively more difficult. But the lower the external tariffs of the European trade blocs, the smaller will be their discriminatory impact. Indeed, the major reason President Kennedy proposed the Trade Expansion Act in 1961, you will recall, was to reduce the European Common Market's diversionary effect on world trade. The goal has been largely accomplished in industrial, if not in agricultural, products.

In looking ahead one might suppose that another round of international tariff negotiations could provide a still further boost to world trade, and the U.S. policy should continue to pursue the goal of multilateral tariff reductions.

However, I suspect that the Kennedy Round is likely to be the last such worldwide tariff-cutting session for some time. The Geneva negotiations—long drawn out and often acrimonious as they were—indicated there would be little further scope for another similar exercise soon. Tariff levels are now quite low, averaging an estimated 8 per cent on industrial products in the United States and Western Europe. So, further cuts would probably provide a comparatively smaller overall stimulus to trade than the present reduction.

What's more, new reductions in the remaining tariffs could prove more difficult to secure. These tariffs often constitute important special protection, with strong domestic interests opposing any further cuts. In addition, there could well be an absolute resistance on the part of regional trade blocs—both in Western Europe and elsewhere—to preserve at least minimal external tariffs, since preferential treatment within the blocs was the main incentive for their establishment in the first place.

My feeling, therefore, is that additional general tariff reductions along the lines of the recent Kennedy Round are not in the cards. To be sure, further progress in tariff-cutting can and should be made. I am very much in favor of providing the Government with some type of negotiating authority to carry out minor adjustments. This could include possible elimination of so-called nuisance tariffs—those which are already below 2 percent and which serve only to increase administrative costs. But no new general tariff reductions seem feasible in the foreseeable future.

This means that after six rounds of GATT negotiations since the Second World War, U.S. trade policy will most likely face in the years ahead a completely different set of policy issues from those of the past. In my view, three of these issues merit special attention.

First, the problem of nontariff barriers which, after the Kennedy Round, remain the most serious obstacles to trade expansion.

Second, the demand of many less-developed countries for some kind of preferential tariff treatment.

Third, the pattern of U.S. trade relations with Canada, a particularly compelling issue in view of the steady expansion of regional trade arrangements in other parts of the world.

In the area of nontariff barriers, some headway was made in the Kennedy round, most notably the successful negotiations of an antidumping code, and modification of certain European trade restrictions as part of the agreement to eliminate the American selling price valuation of some chemical imports. But other important nontariff barriers remain as impediments to trade. For instance, there are the European border taxes which are levied against imports as an offset to domestic sales taxes and which are refunded to European exporters on the grounds that such taxes are not imposed in foreign markets.

Though this practice of offset and refund is sanctioned under GATT, I must confess to considerable misgivings over the principle and its practical validity. European countries derive a major part of their revenue from sales taxes at each stage of the manufacturing and distribution process, while income taxes are relatively less important. In the United States, on the other hand, the overwhelming part of business taxation is in the form of income taxes. Thus, contrary to European manufacturers, American businessmen cannot claim part of their tax liability as export refunds.

Other important nontariff barriers are differential government procurement policies with respect to local and foreign products; import quotas, particularly in agricultural trade; various domestic subsidies or government pricing policies that affect international competitiveness; and customs valuations and practices. Just how many such nontariff barriers exist, and in what ways they may affect international competitiveness, we know only incompletely.

I understand that Ambassador Roth's office is preparing to undertake a detailed study of the whole complex of nontariff barriers. This is absolutely necessary before the next step—a reciprocal dismantling of such barriers—can be contemplated. There is a persistent feeling that Western Europe's nontariff barriers pose a greater obstacle to trade expansion than our own. But I don't think we really know all the facts, and this specific problem of border taxes would seem to require a thorough rethinking. In my opinion, it would not make much sense to push for further tariff reductions without first making some progress in reducing the more prohibitive nontariff barriers.

A second major issue confronting U.S. trade policy in the years ahead will be the developing countries' demand for preferential tariff treatment on manufactured goods. Britain grants tariff preferences to member nations of the Commonwealth, and the Common Market has concluded special arrangements with the French-speaking African countries. This means, for instance, that many of our Latin American and Asian friends find themselves at a competitive disadvantage when exporting to the large European markets.

There is a real question in my mind whether we have not rejected out of hand an important means of aiding the less-developed coun-

tries. For political, economic, and moral reasons, the United States cannot afford to see a continued widening of the gap between the industrial and the less-developed nations. The 20 or so industrial nations with one-fifth of the free world's population produce and enjoy one-half of the world's wealth. In contrast, the developing nations with half the world's population account for barely one-sixth of the total output. Per capita income in the developing countries ranges from a quarter to a half dollar a day.

To bring about a better balance will require massive economic and technical aid. It is increasingly clear that the job is much too big for the United States alone, and especially that it cannot be done by Government aid alone. Additional support could well come from some form of preferential tariff system, especially since this would involve self-help.

I am familiar, of course, with the chief objections that have been raised against tariff preferences for developing countries. And I confess that I am somewhat sympathetic with these objections. It has been said that a two-tiered tariff system would be costly to administer that its benefits would be slight; that outright financial aid would be more appropriate than a tariff subsidy; and that, in any case, tariff preferences would violate the GATT principles of reciprocity and nondiscrimination.

While these points may have some plausibility, they disregard, I think, a number of persuasive arguments on the other side. The preferential tariff systems of the Common Market and Great Britain show that the added administrative cost must at least be bearable. To what extent the developing countries could expand their exports of manufactures is admittedly an open question, but as Prof. Harry Johnson, of the University of Chicago, has pointed out, tariff preferences might well exercise a powerful influence in expanding export earnings and promoting industrialization. And, while financial aid might be the preferred form of assistance, the current controversy over the foreign aid bill is not a very reassuring sign for increased support from this source. In my view, preferential tariffs are a form of aid, and all additional aid is urgently needed to bridge the ominously widening gap between the industrial and the backward nations.

The most desirable approach, as I see it, would be for our own Government to take up this problem with the Governments of other industrial nations and try to persuade them to join us in granting tariff preferences to all the less-developed countries. Only if all industrial nations treat all developing nations equally can we preserve the substance of the important GATT principle of nondiscrimination.

A third major issue of U.S. trade policy in the coming years, as I see it, will be the course of U.S. trade relations with Canada.

Our neighbors to the north are our most important trading partners just as we are theirs. The volume of Canadian-United States trade amounted to some $12 billion last year, representing about 60 percent of all Canadian exports and 25 percent of all U.S. foreign sales. It follows that continued expansion of Canadian-United States trade is essential for the continued growth of both countries' foreign trade. To this end, the two may wish to reduce trade barriers between themselves, and could probably find ways to negotiate a mutually advan-

tageous bargain. Nonetheless, any such potentially beneficial agreement would run counter to the most-favored-nation principle as enunciated in GATT, unless such a bilateral dismantling of trade barriers were part and parcel of a formal process to establish a free trade area.

With most countries in Western Europe and Latin America now members of regional trade blocs, I think it is essential that we reconsider the feasibility of working toward regional free trade arrangements of our own. Thus, I would urge this distinguished subcommittee to take a fresh look at Canadian-United States trade relations, with a view to establishing a Canadian-United States free trade area. Such a plan might in time include other countries as well—Great Britain, for one, if Common Market membership should again prove elusive, and Mexico once her industry was able to compete on an equal footing in the North American market.

The most far reaching change in world trade patterns in the postwar period has been the emergence of regional trading blocs—EEC and EFTA in Europe, LAFTA and CACM in Latin America. For both political and economic reasons, we have consistently supported the formation of these regional groups—and these groupings have contributed immeasurably to the economic strength and stability of the free world. At the same time, however, it is important to recognize that the formation of regional blocs of which we are not a part tends to reduce the international competitiveness of U.S. exports, that negotiations become more difficult when trading blocs are involved, and that the principle of most-favored-nation treatment is a suitable vehicle for reducing trade barriers only so long as all countries are willing and able to make reciprocal concessions. Canada and the United States may no longer be able to expand their trade outside North America as rapidly as they have in the past. Under these circumstances, it is my view that we must seriously reexamine whether Canada and the United States should not move toward establishment of a free trade area of their own.

As I see it, the Kennedy Round's success was an encouraging outgrowth of our pursuit of multilateral and reciprocal tariff reductions over three decades. But while tariffs have come down substantially, numerous nontariff barriers remain as serious hindrances to trade expansion. Their reduction and eventual elimination require a somewhat different approach to international trade negotiations, as do the issues of tariff preferences for the developing countries and future patterns of Canadian-United States trade.

I am strongly convinced that we should continue to be a firm supporter of GATT; but while giving it our full backing, we can still accomplish some of the other objectives I have outlined. At this stage in the continuing process of trade liberalization, tariff preferences and regional arrangements may well prove the most effective route to further progress.

Chairman Boggs. Thank you very much, Mr. Rockefeller and Mr. Ball.

I would like to ask Mr. Rockefeller one question.

In your statement you suggest that the governments of industrial nations get together and grant tariff preferences to all less-developed

countries. Secretary Ball in his statement mentioned his efforts to bring about this sort of a solution, and he said he was not too successful. How would you suggest that this be done in the light of present world conditions?

Mr. ROCKEFELLER. I would hope that after the completion of the Kennedy Round negotiations that perhaps there might be a better opportunity to pursue this than previously. For 4 years we were bogged down by negotiations on tariffs. That is behind us. And it seems to me it is worth a good, hard try in this direction again.

Chairman BOGGS. Mr. Ball, would you care to comment on that?

Mr. BALL. I wouldn't start the negotiations, Mr. Chairman, with the European countries, I would start it with the U.S. Congress, because I think that at the end of the road we wouldn't have a prayer of getting the Congress to pass a generalized preferential enactment for the benefit of the less-developed countries.

Let me say that I agree with Mr. Rockefeller in principle. He and I disagree on very few things, and on this particular one I fully agree with him. But as I suggested in my statement, I think it is politically unrealistic. When I was in the Government I was probably more responsible than anyone for what a lot of people regarded as a negative view on the question of generalized preferences for less-developed countries. My feeling was that we would do an enormous disservice to encourage the less-developed countries to bieleve that this was going to work when, in fact, it wouldn't. In view of the character of the products that the less-developed countries are most capable of producing, which are primarily light manufactures, whenever they now begin to ship any substantial quantities of such products to the United States, Congress and the administration are faced with demands for mandatory quotas or some other kind of arrangement that would restrict the introduction of such goods. There is the aboriginal cry of cheap labor, which is loudly heard.

I think that the possibility of our being able to reverse the process and say that not only will we refrain from imposing mandatory quotas limiting the import of these goods, but we are going to provide preferences to make it easier for the less-developed countries to produce for our markets—I just don't think it is possible. That was always my feeling, and, therefore, I did gain the reputation of being negative on this issue. The European countries talked a good game, but when one got down to hard discussion with them, I had a feeling that they were being disingeneous with the less-developed countries, because they weren't going to grant generalized preferences any more than we were. Our record with the less-developed countries is generally better than the record of European countries, except in those special areas where they have preferential regimes which constitute happy hunting grounds for their own industrialists.

I don't want to be too dogmatic, but I would be enormously surprised if Congress were prepared to provide the authority in the Executive to grant generalized preferences for manufactured goods to the less-developed countries. We have a situation now where the steel industry is complaining because of import competition from countries like Japan, and again the argument is based on the fact that labor costs are so much cheaper. Now, do you seriously think that Congress

would give the administration the authority to grant preferences for the import of steel from less-developed countries? I don't believe it for a minute.

While I agree entirely with what you say, Mr. Rockefeller, I just don't think it is politically feasible.

Chairman BOGGS. Mr. Reuss, do you have any questions?

Representative REUSS. Thank you, Mr. Chairman, for bringing before us these two wise and thoughtful witnesses.

Mr. Ball, you and I over the years have had a genial debate, but nevertheless a debate, about the Common Market. To caricature our positions a bit, I accuse you of being excessively in love with the Six, and you accuse me of being excessively doctrinaire. And I want to pursue the dialog this morning.

You, in effect, say that you are ready to throw in the sponge and go to a closed system, let Europe, with perhaps an expanded Common Market to include the United Kingdom, take over Africa, accept African imports into Europe on a preferential basis, and let African countries receive European exports on a preferentially low basis, and devolve upon Europe the general aid and welfare burden of the developed world. And you then say, let the United States do likewise, generally speaking, for Latin America.

If you want to correct my statement, do so.

Mr. BALL. No, I think that is about right.

Representative REUSS. May I put to you my alternative, so you may comment on it. My alternative is that I don't think we are yet forced to that unpleasant position of dividing the world into zones of influence, having papal lines of demarkation. And I don't think it is a policy very relevant to the world of quick communications and the seemless web in which we now live.

Now, I do not in any way belittle the valiant diplomatic efforts you made 3 or 4 years ago to try to get Europeans out of their parochial closed system view. But I would hate to see our country toss in the sponge and operate a closed system without making it the utmost object of public discussion, without allowing some time for a public great debate on it, and particularly without making an all American, all out stand to revive the principle of nondiscriminatory multilateralism, the principle of GATT, at the very highest public level, I mean summit conferences with heads of State. And if we don't succeed, if we are forced to it, admittedly there would be no alternative. But where you and I think differently is that you say that that point is now—that we should sort of slide into a closed system. I would much prefer us trying to get the Europeans, the French, the Italians, and the Germans, that have great historical ties with Latin America, to come in and help us on that burden, and conversely, to try to get the Europeans progressively to diminish these preferences so that Latin America can come into their markets. There really is a policy choice.

I think I must get some help for my point of view later from David Rockefeller, but please come back to that.

Mr. BALL. I don't quarrel with the way you described it, Mr. Reuss, but I think you are putting it a little more easily than I did.

In general, I am completely in agreement that closed systems make a very bad use of resources—if you were to sectionalize the world and

have special trading areas. Nonpolitically it is the best solution. The basis on which we are now proceeding is different. It has been a matter of our national policy ever since the war to recognize a kind of collective responsibility on the part of the northern rich countries for the southern poor countries on a nondiscriminatory basis. Obviously I regard that as preferable, but I question whether the policy is feasible for the long pull. I don't think we have half thought the problem through, and I would agree with you, I would like to see this a matter of public debate. I would like to see the issues placed in what seem to me the proper terms, for the problem is a structural one. The European countries are too small for any one of them to take a universalist approach toward the world. A country which hasn't got the resources to diffuse around the world has to think of focusing its efforts. Historically the European nations have done that by concentrating their efforts on bits and pieces of real estate within colonial systems. But such systems don't exist any more. And therefore, there is a feeling on the part of the European peoples that since they no longer have territorial interests to give a focus to the areas to which they should provide help, they don't need to provide help. What they have thought of as a substitute for colonial interests—a vestige from the old colonial systems—is the retention of preferential trading arrangements.

Now, I thought such arrangements would ultimately die. I thought that the trading system, the preferential system, of the French Community as well as the British Commonwealth system would be phased out in time. Certainly they have become less significant as the general level of tariffs has been reduced. But what is happening is something quite different—something I did not predict, something I think is quite foolish—but, nevertheless, something that is clearly going on. And that is that the European Community nations are proliferating the special arrangements primarily with African countries. They are creating a whole new preference structure in which the preferences extend not merely from a single European nation to a single African nation, but from the six nations of the European Community to a number of African countries. This is becoming a very much bigger thing than it was. When I was in the State Department I tried not only to get the French and British Governments to phase their systems out, but I made a valiant try to get the European Community to abandon the idea of proliferating these closed systems, because it didn't seem to me that they were useful from anybody's point of view.

But the point I'm making is this, that while we may think that a closed trading system is bad so far as the allocation of resources is concerned, and it violates the most-favored-nation principle, nonetheless it may be about the only way that we are going to persuade the European nations to maintain an adequate flow—or even an inadequate flow—of resources into these countries through foreign aid programs; because what they have done in their own minds is to substitute preferential systems as a focus for their aid efforts, whereas historically the focus was provided by colonial systems. Because of their own inadequate geographical size and their control of an inadequate supply of resources, I don't think they can be persuaded simply to participate in a worldwide effort to help the less-developed countries. Thus if the preferential systems, the closed systems are eliminated, we may find

that the European countries will provide no aid at all. And then we will have the problems that Mr. Rockefeller described in cards and spades.

Representative REUSS. Mr. Ball, where you and I differ is in the field of politics and human relations. While it is true that the technicians of the European governments are obsessed with this closed system—I have heard that—I think that if you got through the technicians to the people of Western Europe, particularly the young people, you and modern European politicians would find that there is a great reservoir of idealistic feeling, call it what you will, which sees something bigger than these old parochial closed systems which have caused so much trouble in the past.

All I am saying is that before we give up on it, let us make it the great international issue of the next 5 years, and let us see if we can't maybe get some of those stupid old politicians voted out of office by their own people over there so we get rid of this closed system.

Mr. BALL. I just want to make two points in that connection. First, there is a kind of mystique that one finds in part of Europe, particularly in France, with regard to a concept called Eurafrica. The closed systems are an expression of this, a feeling that Africa has a kind of national affinity to Europe, because of its geographical position, and because of history, and so on, and that the Europeans should feel the same kind of responsibility for Africa that we feel for Latin America. They express that in trading terms, because those are the terms with which they are familiar.

Now, as far as making a try, I am all for it. Let me emphasize that I don't like closed systems. I am simply saying that I see them developing, and I am not sure that we can do anything about it. I am all for trying to do something about it—to make quite a big effort. But I think that we ought to be quite clear in our own minds that if we do make such a big effort, and if we should reach a point where these trading systems, these preferential systems, are dismantled, we may find that we have greatly diminished the European effort of foreign assistance.

Representative REUSS. My time has expired, Mr. Chairman. I hope you may return to me.

Chairman BOGGS. Mr. Curtis?

Representative CURTIS. I wanted to have Mr. Rumsfeld go first, but I just couldn't let this go by.

I am not entirely sure that the benefits of these closed-in deals with the African countries and the Western European countries aren't going the other way. Maybe it is still the old milking process of colonialism with a new title. You say that this might cut down on this assistance to these African nations. I wonder if this remark presents the case correctly, because I know there are students of this who say that the benefits are still going from the less-developed African countries to the developed European countries.

Mr. BALL. I think they are going both ways, Mr. Curtis. The French experience is one that I think is the most conspicuous. The French are putting very substantial amounts of resources into the African countries. They are helping them to develop. At the same time you are

entirely right, these countries remain happy hunting grounds for French producers, French industrialists. And to that extent the countries do contribute to the French economy as well. I don't argue with that. But I would guess that the benefits, when you add in the amount of foreign assistance that goes in which might not go in if the closed systems didn't exist, I would think that it would be a net benefit of some value to these countries.

Representative CURTIS. I think this is something which should be evaluated the same way we judge the relationship of the satellite countries behind the Iron Curtain with Russia. Is that really a reciprocal economic deal, or do the benefits flow one way?

Mr. Chairman, first let me apologize to you for not having been able to attend these hearings, which I think are so important. But you know where I have been. I have been in the Ways and Means Committee, on which you and I serve, which is engaged in the final weeks of some months study of the social security system. To me it is an interesting thing to realize that when we are talking about welfare we are talking about a way to put people back on their economic feet. And here when we say "trade, not aid," I think we are talking about foreign aid as being a technique to help nations get on their economic feet. The similarities are economic ones, and I think they are very striking.

And then let me express my appreciation for the two witnesses for taking time out to come down here and give us the benefit of their wisdom and judgment, which is, of course, considerable in this area.

Mr. Chairman, I don't know whether it has been done before, but I would like to call attention to a study of trade restraints which appeared in the Ways and Means Committee's hearings on the Trade Expansion Act of 1962. Here was an attempt to look into the nontariff trade barriers. And I know that this kind of material is going to be valuable in this current study. (See p. 303, appendix.)

Another thing—and this I would like to suggest be made a part of the record—is "Non-Tariff Trade Barriers of the United States," a study conducted by Noel Emminger, United States-Japan Trade Council. It talks about U.S. nontariff trade barriers, and I think we need a similar study in depth of these other nontariff trade barriers.

Chairman BOGGS. Without objection, it will be made a part of the record.

(The material referred to appears in the appendix, p. 345.)

Representative CURTIS. Mr. Ball, the thing that has been basically worrying me—and this is in the light of your recounting the history of the Reciprocal Trade Acts, which really have all been amendments to the Smoot-Hawley Tariff Act of 1930—is the idea that we are now out of trading material, now that we have got the tariff rates down. But I have been deeply concerned with whether we haven't in many, many instances been replacing the tariff technique for regulating trade with something that I would regard as much more regressive. I refer to the license and quota approach. And I think the Long-term Cotton Textile Agreement would give grounds for this concern.

Of course, we have had the sugar license and quota setup for some time. And we now have an international coffee agreement. We are talking about an international cocoa agreement. And they are talking about extending the cotton textile agreement to include wool and man-

made fiber. We have got the oil import quota arrangement. Do you see a danger of moving forward to what we call mercantilism at the same time we have been taking down the tariff barriers, so that we will end up with not having keyed up trade, but having restricted it by the use of the other techniques?

Mr. BALL. You touch on a very sore point, Mr. Curtis, because I invented and negotiated the cotton textile agreement, and it has always been on my conscience. I think it was a bad thing. But I did it only because if I hadn't I was very much afraid that Congress was going to impose mandatory quotas, which would have been even worse.

But I wholly agree with you, I think that there is a tendency to try to substitute for the tariff quota restriction or other impediments, based very often on a rather specious issue of national defense. And I think these are very bad, for the most part.

Representative CURTIS. I should have mentioned the other one, too, the United States-Canadian Auto Treaty. Yet, if at the time it was made, it was said that this was the beginning of a real Common Market with Canada, I could see some logic. But if it was just the beginning of dealing with commodity or industry arrangements on a bilateral basis it would appear to be a very dangerous precedent.

Now, there has been some conversation to the effect that this is a beginning of a real common market with Canada. Would you comment on that?

Mr. BALL. Of course, it also was devised to counter a greater evil, which was the threat by the Canadian Government under the leadership of a rather nationalistic Finance Minister at that time—he is a friend of mine, incidentally—to put a requirement of local origin on a great part of the production of automobiles in Canada. And if this had been done, it would have stultified and interfered with trade to a far greater degree than the solution we finally arrived at. I thought the solution was pretty good, given the atmosphere and the circumstances in which it had to be developed.

On the question of a Canadian-American free trade area, or customs union, as the case may be—depending on whether we arrive at a common exterior tariff, or don't—I would agree with what Mr. Rockefeller said, but with a very big question mark, for I don't think the objection to it comes from the United States side nearly as much as it does from the Canadians. The Canadians live in a country which has one-tenth the population of the United States with one-fourteenth the gross national product, and they live in mortal terror all the time of losing their national identity from living next to this giant. Yet I would doubt very much if there can be complete free trade back and forth without a considerable erosion of national identity, and I think this is what most Canadians think. Personally, I feel they are fighting a rear-guard action, a losing battle, because I don't think over the years they will be content to have a 25-percent lower standard of living than the United States just in order to preserve their national integrity.

But these are fighting words in Canada.

Representative CURTIS. Of course, being in Congress, I am in the place where great pressures are applied. And I think the thing that bothers me—you can argue that this is true of almost any area,

whether it is the auto industry, or whether it is the sugar people, or whether it is oil, or textiles, or whatever, it is whoever puts on the most political muscle that wins. And this is what has bothered me. You can take each one of these items. We could discuss the all-important quota. And you could say the agreement was the lesser of the two evils.

I hope we are trying to develop some rational system rather than a system that is based on who can generate the most political pressure.

The thing that disturbs me as I read history on this subject is the reaction that the people have had to the Smoot-Hawley tariff. The determination of the tariffs got to be wide open—who could put on the most political pressure. And I think we are moving very rapidly to this kind of situation now. And that is why I make these remarks. Are we really moving to what I would hope would be a liberalized or more reciprocal setup in international trade?

I do not look for free trade in any sense, but fair trade, because I happen to think this is an imperfect world, and there are many economic differentials that perhaps need measuring, or legitimately can be measured. You could possibly allow for differentials through the tariff technique—which is the most liberal of all the techniques, I would argue. Or you can go to this license quota system, or these many, many varieties of Government subsidies which we haven't really discussed.

The United States is in that subsidy business. That was the problem we got into in the two-price cotton. This is the problem that faces our petrochemical industry here today. Because of the oil import quotas and so forth, the price that they have to pay for their raw material is greater than their competitors in the international marketplace have to pay. Again we see that one subsidy begets another subsidy, as we found in the long history of cotton.

So, I am not posing this question idly. Are we really liberalizing world trade? In fact, your response worries me even more. To each one of these items that I have seen come before the Ways and Means Committee, and before the Congress, the answer has been what you say, "Well, this is the lesser of two evils." In other words, the first evil is the pressure—I assume I am right in saying so—the political pressure being put on by an organized industry.

So, the common and easy way seems to go to something second best. What I would think would be the preferable thing is to face up to these problems. Let's have a public dialog. Let's have a national discussion. What is the best arrangement? As I asked the automakers, Is your interest best served by going along in this line of bilateral commodity agreements? Because, if it is done in autos, it can be logically extended to any industry, the logic to do it in any commodity is there. We can go back to bilateral negotiations and away from multilateral, and we can forget about most-favored-nation clause principles. Maybe that is what we are headed for. I think we have got to face these issues.

Would you care to comment further?

Mr. BALL. I don't disagree with you at all, Mr. Curtis. In fact, I think you have stated very well a serious problem that we do face, which is the tendency of particular industries, when they are confronted with some imports—and they don't even have to be very large in a number of cases—to try to mount pressure for some kind

of special treatment, such as a mandatory quota or some device which would have the substantial effect of limiting the volume of imports. And if it is in an industry such as the cotton textile industry, where there is a cotton mill in almost every political district, it is likely to be pretty important pressure.

Representative CURTIS. My time is up. But we have got to face the problem.

And I am thinking of our great steel industry. They came to the Congress early this year talking in these terms. And let me try to make it clear, I am deeply sympathetic and I have a great admiration for our domestic industry, our textile people, and our steel people. And all I have been asking them is, What are the facts? Let's find out what really are your problems? If they are what I think they are—and I might be wrong—your solution does not lie along these lines. And that is what I tried to say to the cotton textile people, this isn't your solution. They might not be wrong, they know their industry. But let's get the dialog going in public, and let them advance their arguments. But I find that when they get sympathy from other people in politics in response to bring these pressures, it puts people like myself in a very unenviable political position.

I hope I am not so naive that I don't recognize that. Coming from St. Louis, Mo., I represent some of the industries most involved in this problem of imports and international trade.

Thank you.

Chairman BOGGS. Thank you, Mr. Curtis.

Mr. Rumsfeld?

Representative RUMSFELD. Mr. Rockefeller, in your statement you suggest that the full impact of the recent discussions is not known, and you indicate there will be export opportunities as well as somewhat stiffer import competition. Could you, from your background on this subject, possibly touch on some of the problem areas you see? In view of the discussion Mr. Ball had with Mr. Reuss and Mr. Curtis, I think that the dialog and the discussion of some specifics in this area might be useful.

Mr. ROCKEFELLER. I think perhaps the biggest problem area is the one we have been touching on of nontariff barriers, because those are the areas which have been least dealt with in the Kennedy Round. As I also suggested in my paper, I think it is an area that needs to be worked on most in the period ahead. Most of the discussion since that time has been along these lines. And I think we can agree completely with its importance, but we must also recognize the difficulties of the problems.

Representative RUMSFELD. You also indicated that you were very much in favor of providing the Government with some type of negotiating authority to carry out minor adjustments. I assume you have some specific portion of the Government that you are referring to beyond simply a branch of the Government.

Mr. ROCKEFELLER. I would think that the power would have to be entrusted to the President, and that he in turn would designate the appropriate agency to act on his behalf.

Representative RUMSFELD. Are you satisfied with the structure of the Government and the ability of the structure as it presently exists

in this area of trade to deal with these problems? There have been proposals to try to bring together various aspects of this problem within the executive branch, and the different categories or compartments, feeling that there were some problems that existed. And there has also been some suggestion with respect to the relationship between the executive and the legislative branches in these areas. And some problems have been highlighted by Mr. Ball. Have you made any recommendations in this area?

Mr. ROCKEFELLER. I have not. And I haven't had sufficient personal experience to be able to pinpoint the areas where there are difficulties, and where improvements could be made. I am sure they exist. And I am sure that the closer that the administration and the Congress can work in this area, the better. This has certainly been a problem in the past, that there has not been full agreement between the administration and Congress. I am in favor of anything that would encourage that, but I have no specific proposals.

Representative RUMSFELD. Before I turn to Mr. Ball, possibly you could comment on the question that has been touched on here by Mr. Reuss and Mr. Curtis. I think it is fair to say that Mr. Reuss has suggested a certain timidity, and cautioned against throwing in the sponge. And Mr. Ball agreed that we should try to have a dialog in this area.

Mr. Curtis has pointed out some of the problems with respect to specifics in relationship to the executive. And Mr. Ball in response to a question talked about negotiating first with the Congress rather than other countries. Now, the Congress does change, at least in part, every 2 years. And the system is constructed so that theoretically it is capable of being responsive to the people. I would suggest that at some point is is well to move beyond suggestions that Congress has simply not seen the problem properly, and possibly turn it inward to the executive, who claim special knowledge in this area, and ask some questions as to what we could attribute the monumental lack of persuasiveness and inability to adequately discuss and conduct the dialog on the subjects, so that the people of this country—and therefore the Congress, assuming Mr. Ball is right—might be in a better position to deal with some of these problems.

Do you have any thoughts on this absence of a constructive dialog that brings ideas point to point? Is it too complicated an idea? Is the executive, as Mr. Curtis suggests, tending to be too timid, and taking lesser evils rather than trying to sell broad concepts that may be understood and that make sense and are legitimate and justifiable?

You are in a unique position, I think. You are not in the executive or legislative branch. And possibly you could be helpful to both.

Mr. ROCKEFELLER. It may take more time than I possibly should take, in the best interests of the institution I work for, to make speeches on subjects of this kind, having in mind just the sort of thing you are speaking of. I do agree that citizens as well as Members of Congress must speak out and express themselves and try to explain the problems of public policy on matters of this kind. I say, I am striving to do so.

I suppose one of the principal difficulties in arriving at a more satisfactory dialog is the fact that a person, or rather special interest, often loom larger in the minds of individuals who came to speak to

Members of Congress than broader matters of policy. If there is a pinching, even if it is only a small one, that is felt more acutely than a broad, philosophical concept or objective, then it seems to me that some of the regretable legislative acts that are taking place have been the product of that kind of special interest.

Representative RUMSFELD. I have not been in Congress as long as Mr. Curtis. But it is my, at least tentative, conclusion that the pinch within the Congress is generally felt in the very restricted number of areas of the country, not across the border. And it is true, it is acute where it hits. But I have at least the feeling that if the dialog were conducted better, and if arguments that could at least point to the contrary were developed, that our system is capable of dealing with these problems.

Mr. ROCKEFELLER. I agree with you. And I don't think that most of us who speak out on these questions in hopefully objective ways do enough of it.

Representative RUMSFELD. I was most impressed with both of these statements.

Mr. Ball, as an ex-resident of the 13th District I am delighted to see you here. And I was very interested in your statement. Would you like to comment on this question that I have raised?

Mr. BALL. I think it has very broad ramifications, the question as to how one can best discuss what are basically conceptual problems with the public and keep them interested, and at the same time offset the very specific interests that might be affected by the adoption of a particular measure. We have this question of preference treatment for the less-developed countries, for example.

Now, I think that generalized preferences, most of us would agree, are a good idea in principle, because they are a way to enable the developing counties to establish markets in the industrialized countries, and get a little headstart. It may be that one should grant these preferences only for a limited period of time to give the new nations a chance to get a beachhead in the industrial revolution. But I can see enormous practical difficulties, because I think——

Representative RUMSFELD. You have lived with them.

Mr. BALL. I have lived with them. The kind of industry which is best suited to the abilities of a less-developed country is a labor-intensive industry, and in such an industry there are, by definition, more individuals interested in it—the working force in every country—than in a capital-intensive industry. Thus a labor-intensive industry has an unusual ability to mobilize pressure. So far the dialog has always been the other way, just as Mr. Curtis has suggested. The question has been whether we should impose impediments to the imports of those articles. Can we now turn it around and say not only that we are not going to impose impediments, but we are going to grant preferences? I find it hard to believe this is possible, no matter how seriously one makes the point in public discussion. And yet it is a very important thing, because unless we can assist these nations to get a beachhead in industrial production, and find a place in world markets, then the problem of being able to meet their requirements through external grants out of the public sector every year becomes a continuing one, and a more and more irksome and difficult one.

I don't know the answer from the point of view of political feasibility. I am just extremely doubtful that one can do it.

Representative RUMSFELD. My time is up.

The chairman, Mr. Boggs, has pointed out that the Joint Economic Committee is a bit removed from the daily legislative struggles and can, I think, assist in the dialog, in trying to take a longer range view of the problems.

I would just simply again, thank you both, and possibly it is naive, but I have, I think, at least at this point, a great deal more confidence, and would hope that the executive branch would not (*a*) throw its hands up; or (*b*) decide that it must compromise on something that is less distasteful, rather than trying to analyze its past and present and future with respect to the computation of the dialog.

Chairman BOGGS. Thank you very much.

Senator Percy?

Senator PERCY. Mr. Chairman, I do not want to take the time of the subcommittee for questions, because you have been with this a long time, and I am not a member of this subcommittee of the Joint Economic Committee.

But I did come down from hearings on housing in the Banking and Currency Committee because the two witnesses that you have today are in my judgment two of the most forward-thinking, progressive men that I have known in public life as well as in business. They recognize and epitomize to me the true partners in progress that we have in this country, where someone comes from the law into public life and returns to the law. They give to our Government and our whole system a spirit of forward-looking, progressive thinking that imaginatively and boldly paints what the future of this country and the world should be. And certainly David Rockefeller's contribution to the field of banking, as he has worked with Government through the years, is remarkable for its foresight and perceptiveness. I can go back and find value in any of the things he said 8 years ago about the future trend of our relationship with other nations as seen through the eyes of the bankers. It is not because his nephew is now my son-in-law that I say this. I have long held this opinion. This is the first time that I have had an opportunity, while in the Senate, to comment on tariff and trade. I would just remind our chairman and Congressman Curtis that I have appeared as a witness before the Ways and Means Committee and the Senate Banking Committee and the Finance Committee through the years on every trade bill and that was ever presented to Congress as long as I have been in business. And some of those were excruciatingly painful experiences, Mr. Chairman.

Chairman BOGGS. I would like to say that the Senator has appeared before various subcommittees that I have chaired many times, and he has always been tremendously helpful.

Senator PERCY. You will recall that I testified against my industry, because I felt that the facts they were presenting were wrong. I had more faith in our industry than those who came down to plead their special case. I had more faith than the makers of the yellow box in Rochester that I have been fighting so many years in a friendly way, and all the other friendly competitors that we have, that we could survive. I was told by the people in the industry that this company of ours

out in Chicago would die if Congress allowed the Germans and the Japanese to pour their products in, produced by cheap foreign labor, and allowed to compete against our products. And I was proud, as a result of that testimony, that our industry's tariffs were reduced 40 percent at one fell swoop on one day. I am proud that the Kennedy Round that I fought for has successfully reduced them another 50 percent, because I know that industry is going to survive. When I began testifying they said we would dry up and blow away if we had to compete on a fair and equal basis with foreign competition. At that time, our employees numbered 1,300. Our sales were $13 million. I am happy to say that that same little midwestern company now has sales of $250 million, and has 13,000 employees. And we are, I think, getting out of that category of small business, not because we came to our country and said, we are so weak and inexperienced, and we have such little faith in this system that we need the protective help of subsidies from the Government.

So, with good conscience I can say to my friends in steel and in the meatpacking business and all these other companies that have competition from abroad that through the years I have been for the consumer. That is what this economy is all about. And as we go into this new phase, as Mr. Rockefeller emphasizes, there are things other than tariffs that involve the free movement of goods and services. I know we are going to be aggressive and imaginative in the Congress, and I hope in the business and legal profession and banking community, to adjust this great country to the whole new period of change that we are going to face ahead.

I don't think any company should come here and say what is best for our country. That is what the Congress should do. I think a company can stand up and say we are going to adjust to whatever is best for our country.

And that is the spirit of these two men who have through the years, I think, been a tremendous inspiration to me, both of them, and I know to others throughout the country.

And I commend your witnesses this morning. And I want to say that Senator Ribicoff started this testimony upstairs with a quotation from David Rockefeller, and we talked about that quotation for an hour and a half. And that is the reason I couldn't get down sooner to hear the testimony.

Thank you, Mr. Chairman.

Chairman Boggs. Thank you, Senator Percy.

Congressman Bolling?

Representative Bolling. I would like to pursue the differences of degree and of timing between the two witnesses as to the solution for the treatment for the developing areas' problems. And it seems to me that the best way to do this at this time is to ask Mr. Rockefeller why he feels, as he says, that the most desirable approach—this is on page 7—would be for our own Government to take up its problems, the problems of the developing areas, with the governments of other industrial nations and try to persuade them to join us in granting tariff preferences to all the underdeveloped countries. I am well aware that you two gentlemen, in your different capacities, have worked together for many years on this subject. So, I am interested in the apparent

differences, at least in degree, as to your hope of success. And I think this is the difference in the approach recommended by Mr. Rockefeller.

And, Mr. Rockefeller, I would like you to speak to that, why you are hopeful that we might achieve what we have not been able to achieve so far.

Mr. ROCKEFELLER. Mr. Bolling, perhaps if I had had the years of disappointing negotiations that Mr. Ball has had that I would be less optimistic than I am. I have not had those years of negotiation. And I am basically an optimist by nature. So that I still am convinced that the right solution ought to be a possible solution. I am strongly convinced that, as I said in my testimony, it is important to continue and preserve a multilateral nondiscriminatory approach. And I am very much afraid that if we join the Europeans in a different approach, which, in effect, would abandon the most important principles of GATT, that we would lose more than we would gain. And therefore, with Mr. Reuss, I am not yet prepared to do it. I think that we have just won a resounding and encouraging victory in the results of the Kennedy Round negotiations. That would lead me to feel that there is still hope that we can win another round in relation to the nontariff barriers.

Representative BOLLING. Mr. Ball, do you care to comment?

Mr. BALL. I regard myself as an optimist, also, Mr. Bolling. In fact, some of my friends have accused me of being rather pathologically an optimist.

But I do have doubts as to the ability as to any—and I don't confine this to the United States—the ability of any of the major economically advanced countries to adopt and administer a system of generalized preferences for less-developed countries. I don't think our problem is with Europe in the first instance. I think our problem is at home. I think it is a question of our own inability to do this. Even if this became a matter of public debate, I am not sure where the public would come out. I think there would be serious doubt in the public mind as to whether we should give a preference in our markets for what they regard as the cheap-labor countries in industrial production. And I am just not sure, even if we were to carry this to the country in a big public debate, who would win. Because I think on the other side you would find all, or 90 percent, of the companies, particularly in labor-intensive production, shouting from the housetops about the fact that this was going to be ruinous to American business. And I think you would find a substantial part of the American labor movement, particularly in labor-intensive industries, supporting the same view. And I think it would be very difficult.

I would hope Mr. Rockefeller is right, but I am doubtful.

Representative BOLLING. Mr. Rockefeller?

Mr. ROCKEFELLER. It seems to me the real issue is how serious for our country this widening gap between the poor and the rich nation is. In my judgment, it is very serious. I think this is one of the two or three most important problems that we face in the world which is of comparable importance to our domestic problem in the urban area. If this is so, then it is perfectly apparent, it seems to me, that we in the United States have to play a leading role in trying to reverse that trend.

One way that it can be done is through economic assistance. And as

I indicated in my testimony, unfortunately, I think ill-advisedly, the Congress and the country is becoming less enamored with economic assistance just to the point when in my judgment it is being administered more effectively and more intelligently than it ever has been. If we are to increase rather than cut down on foreign assistance, the need for some kind of tariff preferences might be diminished. I do think, as I said also in testimony, that tariff preferences are in fact a kind of economic aid. But given the reluctance on the part of the country and Congress to support adequate programs, it seems to me we must turn to the other if we recognize the reality and urgency of this problem.

Mr. BALL. If I may add just one word, Mr. Bolling, about the difficulty, the relative difficulty, of getting an appropriation for economic aid as against the difficulty of some kind of an arrangement to give up part of our market to the production of the developing countries. I think experience has shown that Congress would be much more inclined, and the public would be much more inclined to support money for economic assistance, because the burden falls generally on the taxpayer, than it would be to support legislation that would provide preferences in American markets because the burden there would fall on specific identifiable groups of people who are articulate and can make their concern felt in some form of political action.

Representative BOLLING. If that is correct, and I expect it is, we are in serious trouble, because Congress shows no particular willingness to maintain what the Administration—and I guess many others—feel is an adequate level of economic aid. At the same time—and I don't remember this coincidence of events ever taking place, at least in my experience, since World War II—there seems to be a growing reluctance to go along with freer, to use the general term, trade. And I would suggest that it may be—and this is a rather different set of circumstances than we were in not too many years ago during the administration of President Eisenhower, as I remember it, when by one vote only we preserved the extension of the Reciprocal Trade Act on a procedural matter.

This sufficiently galvanized a substantial number of people, not in the executive, but also in the executive and in Congress, so that a major educational effort was undertaken by private groups. And while I wouldn't for the moment deny the fundamental responsibility of the executive and the Congress, I would suggest that if my reading of the situation is correct, that the kind of effort that was needed in the middle fifties to revive public support for reciprocal trade, as it was then called, is needed in both areas unless the policy of the United States is to result ultimately in a disaster to the United States in both fields.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Mr. Bolling.

I might say that in connection with the statement just made that in 1961 and 1962 we did have very much of an educational program both in and out of Government to secure the enactment of the 1962 act, which a lot of people thought was not possible prior to that time. The difficulty of the problem can be illustrated in many ways.

I was interested in the remarks of Congressman Curtis. And there comes to my mind an incident where the president of one of the large

international oil companies came before one of the committees I headed in this field and protested the imposition of quotas, whether voluntary or compulsory. The next day the president of one of his wholly owned subsidiaries, which was engaged in domestic production, came in and complained very bitterly about the proposal not being sufficient. And I took the liberty of asking the question, had he consulted with the president of his company before he made his statement. And he was a bit chagrined to realize that his policy was quite different from that of his own company.

This certainly, to my mind, points up the type of interest, and it does cut across all kinds of lines in this area.

Of course, it induces me to ask one question. And that is, with the impact of the developing supranational corporations being set up now, and having been very much so in the last decade, how do you see this as overcoming these barriers other than tariff barriers which have been created by the developing nations?

Mr. ROCKEFELLER. I would hope that this development of the multinational corporations would be beneficial to a more liberal approach to trade, and in restrictions to trade.

Chairman BOGGS. In a way, don't they get around the restrictions?

Mr. ROCKEFELLER. In part by investing in other countries they reduce the need for exports. But I think that is an oversimplification. There are many cases—take the case of Caterpillar Tractor Co., which has huge investments in many parts of the world. It is the second largest exporter. And the experience that they have had has been that their exports have grown with foreign investment rather than shrunk, because they have continued to supply parts and various items that could not be produced completely abroad.

So, my feeling is that the multinational corporations will help in a more understanding and, in my judgment, a better attitude on trade, and that it also has another beneficial effect to the extent that these corporations would become international in character, and are less clearly identified with the United States, and U.S. personnel—many of them now have policies of establishing headquarters in different parts of the world, and they are employing an increasing proportion of foreign, not only employees, but executives—and I think that as this internationalization of the corporations takes place, it may tend to lesson the resentment and resistance on the part of foreign countries to American investment, and what they consider to be, I think inaccurately, American domination.

Chairman BOGGS. Mr. Ball, would you comment on that?

Mr. BALL. I agree entirely with Mr. Rockefeller. And I think, as I suggested in my statement, that there is one further consideration here. The ability of the multinational corporation to fulfill its real objective, which is the use of resources wherever they are found in the most efficient manner for markets wherever they are developed—this implies a gradual washing out of the restrictions that are based on national lines. These multinational corporations are simply too big to operate within national restrictions. And when such instructions are imposed, they interfere very seriously with the fulfillment of the purpose of these corporations. And I think that the realization of this point may over time, tend to erode away these impediments based on national boundaries.

Chairman Boggs. Thank you very much.

Mr. Reuss?

Representative Reuss. Thank you, Mr. Chairman.

Mr. Ball, in connection with this parceling out under the proposed closed system, you suggested that it may well be that Europe gets Africa and the United States gets Latin America. Who gets India?

Mr. Ball. That is a very fair question, and I have been waiting for it. Of course, what your question does is to point to some extent to the vice of a closed system, in that there are always some people who are left out of any closed system. Then the question is, do you have more closed systems, or do they simply suffer from being outside?

This is why in 1963, I think it was, when there was a first meeting of the UNCTAD, the Indian Government, which enjoyed the preferences of the Commonwealth system, opted to support a principle of generalized preferences, because they were rather afraid that at the end of the road they might be left out.

But I would think that if one looks at the experience of the last few years that Africa is a place where a considerable amount of resources have been going from Europe, and there has been a very high volume of trade.

India is a situation where most of the support, I would say 90 percent, I don't know what the figures are, exactly, has been provided by the United States, or the Soviet Union, and a very little has come from Western Europe. I would suspect that that would be the system that would continue.

Actually, what we are talking about isn't as serious as it sounds, because the kind of production that you talk about when you think of Africa is the productions of tropical products primarily. They do compete with Latin America. They don't compete very much with India or almost any other area of the world. This is a rather special situation. I would suppose that, to the extent that aid is provided, we would continue to provide it. Whether or not there would be any virtue in trying to have a closed system with regard to India—I would doubt it. It is in a closed system now, it is in the Commonwealth system, and it does enjoy the benefit of Commonwealth preferences. They aren't terribly significant except on certain items. But they are significant in this, that the British, for example, have been prepared to accept cotton textiles from the Commonwealth, even though classically they are a low-cost labor item—they have been prepared to accept them and rationalize their own cotton industry, to the point where, though Britain was once on balance an exporter of cotton textiles, it now gets, I have forgotten the figures, something like 50 percent of its requirements from abroad, and primarily from the British Commonwealth. So, India is already in a closed system.

Representative Reuss. Mr. Rockefeller, you are quite right, I think, in saying that the great trade task is the reduction of nontariff barriers. On the tariff barriers themselves, you say in your paper that not too much additional tariff cutting is in your judgment going to be possible or even desirable. You then go on to make several points, one, that they should try to cut down their preferences now granted by Europe to Africa and if you are going to cut down those preferences, the real way to do it is by tariff negotiations, that is, you aren't likely to get

the Europeans to give up their preferences to Africa, the way to salvation is to have them diminish their tariff barriers toward others, notably Latin America, is it not?

Mr. ROCKEFELLER. Yes. Perhaps I didn't express myself as clearly as I should have. I was thinking of general tariff reduction along the lines of the last six GATT negotiations. I do feel, and so stated, that there is a need for special preferences on a generalized basis from the industrialized nation to the developing nation as a means of helping them improve their luck.

Representative REUSS. In addition, then, to that kind of tariff cutting which you and I agree remains on the agenda, you then turn to the United States-Canadian relationship and suggest a free trade area, and you indicate the possibility of enlargement, mentioning specifically Mexico. Would you be willing to consider enlarging that concept a little bit so that if—well, maybe more than a little bit—so that it related not only to Canada and Mexico, but possibly to those members of EFTA which, for one reason or another, are not able to make the grade into the Common Market?

Mr. ROCKEFELLER. This doesn't shock me too much, though. I think it is conceivable that England would find it more acceptable to come in on that basis. And if they did, I would see no objection from our point of view to having them come in on that basis.

Representative REUSS. Doesn't this then suggest that there may well be a considerable role for tariff reduction in the years ahead as well as the reduction of nontariff barriers, the need to do something about the incipient discriminations with regard to the developing nations, and the need to see what can be done with the free trade barrier concept? In your paper as a whole you say that you don't mean to exclude tariff reducing negotiations, though perhaps of a new kind, from things that we have been discussing.

Mr. ROCKEFELLER. A new approach is what we have really been saying. I think it would either be on the basis of a regional elimination altogether, the formation of a regional free trade area of which we would be a part, or, as I mentioned before, aid to developing nations. And what I was really speaking of was a new round of GATT negotiations on a worldwide basis.

Representative REUSS. But even then, when you get all these exceptions into it, don't you think that a possible approach might be a new round of GATT negotiations, profiting by the lesson the Kennedy Round, which would try, one, to multilateralize matters by reducing those preferences, or by reducing tariffs generally; and secondly, making another attempt, whatever the chances of success, of getting the Common Market to give up some of its restrictive protectionism, and thirdly, to move, if not into free trade, at least into something which would make trade a little more free; if the Common Market wants to exclude itself from that multilateral basis, so be it, although I would by no means conclude that until we have tried it. Would you be prepared to accept a formulation along these lines?

Mr. ROCKEFELLER. If there is to be another GATT negotiation, I would have thought that it would be more productive if it devoted itself primarily, if not exclusively, to the nontariff barriers.

Representative REUSS. But where GATT is all we have got, where

else do we hold these nearly global negotiations between the developed countries in Europe, this country, and Canada?

Mr. ROCKEFELLER. This country and Canada, I should think, would have to be negotiated between Canada and ourselves. And that should probably take place before we included other countries. It is conceivable to me that if Britain is finally and definitively excused from the European Common Market, that then conceivably she might be included in the three-way negotiation that we might undertake. This would seem to me to make some sense. I do not think that can be handled through GATT. Possibly discussions of generalized aid to developing nations could. And I would certainly favor GATT as the vehicle, if that proves to be the right thing.

My recollection is that this has been discussed in the past or through OECD, has it not, rather than GATT?

Mr. BALL. OECD and UNCTAD.

Mr. ROCKEFELLER. Yes.

But certainly, I would welcome another GATT round on the nontariff barriers. And I think it might be more profitable to concentrate on that rather than trying to include more tariff reductions on the general basis. That was really my main point.

Representative REUSS. Thank you. You have clarified it.

Chairman BOGGS. Mr. Curtis, we have time for one more question.

Representative CURTIS. First, I wanted to just make this clear.

I was glad to see opening up this very important area of investment which you have so vitally linked with trade. And I worry very much, by the way, about Government investment. I have pointed out that according to Gresham's Law, Government money has a tendency to draw out profit. It doesn't have to, but it tends to. But rather than go into that area, because of time, I would just like to revert very briefly to what Mr. Reuss has been pointing out. I think essentially our tariffs are now down to a level where they don't amount to significant barriers to trade. But these other items do. And if people will reread what the GATT agreements are on the rules of the road on fair trade, they will find that most of these—or what we refer to nontariff barriers—are in the span of the GATT rules of the road, and most of the nontariff barriers, except some nonconforming uses, have been in all of our countries' laws for many, many years.

But moving in on one area, like antidumping, but getting a common countervailing duty approach, healthfully getting something done on buy domestic laws—buy America, buy French, and so on—moving into this international area of international patents, or some concept of international antitrust laws, and so forth.

But at any rate, I simply want to express my appreciation for Mr. Rockefeller's emphasis on the nontariff barrier area. That is more or less by itself a subject matter to be implemented through further GATT negotiations.

And in this process I think we bring in the problem of the less-developed countries. It is wrapped up more in the nontariff barriers than it is in the tariff.

Representative BOGGS. Thank you very much, Mr. Curtis.

In concluding these hearings on the future of U.S. trade policy, I wish to offer the subcommittee's thanks to our two distinguished

witnesses of today. They have brought to a close the subcommittee's preliminary survey of our trade policy problems.

As everybody realizes, we are only at the beginning of this study. But already it seems clear that our choices of future action are going to be difficult and more complex than in the past; for example, as Mr. Ball has pointed out today, the open system, to which our trade policy has been committed for a long time, is being subjected to increasing strains.

Also, the negotiating process is likely to undergo great changes. Nontariff barriers are of many kinds. Some of them are regarded as matters of purely domestic concern within the national unit, and therefore they are regarded by many people as not being negotiable. But even if the pace of change will probably be slow, national policies will accommodate to change. We must be sure that our bargaining is flexible and that the idea of reciprocity, which is the essence of bargaining, is not interpreted too narrowly. Trade policy touches many other policy issues, political as well as economic; it should not be dealt with as though it were entirely in a separate compartment. So, we must be careful in choosing what to negotiate and how to do it.

But if the future course of our trade policies is less clear today than it has been for many years, the opportunity for initiative is all the better. I believe this subcommittee is one appropriate forum for the study.

First, the legislative arm of government must make its full contribution, in ideas and in open debate, to the formation of such important decisions. Second, the Joint Economic Committee, removed a little way from the legislative struggles of each day, can manage to take a longer range of view in looking toward the future.

Finally, this very subcommittee played an important role in the examination of trade policy that led to the passage of the Trade Expansion Act of 1962. Therefore, what we have been doing is necessary, and I believe it is timely. And what we propose to do will take time, too. We are not going to rush to conclusions.

But we do have a sense of the great achievements of our policies in the past, and a thankful appreciation of the efforts of our negotiators in the Kennedy round, including Mr. Curtis, our Representative from Congress. We remember, even in this subcommittee, the devotion of men like Christian Herter and Will Clayton who were prepared to examine new ideas and to recommend giant steps when they were needed.

Our witnesses in these six hearings have given us invaluable guidance in maintaining that tradition.

We are particularly grateful to Mr. Rockefeller and Mr. Ball for the very fine contributions they have made.

The subcommittee will adjourn.

(Whereupon, at 12:10 p.m. the subcommittee adjourned, subject to the call of the Chair.)

APPENDIX

(The following material is included in the record at the request of Representative Thomas B. Curtis; see p. 288, this volume.)

QUANTITATIVE RESTRICTIONS AFFECTING U.S. EXPORTS (JANUARY 1962)*

The multilateral tariff conference just concluded in Geneva under the General Agreement on Tariffs and Trade (GATT) represents another important achievement in the lowering of tariff barriers to trade. These efforts would be of little value, however, if participating countries were free to impose quantitative trade restrictions without restraint to vitiate the benefits of tariff concessions. Countries party to GATT are therefore required to undertake a general obligation not to impose quantitative restrictions on imports from other GATT countries.

An undertaking as broad as this must, of course, be subject to certain exceptions and a number of these are specified in the agreement itself. These include controls necessary to protect human, animal, or plant life or health; controls designed to prevent interferences with certain types of domestic programs relating to agriculture or fisheries products; and measures necessary for the protection of a country's security interests. In addition, obligations under the agreement can be selectively suspended for individual countries in exceptional circumstances.

By far the most important restrictions applied by GATT countries, from the standpoint of their effect on U.S. exports, have been those permitted for balance-of-payments reasons under articles XII and XVIII of the agreement and the discriminatory application of these restrictions permitted under article XIV. For a number of years after the war, most nondollar countries maintained fairly extensive import control systems to conserve limited foreign exchange reserves and to channel export earnings into the purchase of goods most needed to stimulate economic recovery. Dollar exchange was in almost universal short supply so that most trade and exchange controls were applied more strictly against the dollar area than against other currency areas. As financial conditions improved, controls were relaxed, first on a regional basis. European countries established trade and payments arrangements to facilitate trade among themselves while generally maintaining strict controls vis-a-vis the dollar area so that a sizable "discriminatory gap" developed against United States and Canadian goods.

With rapid progress toward European recovery, however, currencies became more stable and the need for controls diminished. By the mid-1950's, under strong United States-Canadian pressure through the GATT, the International Monetary Fund (IMF) and other channels, European countries began to accelerate the relaxation and removal of controls against dollar goods and narrow the "discriminatory gap." At the end of 1958, the currencies in which most international trade is conducted became convertible and the financial justification for discrimination virtually disappeared. Since then a dramatic relaxation and elimination of quantitative import controls has taken place throughout the world. This broad movement was described in considerable detail in the third, fourth, and fifth reports by the President of the United States to the Congress on the trade agreements program.

Developments were summarized on a quarterly basis in the Commerce Department publication Foreign Commerce Weekly. Copies of these summaries covering the period from mid-1959 through 1961 are attached to this memorandum.

CURRENT STATUS

Most industrial countries now have few effective quantitative import restrictions in the industrial sector, although there are some important residual controls on agricultural goods. Many less developed countries still have rather

*Source: House Ways and Means Committee: Trade Expansion Act of 1962, hearings.

extensive trade controls systems but these usually do not discriminate against U.S. trade. Of the 40 contracting parties to the GATT, 15 still maintain restrictions on at least a part of their import trade for balance-of-payments reasons. The countries are: Brazil, Burma, Ceylon, Chile, Denmark, Finland, Greece, India, Indonesia, Japan, New Zealand, Pakistan, Republic of South Africa, Turkey, and Uruguay. These countries are required, under the GATT, to remove their restrictions as rapidly as conditions permit and a regular consultation procedure is provided to keep the controls under constant review. The GATT working party on balance-of-payments restrictions will examine the control systems of six countries in May 1962, and will hold consultations with additional countries in September.

During the period of accelerated decontrol following the European currency convertibility moves in 1958, a substantial number of GATT countries ceased to invoke the provisions of article XII and XVIII of the agreement. While these countries have removed most restrictions formerly applied for payments reasons, some residual controls still remain.

A current effort is therefore underway in the GATT to identify all residual restrictions applied by GATT countries which are inconsistent with obligations under the agreement so that further progress can be made in their elimination. A group of experts held an initial meeting on this project in Geneva during January 1962 and a second meeting will be held in May.

The articles of agreement of the International Monetary Fund (IMF) limit the use of exchange restrictions in much the same way that the GATT deals with import restrictions. The IMF, in which the United States also participates, maintains a close working relationship with the GATT in this general field, and the activities of these two groups reinforce each other in freeing trade from unnecessary administrative control.

Another international forum in which the United States is seeking to encourage the removal of trade restrictions is the Organization for Economic Cooperation and Development (OECD). The OECD came into force in the fall of 1961 as a result of a thorough revision and broadening of the former Organization for European Economic Cooperation (OEEC). The OEEC was set up in 1948 to facilitate European postwar recovery and make the most effective use of Marshall plan aid. With this mission accomplished, a reconstituted organization was set up at the initiative of the United States, oriented to deal with present and future major world economic problems and with the United States and Canada as full members. Its current work program includes plans for confrontations this year on trade restrictions applied by member countries.

Complementing and supported by the above international commitments and activities for removal of restrictions affecting U.S. trade are the bilateral representations constantly made through the many U.S. diplomatic posts abroad. These representations permit prompt consideration of problems as they arise, or at a time when local conditions are most favorable to a solution. The importance of trade liberalization is also stressed when high foreign officials visit Washington or U.S. officials confer abroad.

Through a combination of activities, including representations in multilateral forums and selective bilateral approaches to foreign governments, progress is being made in the removal of remaining quantitative import restrictions. A summary table, showing the current status of licensing and exchange controls applied by foreign countries, together with a more detailed statement covering the systems in force in over 50 of these countries, are attached to this memorandum.

[From the Foreign Commerce Weekly, Dec. 25, 1961]

SUMMARY OF FOREIGN CONTROL REGULATIONS APPLYING TO IMPORTS FROM THE UNITED STATES

The following tabulation of the import and exchange permit requirements of foreign countries, prepared by the Bureau of International Programs as an aid to exporters, has been revised as of December 1, 1961.

The regulations apply primarily to goods of U.S. origin and to other goods payable in U.S. dollars.

Many countries do not permit import of foreign goods except under import licenses, which must be obtained by the importer. In some cases an import license must be granted before the order for goods is placed, and some countries also

require the importer to obtain an exchange permit before he may make payment for the import.

U.S. exporters therefore are urged to make certain before shipping that the foreign importer has obtained the required permit, and they should insist on being furnished the identifying number or symbol of the permit.

More detailed information on licensing and exchange controls may be obtained from the Field Offices of the U.S. Department of Commerce. Publications covering licensing and exchange controls of individual countries also are available from the Field Offices at a nominal charge.

Country	Is import license necessary?	Is exchange permit required?
Afghanistan [1]	No, for most imports; but a declaration or customs permit must be obtained from Afghan border officials or trade agents abroad.	No; but permission to remit foreign exchange to exporters abroad must be obtained from Da Afghanistan Bank.
Arabian Peninsula areas:		
Saudi Arabia	No	No. Import licenses carry right to foreign exchange at official rate. Other goods may be imported by purchase of foreign exchange on free market.
Aden	No	No.
Bahrein, Qatar Trucial States.	No	No.
Muscat and Oman, Yemen	No	No.
Argentina	No; but most imports are subject to exchange surcharges.	No.
Australia	No, except for about 10 percent of imports, including principally textiles, toys, canned fish, aluminum products, and other miscellaneous items of minor importance.	No.
Austria	No, except for a number of agricultural and some industrial items which require an individually validated import license. Most industrial and some agricultural items may be imported freely under general license.	No.
Belgium	No, except for specific items. Licenses usually freely granted if still required.	No separate permit required.
Bolivia	No	No.
Brazil	No, except for nonessential or luxury goods and for items imported without foreign exchange cover. Most commercial imports require only a certificate of exchange cover.	No. Foreign exchange for imports is purchased in the free market. Certificates of right to purchase exchange for nonessentials are obtained at auction.
British Colonies not specified elsewhere. [2]	No, except for certain items not under open license and for the Bahama Islands where the license requirement is merely a formality.	No. Import licenses assures release of foreign exchange.
Bulgaria	Yes	Import license automatically assures foreign exchange.
Burma	Yes, except for imports by the Government, or goods importable under open general license.	Yes.
Cambodia	Yes	Yes; import license carries right to foreign exchange.
Cameroon, Federal Republic of	Yes	Yes; import license carries right to foreign exchange.
Canada	No, except for butter; butter fat; cheddar cheese; dried skim milk; wheat, oats, and barley and certain processed products of these grains; turkeys; natural gas; radioactive and fissionable materials, isotopes, and equipment for production, use, or application of atomic energy. Import of alcoholic beverages requires Provincial licenses. Secondhand automobiles manufactured before year in which importation is sought, secondhand aircraft, oleomargarine, and butter substitutes and spreads are prohibited importation.	No.
Central African Republic	Yes	Yes; import license carries right to foreign exchange.
Ceylon	Yes, except for "essential" commodities importable under open license.	Yes.
Chad	Yes	Yes; import license carries right to foreign exchange.

Footnotes at end of table, p. 310.

Country	Is import license necessary?	Is exchange permit required?
Chile	No; prior registration of imports is required, however, and many goods are subject to prior import guarantee deposits which must be deposited at the time of registration. The deposit is returned 30 or 90 days after date of deposit. Those goods not subject to import guarantee deposits pay surtaxes in addition to usual import duties, which range from 5 to 200 percent of the c.i.f. value.	No.
Colombia	Yes; nearly all imports require an import registration certificate, which is issued upon payment of a deposit. Imports included in the "prior license" list also require a specific license from the import-control authorities.	No; importer purchases foreign exchange from the bank concerned upon submission of import registration and evidence (customs manifests) that the goods have entered Colombia.
Congo, Republic of (Brazzaville)	Yes	Yes; import license carries right to foreign exchange.
Congo, Republic of the (Leopoldville).	Yes	Yes.
Costa Rica	No, except for live animals and for live plants, parts of plants, seeds, and the like.	No. Exchange regulations were lifted this year but many items are subject to import surcharges.
Cuba	The state-owned Bank for Foreign Commerce of Cuba (BANEC) is sole importer of all commercial commodities. (U.S. export regulations prohibit commercial exports to Cuba, with exception of nonsubsidized foodstuffs for immediate consumption, medicines, and medical supplies.)	All payments are made by Government Bank for Foreign Commerce of Cuba.
Cyprus	Yes; except for specified items on the dollar liberalization list, which are authorized imports in any quantity under "open import license."	Yes, but routinely issued upon approval of import license and for imports under "open import license."
Czechoslovakia	Yes	Import license automatically provides for allocation of necessary, foreign exchange.
Dahomey	Yes	Yes; import license carries right to foreign exchange.
Denmark	Yes; but no license is required for dollar goods on extensive general free list.	Yes; copy of license or importer's declaration with customs certification of import takes place of exchange license.
Dominican Republic	Technically no; but submission and return of a "statistical form" which must be submitted prior to ordering abroad is utilized in such a manner as to constitute an import license. Special import permits are required for highway construction machinery, radio transmitting equipment, railroad spikes, firearms, milk and milk products, rice, fruits and vegetables, seeds, tubers, rendered pork fat, and confectionary and other edible products in which sugar or chocolate constitutes the principal ingredient.	No; but there are administrative controls since all applications for foreign exchange require Central Bank approval. Importer must show that his "statistical form" has been approved when applying for foreign exchange to pay for imports.
Ecuador	Yes, except for small shipments; one copy must be presented to obtain consular legalization of prescribed documents. Some items considered nonessential are prohibited. Import quotas are imposed on certain items to stimulate local production. An advance deposit is required on most items.	No; import license carries right to foreign exchange.
Egypt (United Arab Republic)	Yes	Yes.
El Salvador	No, except for a few items such as chemical and pharmaceutical products, strong liquors, essences for making liquor, cotton, and sugar.	Yes.
Ethiopia	No	Yes. Certain commodities considered to be luxury items require prior deposit of Ethiopian dollars up to 100 percent of the value to be imported.
Finland	Yes; but an extensive list of goods may be imported without import license following action of Finland in placing imports from the United States and Canada on same basis as Western European countries participating in the multilateral trade and payments agreement. Commodities not on the import free list are subject, with certain exception, to a system of global quotas.	No separate permit required; import license carries right to foreign exchange.

Country	Is import license necessary?	Is exchange permit required?
France (including Algeria)	Yes, but only for a limited number of products specifically enumerated which are subject to quantitative import restrictions. All other products may enter under a simplified procedure. Customs authorities will allow imports of such products upon presentation by the importer of an import certificate or import license, usually granted automatically, and visaed by his bank, supported by an invoice or commercial contract.	No.
French Caribbean departments	No, except for a limited number of products specifically enumerated which are subject to quantitative import restrictions. These products include those listed for metropolitan France plus wood products and tractors. Beer is subject to license in Martinique and selected types of machinery in French Guiana.	No.
French overseas territories not elsewhere specified except French Somaliland.	Yes, except on items on dollar liberalization list.	No.
French Somaliland	No	No.
Gabon	Yes	Yes; import license carries right to foreign exchange.
Germany, Federal Republic of, including West Berlin.	No, except for a number of agricultural and some nonagricultural items which require an individually validated import license. Most industrial and a number of agricultural products may be imported freely under general license.	No.
Germany, Soviet zone, including Soviet sector of Berlin.	Yes; Government monopolies for foreign trade are the only importers.	Yes.
Greece	No, except for rice, coffee, sugar, motor vehicles, vehicular chassis and bodies, lumber, coal and coke, except anthracite, vehicular tires and tubes, iron and steel bars, shapes, sheets, etc., including tinplate, newsprint, specified machinery and spare parts, and a few luxury goods.	No; but applications for foreign exchange must be registered with the authorities. Bank of Greece approval is required for goods imported under Agency for International Development procurement authorization.
Ghana	Yes, except for single copies of books and periodicals, samples, personal or household effects, certain gifts and articles for reimportation.	No; but application for foreign exchange must have the approval of the Bank of Ghana or an authorized dealer.
Guatemala	No, except for maps of Guatemala, explosives, poultry, and wheat flour.	No.
Guinea, Republic of	Yes	Yes.
Haiti	No, except for wheat-quota imports, tobacco products, matches, rice, butter, and shoe polish.	No.
Honduras	No, except for firearms, gunpowder, munitions, explosives, alcohol, narcotics, pharmaceutical specialties, animals, plants, and plant and animal products.	No.
Hong Kong	Yes, for dutiable, strategic, or short-supply goods. Relatively few items affected.	No, except for few transactions financed at official rate of exchange.
Hungary	Yes	Yes.
Iceland	Yes, except for items on "special conditional free list" and a limited number of staples.	Yes, except for "special conditional free list" imports.
India	Yes, except for Government imports	Yes; foreign exchange is automatically released, however, upon presentation of validated import license to exchange bank.
Indonesia	Yes	No.
Iran	No, except for specific items such as cement, dynamite, tobacco, and insecticides.	No; but an exchange sale certificate issued to the importer when he purchases foreign exchange represents approval of foreign exchange transfers by authorized Iranian banks. This certificate and the shipping documents are required for clearance of imports through customs.
Iraq	Yes	Yes; permits are obtained through licensed dealers unless otherwise authorized by the Central Bank.

Country	Is import license necessary?	Is exchange permit required?
Ireland	No, except for a few products	No, except for importations exceeding £5,000 in any 12-month period.
Israel	Yes	Yes; import license carries authority (exchange permit) to obtain foreign exchange.
Italy	No, except for a limited number of items listed on the Table "A Import", for which Foreign Trade Ministry license is required (items not included on this list are free of license).	No, except with advance or delayed payments for more than 180 days, and in a few other cases.
Ivory Coast	Yes	Yes; import license carries right to foreign exchange.
Japan	Yes	Some commodities, announced by Japanese Government from time to time, require allocation certificate; for others, import license carries right to foreign exchange.
Jordan	Yes, except for imports from Arab League States with which Jordan has agreements.	Yes, except Arab League States in some cases.
Korea, Republic of	Yes, Bank of Korea licenses more or less freely automatic approval items included in both the importable and the specific import item lists provided importer applies for a letter of credit and complies with the "checkprice" system established by the Ministry of Commerce and Industry. Other authorized imports require special license from MCI.	No. Items on Government's importable (essential) import list may be imported with foreign exchange deposited in an import account in the Bank of Korea, purchased from the Bank, or purchased at Government dollar sales. Items on the specific (less essential) list are importable only with exchange earned from exports.
Kuwait	No, except for firearms, munitions, poisonous substances, pork, pork products, and alcoholic beverages.	No.
Laos	No	No.
Lebanon	Yes, for certain specified products	No.
Liberia	No, except for arms, ammunition, used clothing, pharmaceuticals, and rice.	No.
Libya	Yes. Licenses for goods which fall under general import license classification (all but a limited list) are granted automatically.	Yes; exchange permit issued automatically if import license has been issued.
Luxembourg	No, except for specific items. Licenses usually freely granted, if still required.	No separate permit required.
Malaya, Federation of	No, except for a few items not importable under open general license for reasons of health, safety, and morals.	No.
Mali	Yes	Yes; import license carries right to foreign exchange.
Mauritania	Yes	Yes; import license carries right to foreign exchange.
Mexico	Yes, for an extensive list of articles	No.
Morocco	Yes. A deposit of 25 percent of value of import must be made in advance by importer.	Yes.
Nepal	Yes	Yes; but the import license authorizes purchase of foreign exchange.
Netherlands	No, except for a few items	No.
Netherlands Antilles	No, except for certain luxury items	No.
New Zealand	Yes, except for a few items such as sugar, sulfur, unmanufactured tobacco, and most petroleum products.	No.
Nicaragua	Yes	No; import permit authorizes purchase of exchange.
Niger	Yes	Yes; import license carries right to foreign exchange.
Nigeria	Yes, but about 95 percent of all goods are permitted under open general license.	No; import license generally assures release of foreign exchange.
Norway	No, except for a limited list of nonliberalized products.	No.
Pakistan	Yes, except for Government imports	Yes; foreign exchange is automatically released, however, upon presentation of validated import license to exchange bank.
Panama	No, except for arms, ammunition, wheat flour quota imports, salt, edible oils except olive oil, certain live animals, plants, flowers, soil, hay, straw, fertilizers, animal products except canned meats, certain tanned hides, toiletries, pharmaceuticals, and a limited number of agricultural commodities.	No.

Country	Is import license necessary?	Is exchange permit required?
Paraguay	No; most imports are subject to prior deposit in local currency before shipment.	No.
Peru	No, except for plants, roots, seeds, cuttings, animals, medicinal cigarettes, explosives, firearms and other weapons, alcoholic beverages, salt, tobacco, chemical and pharmaceutical products, matches, hatching eggs, and duplicating machines.	No.
Philippines	No permit as such; but most imports are subject to exchange controls.	No permit as such; but letter of credit opened against exchange allocation is considered as exchange license. Exchange allocated to importers quarterly for one or more of six classes of imports. A limited number of commodities designated "decontrolled" many be imported without quota limitations at the official or preferred rate. More essential commodities may also be imported by qualified importers in excess of their quotas at the more expensive free market rate.
Poland	Yes	Yes.
Portugal, including the Azores and Madeira.	Yes, but granted automatically for most products.	Yes.
Portuguese Colonies	Yes	Yes. In Angola, however, import license carries with it authorization to obtain foreign exchange needed for payment of goods to which license pertains.
Rhodesia and Nyasaland, Federation of.	Yes, but all goods are freely importable under open general license.	Yes; import license carries right to foreign exchange.
Rumania	Yes	Yes.
Senegal	Yes	Yes; import license carries right to foreign exchange.
Sierra Leone	Yes; but only commodities such as cattle, firearms, and explosives are not imported under an open general license.	No; but application for exchange requires clearance by "authorized dealers."
Singapore [3]	No, except for a few items not importable under open general licenses for reasons of health, safety, and morals.	No.
Somali Republic	Yes	Yes.
South Africa, Republic of	Yes; except for goods on the free list and exempted list, most consumer goods are licensed on basis of exchange quotas established by the Government. Motor vehicles of f.o.b. value over 1,600 rands (1 rand=US$1.40) are prohibited. Other goods, including capital goods and industrial raw materials, are licensed on basis of importers' current needs; policy is to grant license applications freely for "reasonable requirements." Licenses are valid for purchases in any country, including the United States.	No; import license carries right to foreign exchange from authorized banks to the amount indicated in the license.
Spain, including, Canary Islands	Yes, except for items on liberalized list.	Yes, except for items on liberalized list.
Spanish Africa	Yes	Yes; import license carries right to foreign exchange.
Sudan	Yes, except for an extensive list of commodities that may be imported under open general license from any source. All imports must be registered with the Ministry of Commerce, which may deny registration because of commercial policy or excessively high prices.	No. Exchange is automatically granted for all permitted imports.
Surinam	Yes, except for certain goods paid for by a confirmed bank credit against documents valid for a term not greater than 6 months, or by documentary drafts to be collected through a bank with a term not greater than 90 days.	No; import license carries right to foreign exchange.
Sweden	No, for all goods imported from United States except automobiles and certain agricultural products. Import licenses for automobiles are granted freely.	No separate permit required. Foreign exchange, including dollar exchange, is automatically made available if import license specifies payment in such currency and if license is registered with a foreign exchange bank within 2 months after issuance.
Switzerland	No, except for a few agricultural products and a limited number of industrial items such as special type trucks, etc.	No.

Footnotes at end of table, p. 310.

Country	Is import license necessary?	Is exchange permit required?
Syria	Yes	Yes.
Taiwan (Formosa)	Yes	Yes, automatically granted with issuance of import license.
Thailand	No, except for specified items	No; but a "certificate of payment" issued by Bank of Thailand or authorized ban or company is required.
Togo	Yes	Yes; import license carries right to foreign exchange.
Tunisia	Yes	Yes.
Turkey	Yes, for items on global quota list under provisions of the 7th import regulations issued in July 1961. Import licenses for items on free list are issued routinely.	Yes; but one application suffices for both import license and exchange-control purposes.
United Arab Republic (Egypt)	Yes	Yes.
United Kingdom	No, except for a limited list of products; for example, grapefruit and citrus juices, fresh apples and pears, commercial airplanes, pharmaceuticals, cigars.	Yes, but issued automatically.
Upper Volta	Yes	Yes; import license carries right to foreign exchange.
Uruguay	No. On Sept. 29, 1960, Uruguay abolished all commodity prohibitions. The new system establishes 4 classes of imports: Those free of surcharge and prior deposits; goods subject to a surcharge of 40 percent of the c.i.f. value; goods subject to a surcharge of 75 percent; and imports with a surcharge of 150 percent and a prior deposit of 100 percent. Prior deposits are repayable after 9 or 12 months, depending upon the product, from date of registration with the Bank of the Republic of the intention to import. Size of surcharge depends upon essentiality of the product.	No.
U.S.S.R.	Yes; importing Government agencies are responsible for securing own permit.	Yes; all exchange is allocated by U.S.S.R. State Bank upon receipt of import license.
Venezuela	Yes, for an extensive list of articles	Required for transactions at the official rate. No permit needed for free market exchange.
Viet-Nam	Yes	Yes; import license carries right to foreign exchange.
Yugoslavia	No; but only licensed import firms are permitted to carry on import operations.	No; but Government maintains strict control over foreign exchange allocations.

[1] As most shipments to Afghanistan from the free world countries are shipped via Pakistan, shippers should take note that the border between Pakistan and Afghanistan is presently closed to all commercial imports and exports. U.S. exporters should keep in touch with their forwarding agents for current information.

[2] Includes Bahamas; Bermuda; The West Indies (Barbados, Jamaica, Trinidad, Leeward Islands, and Windward Islands); British East Africa; Gambia; British Guiana; British Honduras; and minor Colonies, Protectorates, and Trusteeship over Territories.

[3] British Borneo (Brunei, North Borneo, and Sarawak) regulations are the same as Singapore's.

Quantitative Restrictions Against U.S. Exports, January 1962

COUNTRY SUMMARIES

Argentina

Argentina has no import or exchange licensing controls and exchange to pay for imports may be obtained in the free market.

There is, however, a prohibition on the importation of passenger automobiles weighing over 1,500 kilograms or with a factory cost of over $2,000, and tractors of less than 85 horsepower. In addition, special ad valorem surcharges based on the c.i.f. value of imports are levied on a wide range of goods. The rates vary from 20 to 200 percent, depending on the essentiality of the product, and in some cases constitute a formidable obstacle to imports from the United States.

Exemptions from surcharges has been granted to certain goods, chiefly machinery officially approved for investment programs, to imports for certain vital industries (steel, petrochemical, cellulose, etc.), to imports into Patagonia and the underdeveloped northwest region of Argentina and to machinery and machine tools not manufactured in Argentina. Also, surcharge exemptions have been granted for imports from neighboring countries and Peru. These regional exemptions were superseded, however, by concessions granted by Argentina to other members of the Latin American Free Trade Area (LAFTA) in January 1962.

Australia

Australia ceased to apply import restrictions for balance-of-payments reasons in the first part of 1960. However, about 10 percent of total imports continue to be subject to import restrictions of several types. Global quotas are established for some goods remaining under control for which licenses are issued based on the applicant's imports during a designated base period. Individual applications for import licenses are required for other goods under control. These applications are considered on a case by case basis and, when approved, importation is authorized from any source. The Australian Government, which does not claim balance-of-payments justification for its remaining import restrictions, has announced that licensing of imports will be abolished as soon as practicable. Among restricted products of interest to U.S. suppliers are: roller and ball bearings, certain textile goods and wearing apparel, toys and spectacle frames.

Austria

During 1961, Austria became ineligible under the rules of the GATT and the IMF to apply import restrictions for balance-of-payments reasons. Late in the year the Austrian Government announced a modest liberalization action which removed controls on a number of products. While most U.S. goods can be imported without quantitative restrictions, a substantial number remain subject to individual licensing.

Restrictions are maintained on commodities which are not enumerated on so-called liberalized lists. One such list is applicable to the former OEEC countries; an almost identical list is applicable to the United States and Canada except that licenses (which are granted automatically) are required for the import of products on the latter list; a third and smaller list is applicable to products originating in the other GATT countries. The modest liberalization measures taken on January 1, 1962, apply to the United States and Canada without discrimination as members of the OECD.

Among the products which are still under restriction are: poultry, canned meat and offals, honey, many frozen fruits, wheat, rye, barley, oats, corn, cereal flours, lard, soybean and cottonseed oil, tomato juice, tobacco many chemicals, some pharmaceutical products, explosives, plastic materials and resins, cardboard, some paper and paper products, cotton and rayon yarns, transformers, microphones, radio and television receiving sets, insulators, tractors, some motorcycles, aircraft, geodetic instruments, some electric and electronic instruments and apparatus for measuring and testing purposes, and most musical instruments.

Importation of tobacco, tobacco products, salt, and spirits is carried out exclusively by state monopolies, primarily for revenue purposes. All grain imports are effected by the Grain Board, which is responsible for the implementation of the country's agricultural price stabilization policies.

Belgium-Luxembourg

Most goods may be imported into the Belgium-Luxembourg Economic Union (BLEU) without quantitative restrictions. There are, however, 164 classifications out of several thousand tariff positions and subpositions which are still wholly or partly subject to import licensing. These include items under the so-called Benelux global quotas and certain agricultural commodities for which temporary waivers have been obtained by Belgium and Luxembourg under the General Agreement on Tariffs and Trade (GATT).

In terms of commodity composition, two-thirds of the tariff positions still under control consist of agricultural and food items. The remainder is composed of items in the following categories: chemicals, penicillin, radioactive materials, soaps, fertilizers, solid fuels, mineral products, petroleum products, hides, textiles, glass, diamonds, precious metal alloys, automobiles, arms and ammunitions, and furniture.

Global quotas for the whole of Benelux (Belgium, the Netherlands, and Luxembourg) are maintained on a small number of the above items. These quotas are subdivided into two parts, one applying to imports from the other Common Market countries and the other to imports from third countries including the United States. The commodities on the latter quota list in 1961 were castor oil other than crude, certain fatty acids, penicillin and preparations, and new and used automobiles and chassis. The Benelux global quotas were relaxed during 1961 when methyl chloride, wooden packing cases and fish nets were dropped from the list and the size of remaining quotas increased.

As noted above, import quotas on some agricultural and food products are maintained by the BLEU countries individually under waivers granted in GATT.

On January 1, 1961, Belgium removed 32 items covered by its GATT waiver from quantitative import restriction and later scheduled another 12 for removal on January 1, 1962. Imports of vegetables and fruits for industry, which represent the greater part of imports in these sectors, had previously been liberalized. Products still controlled include foals and foal flesh, certain vegetables and fruits for the trade (subject to seasonal controls), sugarbeets, and hops.

Belgium assesses special import license fees when certain agricultural commodities are imported from any country except Luxembourg. Commodities involved include some animals, certain meats and meat products, a few dairy products, grains and milled products, and fodders. After having been successively increased over a period of years these licensing fees were lowered in several stages during the latter part of 1961.

As a member of the European Coal and Steel Community (ECSC), Belgium maintains separate quotas on imports of coal from Community and non-Community countries. Although the 1961 Belgian coal quota authorized by the ECSC of 620,000 metric tons, applicable to third countries, was increased for 1962 to 640,000 metric tons, access to Belgium for U.S. coal continues to be quite restricted.

Luxembourg employs quantitative import restrictions on a number of agricultural and food products under a GATT waiver including meat animals, meat and meat preparations, some dairy products, potatoes, apples, wheat and rye and their milled products, macaroni, spaghetti and other pastes, and ordinary bakers' products. Few, if any, of the items under the waiver have been liberalized although there have been indications of a willingness to liberalize eggs not in the shell, macaroni, spaghetti and other pastes and to consider removing restrictions on some other products. Luxembourg has, in general, taken the position that because of its size and its agricultural problems, it could only remove the restrictions upon the establishment of a common agricultural policy within the EEC.

BELGIAN IMPORT RESTRICTIONS

AGRICULTURAL SECTOR

Tariff item No.	Description of products
ex 01.01	Foals for slaughter; foals other.
ex 02.01	Foal flesh, fresh or chilled.
ex 03.01	Certain fresh sea fish.
ex 06.03	Cut flowers and flower buds for bouquets or ornamental purposes, fresh.
ex 07.01	Various fresh vegetables.
ex 08.04	Fresh grapes.
ex 08.06A	Fresh apples from July 16 to Mar. 15.
ex 08.06B	Fresh pears from July 16 to Feb. 15.
ex 08.07B	Fresh peaches, including nectarines and free-stone peaches from Aug. 1 to Sept. 9.
ex 08.07C1	Fresh cherries and morello cherries from June 1 to July 15.
ex 08.07D1	Plums from July 16 to Sept. 15.
ex 08.08A1	Strawberries from June 1 to June 30.
10.01	Wheat and muslin.
ex 10.03	Barley.
ex 10.04	Oats.
ex 11.01	Wheat flour for human consumption, muslin flour.
ex 11.02	Cereal groats and cereal meal, semolina.
ex 12.04	Sugar beet, whole or sliced, fresh, dried or powdered.
12.05	Chicory roots, fresh or dried, whole or cut, unroasted.
12.06	Hops, cones and lupulin.
ex 15.01	Lard and other rendered pig fat, rendered poultry fat.
ex 15.03 ex b	Lard stearin, not emulsified.
ex 15.07	Castor oil, fluid or solid, crude, refined or purified.
ex 15.08	Castor oil, dehydrated.
ex 15.10	Fatty acids, excluding fatty acids from tall oil.
15.13	Margarine, imitation lard, and other prepared edible fats.
ex 16.05	Shrimp, cooked and prepared, but not preserved.
17.01	Beet sugar and cane sugar, solid.
ex 17.02	Syrups, liquid sugar sucrose.

INDUSTRIAL SECTOR [1]

25.01	Coal and agglomerates of coal.
ex 29.44	Penicillin, salts, and preparations.
ex 30.13	Medicaments (including veterinary medicaments) containing penicillin and its salts.
j31.02	Mineral or chemical fertilizers, nitrogenous.

[1] Quotas have been established for most of the above items, which are subject to quantitative import restrictions. Belgium has import licensing requirements for a number of additional products; licenses are issued automatically for these products and without quantitative restrictions.

Note: Liberalized to ECSC countries.

Brazil

Brazil carried out a major revision of its exchange control system during 1961, eliminating the former multiple-rate structure and establishing a free exchange market. However, in order to assure some uniformity of rate, the Bank of Brazil quotes a free market rate for the cruziero which other banks and exchange brokers are urged to use.

The two categories of commodities for exchange purposes, the general and the special, remain in effect. All imports require either a prior import license or, in the case of goods in the general category for which exchange has been obtained, a certificate of exchange cover.

Importers must make a 150-day prior deposit in Bank of Brazil notes bearing interest at 6 percent. These notes are often discounted but at rates between 30 and 40 percent. The amount of deposit required at the end of 1961 was 150 percent of the value of the merchandise, but this requirement is to be reduced in monthly stages of 10 percentage points beginning in January 1962 until completely eliminated in March 1962.

Imports in the special exchange category (luxury and other less essential imports) also require the purchase of a "promise of license." These are offered in very limited amounts at public auction.

British Caribbean territories

Imports from the United States and other dollar countries into British territories in the Caribbean are largely free from import licensing restrictions as a result of liberalization steps taken during 1959 and 1960. Exchange approval is generally required by most of the territories for imports from outside the Commonwealth, but this is usually granted freely for goods not subject to licensing control. British Guiana's exchange controls cover transfers to all countries, including those within the Commonwealth. Bermuda and the Bahamas have no exchange controls.

Import licenses are required for only 30 commodity groupings in Trinidad and Tobago. Similarly, only 30 items remain on the controlled list of the British Guiana Commodity Board. Goods subject to licensing generally fall into two groups. Raw material imports are regulated in line with regional agreements aimed at prohibiting importation from outside the area except when local supplies are inadequate. Licenses are also generally required for manufactures having a high labor content, such as textiles and fabrics, metal wares, and furniture.

Many of the territories have a strong interest in developing their local industries. In pursuing this objective, however, they have largely avoided the use of licensing and exchange controls, relying instead on preferential tariff treatment of raw materials imports and concessions on income tax payments.

The Caribbean islands are organized, as follows: Bermuda, the Bahamas, the British Virgin Islands, British Honduras, and British Guiana are nonfederated colonies; Antigua, St. Christopher-Nevis-Anguilla, Monserrate, Dominica, St. Lucia, St. Vincent, Grenada, and Jamaica comprise the Federation of the West Indies; and the Turks and Caicos Islands and the Cayman Islands are dependencies of Jamaica. The United Kingdom has accepted GATT obligations on behalf of all these territories with the exception of Jamaica and its dependencies.

Burma

Burma's import licensing policy continues to be highly restrictive to conserve scarce foreign exchange and to maximize imports of industrial development goods. Open general license imports account for only 5 to 10 percent of total import trade and cover only the most essential consumer goods. Imports of less essential goods are severly limited or prohibited. About 70 percent of total foreign exchange allocations for imports are reserved for the Government or for Government-affiliated agencies.

Although all formal discrimination against dollar goods has ended, the obstacles to expanding sales of American goods in Burma are many. One obstacle is the high percentage of Burmese imports, which are now restricted for procurement

under the Japanese reparations program. Another factor that will become increasingly important is the $84 million loan extended by Communist China to Burma in 1961 for the procurement by Burma of industrial plants and technical assistance from that country. The recent requirement by the Burmese Government that Burmese firms be appointed as commission agents with respect to all but direct import transactions continues to present difficulties for some exporters. However, a workable solution has now been achieved in regard to the distribution of American films in Burma, one of the largest items of trade.

Cambodia

All commercial imports into Cambodia are subject to licensing and exchange controls. During 1961 Cambodia removed what amounted to discriminatory treatment of dollar imports in exchange allocation. Funds are now allocated semiannually for imports either from the French franc zone or the non-French franc zone, which includes both the dollar and sterling areas. Payments for imports from countries outside the franc area are paid for either in dollars or pounds sterling, depending on the wishes of the supplier. Imports from the French franc zone continue to be paid for in nonconvertible francs. Formerly, exchange allocations were tied by product categories and value to the French franc, sterling, and dollar zones, separated, and the bulk of the allocations were earmarked for imports from the French frame and sterling zones.

Imports financed through U.S. aid funds administered by the Agency for International Development (AID) represent a significant share of Cambodia's total export trade. Procurement is on a worldwide basis, except for the exclusion of 19 exporting countries under the new U.S. procurement rule.

Cambodia's imports are also based partly on bilateral trade and payments agreements concluded with a number of countries, including those in the Sino-Soviet bloc. Products which enter into the two-way trade are agreed upon by the two parties and are usually denominated in pound sterling. To a very limited extent, export-retention credits are also used to finance imports. Exporters are permitted to retain a portion of their export proceeds for use in importing goods on an approved list.

Canada

Most imports enter Canada without quantitative restrictions, and payments abroad may be made freely. Import controls remain on only a few items, mainly agricultural products. The Export and Import Permits Act, which was extended indefinitely in May 1960, calls for special permits to import butter, cheddar cheese, turkeys, dry skimmed milk, and butter fat. An annual import quota of 4 million pounds is set for turkeys.

Wheat, wheat flour, and wheat starch; oats, ground oats, crimped oats, crushed oats, rolled oats, and oat meal; and barley including ground, crimped, meal, and flour are controlled by licensing under the Canadian Wheat Board Act. The board is the Government pooled marketing agency for these grains produced in the Prairie Provinces.

The Customs Tariff Act prohibits the import of oleomargarine, butterine and other butter substitutes. This act also prohibits the importation of secondhand or used automobiles of all kinds manufactured prior to the year in which importation is sought. Secondhand aircraft imports regardless of the year of manufacture also are prohibited.

The importation of fissionable and radioactive materials and any equipment which may be used for the production, use, or application of atomic energy is controlled and requires an import permit under Canada's Atomic Energy Control Act.

The Provinces maintain monopolistic controls on the sale of alcoholic beverages. Licenses issued by the provincial authorities are required for their importation. Hotels and clubs may import for private stock but not all Provinces will carry U.S. products in Government-operated stores.

CANADA—IMPORT RESTRICTIONS
AGRICULTURAL SECTOR

Tariff No.	Commodity description
9 e	Turkeys.
ex 17	Cheddar cheese.
18	Butter.
ex 43 a	Dry skimmed milk.
45 (milk foods n.o.p.)	Butterfat.
51	Barley ground or crimped, barley meal, and barley flour.[2]
52	Barley.[2]
56	Oats.[2]
57	Oats ground, crimped, crushed, or rolled.[2]
57	Oatmeal.[2]
60	Wheat.[2]
61	Wheat flour and wheat starch.[2]
1204	Oleomargarine, butterine, or other similar substitutes for butter, and processed or renovated butter.[1]

[1] Applied under the terms of the General Agreement on Tariffs and Trade.
[2] Applied under the Canadian Wheat Board Act and Regulations.

INDUSTRIAL SECTOR

Certain used or second-hand automobiles and motor vehicles. Certain used or second-hand aircraft
Certain used or second-hand automobiles and motor vehicles.
Certain used or second-hand aircraft.
Certain used or second-hand periodicals.
Fissionable and radioactive materials.
Alcoholic beverages (local import control).

Ceylon

Ceylon maintains a fairly restrictive import policy largely for balance-of-payments reasons but also for economic development purposes. The control system provides for the admittance of imports under open general license, general import license, individual import license, and state trading. General import licenses are issued only to registered Ceylonese traders and are, in effect, open general licenses for imports of specified commodities from those countries which have agreed to conduct their trade with Ceylon only through registered Ceylonese traders. Countries involved comprise mainly the Soviet bloc, plus West Germany, Japan, Formosa, and a few others.

Goods which may be imported only by the Government include rice, wheat, flour other than corn flour, refined sugar, and red onions. These items account for about 20–25 percent of the country's annual imports. The major discriminatory practice against imports from the dollar area takes the form of a requirement for individual license for some goods (freely granted for certain consumer items), which does not apply to imports of the same goods from other areas.

To cope with a continuing decline in its balance-of-payments positions, Ceylon adopted further import restrictions in 1961 to reduce imports of nonessential goods and to provide an incentive for the establishment of local manufacturing facilities. These restrictions include: Prohibition of imports of certain commodities; the addition of further items to the list of commodities requiring individual licenses; and the announcement of quotas ranging from 10 to 50 percent of average imports during 1958–60 for many restricted items.

Chile

The Government of Chile froze all foreign exchange transactions in December 1961 as a result of serious balance-of-payments difficulties. The temporary freeze was lifted on January 15, 1962, and a greatly modified import control system was established. Under this present system, an official list of permitted imports has been introduced which is much more restricted than that in effect prior to the freeze. Products on this list are subject, in addition to custom duties, to a prior deposit requirement and a special ad valorem surcharge.

The prior import deposit, which is returned to the importer within 90 days, ranges from 1 to 200 percent of c.i.f. (cost, insurance, and freight) value of the goods, depending upon the essentiality of the product concerned. The special surcharge also ranges from 1 to 200 percent of the c.i.f. value of the goods.

While the present system is quite restrictive, the Chilean Government expects increased imports of capital goods and raw materials as the country's 10-year (1961–70) economic development plan is implemented.

Cuba

The Cuban Government maintains comprehensive import licensing controls. The Government of the United States in late 1960 and early 1961 placed an embargo on exports to Cuba with the exception of ready-to-eat food-stuffs and medicines and medical and dental equipment and supplies. The Cuban Government had earlier made foreign trade a monopoly of the state and was following a policy of not buying from the United States except when alternate sources were not available. The result of these actions was that by the end of 1961 the U.S. export trade to Cuba had disappeared except for very small shipments of medicines and medical equipment and supplies.

Denmark

Following the lifting of quantitative import restrictions on a wide range of goods in March 1960, Denmark removed additional commodities from such controls in January and July 1961 in line with the timetable set up at that time for further liberalization. Principal goods involved were fresh apricots and peaches, tomato juice, olives, certain dried and canned fruits, rubber heels and soles, electric generators of more than 4,000-kilowatt capacity, transformers and converters, positive motion picture films with Danish text, sidecars, and parts for bicycles and motorcycles. In addition, for goods still subject to import licensing, global quotas were increased for imports from so-called free list countries.

Under Denmark's import control system, most goods may now be imported without an import license from free list countries, which include the dollar area, OEEC countries, and Finland. An import license is required for similar goods when imported from other sources, but treatment essentially as liberal as that extended to free list countries is applicable to goods from Israel, Brazil, Argentina, Chile, Colombia, and Uruguay. A list of other countries, including many in Africa and Asia, was added to this group in November 1961.

Other commodities are subject to licensing from all sources. Nondiscriminatory regional quotas are established for most goods in this category when imported from free list countries. A few commodities are subject to individual licensing. including those imported under bilateral trading agreements.

Dominican Republic

The Dominican Republic requires importers to submit a "statistical form" for all imports. An approved form is necessary to purchase foreign exchange and later to clear goods through customs at the time of importation. This requirement has at times operated as an informal licensing procedure, since delays in approving the form have been used to restrain imports. Formal import licenses are required, however, for rendered pork fat, lard, rice, sugar manufactures, and all other vegetable products.

Foreign exchange transfers abroad, which must be made through banks, require the administrative approval of the Central Bank.

El Salvador

El Salvador ordinarily does not impose quantitative restrictions on imports from any source. However, exchange controls were enacted, effective April 21, 1961, under which prior authorization from the Central Bank is required for purchase of merchandise abroad valued at over $2,000. Permits are granted within 48 hours.

Finland

Under present Finnish regulations imports from the United States enjoy the same treatment as those from countries participating in a multilateral trade and payments agreement wih Finland (most Western European countries), Imports from virtually all non-Soviet bloc countries receive this multilateral treatment. Imports from Colombia, Greece, and Turkey, as well as from the bloc countries, are subject to licensing under quotas established in bilateral trade agreements.

Under the multilateral arrangements approximately 82 percent of Finland's imports from countries affected by the arrangement are free of licensing and exchange controls. Goods remaining subject to import licensing requirements are divided into two categories: (1) goods which are licensed under global quotas and (2) goods subject to individual licensing.

The most notable actions taken by Finland in 1961 to relax import restrictions were a 10-percent increase in global quotas at the beginning of the year

and a second 10-percent increase as of July 1, 1961. Global quotas for 1962 are expected to be equal to about $125 million representing a 20-percent increase over the 1961 quotas.

France

Early in 1960 France notified the contracting parties to the GATT that it was no longer applying import restrictions for balance of payments reasons. Since then, remaining controls have been progressively dismantled.

During 1961 France made further progress in trade liberalization by virtually eliminating all quantitative import restrictions on dollar area industrial goods, although with respect to a few items of interest to the United States the liberalization will not become effective until October 1, 1962.

As a result of extensive liberalization measures decreed on January 1, and April 1, 1961, the proportion of industrial commodities freed from controls when imported from the dollar area rose to over 99 percent (based on 1953 imports) compared with about 95 percent liberalized by the end of 1960. In addition, all discrimination against the United States in the industrial sector has been removed. On December 31, 1961, the list of goods subject to quantitative import restrictions when imported from OECD countries, including the United States was further reduced. In the agricultural sector, U.S. representations under GATT procedures and those made through diplomatic channels contributed to elimination of some discrimination in favor of former OEEC countries which is presently limited to a few items such as eggs, pineapples, and certain vegetables. These items have been freed from quantitative restrictions to OEEC but not to the United States.

After October 1, 1962, quantitative import restrictions in the nonagricultural sector will continue to apply mainly to items in the following categories: energy sources, most of which are state traded, certain chemicals (lubricating preparation, antiknock preparations, artificial waxes), newsprint, aircraft, and ocean-going vessels.

Agricultural items still under restriction of particular interest to U.S. exporters are: Poultry meat; canned fruits; dried plums (prunes) packaged for retail sale; fresh and dried apples and pears; corn starch and potato starch; canned vegetables (especially asparagus); canned fruit and vegetable juices (particularly orange juice); pig and poulty fat, rendered; prepared animal feeds; and grain sorghums.

French Import Restrictions

AGRICULTURAL RESTRICTIONS

Tariff No.	Product description
01-02 EX	Live calves, cows, bulls, and oxen.
01-03 EX	Live pigs.
01-04 EX	Live sheep and goats.
01-05 EX	Live poultry, fowl, ducks, geese, turkeys, and guinea fowl.
01-06 EX	Other live animals, domestic rabbits and pigeons.
02-01 EX	Meat and edible offals; fresh, chilled or frozen.
2	Horse, donkey, mule.
3	Beef bones.
4	Beef, not boned.
5	Pork (hams).
6	Pork (other).
8	Sheep.
02-02 EX	Dead poultry, fowl, ducks, geese, turkeys, and guinea fowl, and edible offals thereof (except liver) fresh, chilled, of frozen.
02-05 EX	Unrendered pig fat free of lean meat and unrendered poultry fat, fresh, chilled, frozen, salted, in brine, dried, or smoked.
02-06 EX	Meat and edible offals, salted, in brine, dried, or smoked (except poultry liver).
03-01 EX	Fish, fresh (live or dead), chilled, or frozen.
1	Trout.
11	Sea perches, soles, turbots, and brills.
12	Others.
13	Fish filets.
Ex 03-02	Fish, salted, in brine, dried, or smoked.
12	Other fishes, in filets.
13	Other fishes otherwise.
04-02	Milk and cream, preserved, concentrated, or sweetened.
04-03	Butter.
04-04	Cheese and curd.

French Import Restrictions—Continued

AGRICULTURAL RESTRICTIONS—Continued

Tariff No.	Product description
04-05 EX [1]	Bird's eggs and egg yolks, fresh, dried, or preserved.
11 [1]	Eggs for brooding.
21 [1]	Others.
13 [1]	Entire eggs, without shell
04-05-2 EX [1]	
25	Egg yolks, other than for industry, sweetened.
05-15 EX	Animal products not elsewhere specified.
32	Animal sperms.
06-01 EX	Bulbs, tubers, tuber roots.
11	In growth, flowered, or not.
06-02 EX	Other live plants and roots.
11	Wine plantations, grafter or rooted.
43	Hothouse plants, flowered or in buds.
06-03	Cut flowers and flowers buds.
07-01 EX	Vegetables, fresh or chilled.
1	Mushrooms, edible.
2	Truffles.
3	Olives and capers.
5	Tomatoes.
31	Onions.
32	Shallot.
33	Garlic.
11	Potatoes (from July 1 to end of February).
12	Potatoes (dating from previous year).
13	Potatoes (early products).
14	Potatoes and others.
16	Cauliflowers.
20	Brussels sprouts.
22	Turnips, salad, beet, salsifies, and other edible roots.
23	Beans.
26	Cucumbers and gherkin.
27	Aubergines, gourds, marrows, and same.
28	Artichokes.
07-02	Vegetables (whether or not cooked), preserved by freezing.
07-03 EX	Vegetables provisionally preserved, olives, and capers.
07-04 EX	Dried dehydrated or evaporated vegetables.
11	Potatoes.
21	Others, even mixed.
08-01 EX	Dates, bananas, ananos, coconuts, brazilnuts.
1	Dates.
11	Bananas, including dried bananas.
21	Dehydrated coconut pulps shown in packages of 60 kl. or less.
22	Dehydrated coconut pulps shown in packages of more than 60 kl.
23	Dehydrated coconut pulps, others (except for flowers).
24	Other nuts.
31	Ananas.
08-02 EX	Citrus fruit, fresh or dried.
2	Oranges, shown between Mar. 15 and June 14
8	Orange export from the previous time.
08-03 EX	Figs, fresh or dried.
1	Fresh.
11	Dried, for human consumption.
12	Dried, denatured for industrial use.
08-04 EX	Grapes, fresh and dried.
4	Fresh from vintage.
5	Fresh, forced.
08-05 EX	Nuts, fresh or dried.
21	Common nuts; in shell.
22	Common nuts; without shells.
08-06 EX	Apples, pears, and quinces, fresh.
1	Table apples, presented between Feb. 15 to Mar. 31.
2	Table apples presented between Apr. 1 to May 31.
3	Table apples presented between June 1 to July 31.
4	Table apples, presented between apart from these periods.
08-06	
ex 11	Table pears, presented between Dec. 1 and June 30.
12	Table pears presented apart from this period (July 1–Nov. 30).
08-07 EX	Stone fruit, fresh.
1	Apricots.
11	Peaches, not forced presented between May 1 and June 15.
12	Peaches, not forced presented between June 16 and Oct. 16.
13	Peaches apart from this period.
22	Prunes.
23	Others.
08-08	Berries fresh.
08-09 EX	Other fruits, fresh.
1	Melons and similars.
08-10	Fruit (whether or not ccoked) preserved by freezing, not containing sugar.
08-11 EX	Fruit provisionally preserved in brine or other solution, but not immediate consumption, except for cherries.

Footnote at end of table, p. 321.

French Import Restrictions—Continued

AGRICULTURAL RESTRICTIONS—Continued

Tariff No.	Product description
08-12 EX	Fruit dried.
3	Fruits salad.
11	Apples and pears.
31	Peaches, including nectarines and prickly peaches.
41	Dried plums.
51	Others.
09-01	Coffee whether or not roasted.
1	Coffee substitutes containing coffee in any proportion.
09-04 EX	Pepper.
1	Pepper crushed or ground.
09-10 EX	Thyme, saffron, bayleaves, other spices.
11	Mixtures including products of previous items.
10-01 (1) xx	Wheat or maslin.
10-02 (1) xx	Rye.
10-03 (1) xx	Barley.
10-04 (1)	Oats.
10-05 (1) xx	Maize.
10-06 (1) xx	Rice.
10-07 (1) xx	Buckwheat, millet, canary seed and grain sorghum; other cereals.
11-01 xx	Cereal flours.
11-02	Cereal groats and cereal meal; other worked cereal grains.
11-05 EX	Flour, meat and flakes of potato.
11-08	Starches; inulin, flour for potato flour only.
11-09	Gluten and gluten flour, roasted or not.
12-01 EX	Oil seeds and oleaginous fruit, whole or broken.
1	Peanuts not roasted, in shells.
2	Peanuts, not roasted, without shells.
5	Soya beans.
9	Other seeds.
10	Seeds of colza, rape, camelina, and other cruciferous.
11	Turnsole.
12	Oil poppy.
13	Hemp seeds.
14	Cotton seeds.
15	Sesame seeds.
22	Other.
12-04	Sugarbeet, whole or sliced, fresh, dried or powdered, sugarcane.
12-05	Chicory roots, fresh or dried, whole or cut, unroasted.
12-06	Hop cones and lupulin.
13-03 EX	Vegetable saps and extracts, pectin agar-agar and other natural mucilages and thickners.
17	From hop.
21	Pectic juice or extract.
22	Dried pectin.
15-01	Lard and other rendered pig fat, rendered poultry fat.
15-03 EX	Lard stearin, oleostearin, and tallow stearin.
1	Lard oil.
15-04 EX	Fats and oils of fish and marine mammals, whether or not refined.
22	Fats and oils of other varieties of fish, except unrefined oil other than herring liver oil and fish liver oil.
15-07 EX	Fixed vegetable oils, fluid or solid, crude refined or purified.
1	Linseed oil.
4	Soya oil.
5	Peanut oil.
15-076	Sesame oil.
7	Colza, rape, camelina, or other cruciferous oil.
8	Olive oil.
9	Castor oil.
10	Palm oil.
18	Other oils.
22	Peanut oil.
23	Olive oil.
24	Palm oil.
25	Soya oil.
26 others	
15-12 EX	Animal or vegetable oils and fats hydrogenated whether or not refined and not further prepared.
5	Fats and oils of sea mammals.
6	Others.
14	Fats and oils of sea mammals.
15	Others
15-13	Margarine imitation lard and other prepared edible fats.
16-01	Sausages and the like, of meat, meat offal, or animal blood.
16-02	Other prepared or preserved meat offal.
16-04 EX	Prepared or preserved fish, including caviar and caviar substitutes.
12	Sardines.
16	Tuna fish.
xx 17-01	Beet sugar and cane sugar, solid.
17-02 EX	Other sugars, sugar syrups, artificial honey.
11	Glucose.
12	Sugar syrups
41	Sugars and caramel mollasses, coloring caramels included.
42	Others (substitutes for honey, etc.).

Footnote at end of table, p. 321.

French Import Restrictions—Continued

AGRICULTURAL RESTRICTIONS—Continued

Tariff No.	Product description
17-03	Molasses, whether or not decolourized.
17-04	Sugar confectionery, not containing cocoa.
17-05	Flavoured or coloured sugars, syrups and molasses, but not including fruit juices containing added sugar in any proportion.
18-06	Chocolate and other food preparations containing cocoa.
19-03	Macaroni, spaghetti, and similar products.
19-05	Prepared foods obtained by the swelling or roasting of cereals or cereal products (puffed rice, corn, etc.).
19-07	Bread, chips' biscuits and other ordinary sugar, honey, eggs, fats, cheese, or fruits.
19-08	Pastry, biscuits, and other ordinary bakers' wares, not containing cocoa in any proportion.
20-21	Vegetables or fruit prepared or preserved by vinegar or acetic acid.
20-02 EX	Vegetables prepared or preserved otherwise than by vinegar or acetic acid.
1	Mushrooms (in sealed containers).
2	Less than 15 percent (in sealed containers).
4	From 15 to 30 percent (in sealed containers).
5	30 percent or more (in sealed containers).
6 [1]	Asparagus (in sealed containers).
7	Pickled cabbage (in sealed containers).
8	Olives and capers (in sealed containers).
9 [1]	Green peas (in sealed containers).
10 [1]	French beans (in sealed containers).
11 [1]	Others (in sealed containers).
12	Do.
21	Mushrooms (other containers).
22	Tomatoes (other containers).
23	Pickled cabbage (other containers).
27	Olives (other containers).
28	Capers (other containers).
25 [1]	Others (other containers).
26	10 Kg. or less (other containers).
20-03	Fruit preserved by freezing containing added sugar.
20-04	Fruit, fruit-peel, and parts of plants, preserved by sugar.
20-05	Jams, fruit, jellies, marmalades, fruit puree, and fruit pastes, cooked whether or not containing sugar.
20-06 EX	Fruit otherwise prepared or preserved, whether or not containing added sugar or spirit.
12	Without sugar or syrup.
13	Pineapples.
14	Others.
20-07 EX	Fruit juices and vegetable juices, whether or not containing added sugar but unfermented and not containing spirit.
43	Without adding sugar.
44	With sugar.
45	Without adding sugar.
46	With sugar.
51	Of grapes must included.
52	Of tomato.
53	Of apple or pear.
54 [1]	Of apricots.
55 [1]	Of other fruits or vegeables.
20-01 EX	Roasted chicory and other roasted coffee substitutes (extracts, essences, and concentrates thereof).
1	Roasted chicory and other roasted coffee substitutes.
21-02 EX	Extracts, essences, or concentrates of tea or coffee or mate or preparations with those extracts.
1	Liquids.
2	Others.
21-07 EX	Food preparations not elsewhere specified.
12	Of saccharine.
21	With sugar.
22	Others.
22-04	Grape must in fermentation otherwise than by addition of alcohol.
22-05 Ex	Wine of fresh grapes; grape must with fermentation by addition of alcohol.
7	Wines (other than wines and similar and sparkling wines).
21	Other than those of controlled name of origin.[2]
22 [1]	Other than liqueur wines and the like, of certified origin.
22-08 EX	Ethyl alcohol or neutral spirits, undenatured of a strength of 80° or higher, denatured spirits of any strength.
22-10	Vinegar and substitute.
23-02	Bran, sharps, and other residues derived from sifting, milling, or working of cereals or of leguminous vegetables.
23-07 EX	Sweetened forage; other preparations of a kind used in animal feeding.
1	Condiments, except for "fish soluble".
12	With molasses or sweetened.
13	Without molasses or unsweetened.
24-01 xx	Unmanufactured tobacco, tobacco refuse.
24-02 xx	Manufactured tobacco; tobacco extracts and essences.

Footnote at end of table, p. 321.

French Import Restrictions—Continued

INDUSTRIAL RESTRICTIONS

Tariff No.	Product description
27-01 xx	Coal.
27-02 xx	Lignite.
27-04 EX	Coke and semicoke.
L/N	Other coke.
L/N	Lignite cokes.
27-05 xx	Coal gas.
27-07 xx	Petroleum essence; other products of coal for distillation.
27-09 xx	Petroleum and shale oils, crude.
27-10 xx	Petroleum oils, other than crude.
27-11 xx	Petroleum gases and other gaseous hydrocarbons.
27-12	Petroleum jelly.
27-13 xx	Paraffin wax, microcrystalline wax, ozoberite, lignite wax, peat wax, and other mineral wax, whether or not colored.
27-14 xx	Petroleum bitumen, petroleum coke, and other petroleum and shale oil residues.
27-16 EX	Bituminous mixtures.
27-17	Electric current.
34-03 EX	Lubricating preparations consisting of mixtures of oils or fats of any kind containing petroleum or shale oils.
34-04 EX	Artificial waxes.
38-14 EX	Antiknock preparations, oxidation inhibitors.
38-19 EX	Chemical products and preparations of the chemical or allied industries: mixed alkylenes and other catalysts.
48-01 xx	Paper for newspaper.
85-15	Radiotelegraphic and radiotelephonic transmission and reception apparatus; receiving equipment assembling parts of radio.
85-21C EX	Cathode tubes.
F	Diodes, enstal triodes meluding transistors.
H	Parts and spare parts.
87-08 xx	Tanks and other armored fighting vehicles, motorized and parts of such vehicles.
88-02 xx	Flying machines, gliders, and kites; rotochutes.
88-03 EX xx	Aircraft parts.
89-01 EXA	Boats for maritime navigation.
EXB	Boats for interior navigation (lakes, rivers, canals) use for transportation of persons.
d	Engine boilers replacing articles, auxiliary equipment, furniture.
89-01 EX c	Boats for interior navigation.
d	Engine boilers.
h	Others, replacement articles auxiliary equipment furniture.
D	Warships.
89-02	Tugs.
90-01	Pocket watches, wrist watches, and other watches.
91-02	Clocks with watch movements.
91-03	Instrument panel clocks and clocks of a similar type, for vehicles, aircraft, or vessels.
91-04	Other clocks.
91-07	Watch movement (including stop watch movements) assembled.
91-08	Clock movements assembled.
91-09	Watch cases and parts of watch cases including blanks.
91-11	Other clocks and parts of watch suppliers and parts.

[1] Indicates those items which may be imported freely from OEEC countries but which are under quantitative restrictions when imported from the United States.

xx Indicates that restrictions are maintained in order to implement State trading regulations.

[2] Liberalization measures apply only to foreign liqueur wines assimulated to liqueur wines of certified origin under French regulations and accompained by a certificate of origin recognized by French authorities.

French Caribbean territories

All the departments of the French Caribbean maintain virtually the same licensing requirements as metropolitan France, and, therefore, import liberalization in the French Caribbean closely followed France's pattern during 1961.

The only remaining restrictions in addition to those of metropolitan France are those imposed by Guadeloupe on wood, by Martinique on wood and beer and by French Guiana on wood and certain machinery.

Federal Republic of Germany

The Federal Republic is no longer entitled, under the rules of the GATT and the IMF, to apply trade and payments restrictions on imports for balance-of-payments reasons. However, in May 1959, a special GATT waiver was arranged permitting restrictions to be retained temporarily on certain products and providing a timetable for the removal of most remaining controls. A number of agricultural commodities are also still controlled in accordance with German marketing laws.

Progress in eliminating restrictions since the adoption of the waiver has been somewhat ahead of schedule. In addition, the German Government has agreed to license freely all unliberalized nonagricultural products in which the United States has a major export interest. As to some other commodities, in which the United States has a miner trade interest, the German Government has agreed to establish progressively more liberal quotas.

During 1961, import restrictions were removed from a number of products including frozen and certain canned fruit and vegetables, a few items in the textile sector, and toys. Also, in April 1961 the German Government began issuing import licenses for chickens, without quantitative limitation.

For 1961 and 1962, the annual duty-free quota allotted to the United States for coal was raised from 4,418,000 tons to 5,015,000 tons. Imports of coal in excess of the country quota are subject to a duty of 20 German marks (about $5) a ton which has proved prohibitive.

Products still not liberalized, either de jure or de facto, include 249 commodity classifications in the agricultural sector, of which 160 are state traded. Special arrangements have been made for jute fabrics, imitation pearls and a number of neat leather items.

FEDERAL REPUBLIC OF GERMANY IMPORT RESTRICTIONS
A. AGRICULTURAL SECTOR

Foreign trade statistical commodity code No.	Description of commodity
0102 12	Calves, live.
15	Calves, for slaughter.
16	Young cattle, male, live.
17	Young cattle, female, live.
25	Young cattle, for slaughter.
35	Steers, for slaughter (bulls).
42	Cows, for general use.
45	Cows, for slaughter.
51	Oxen, for general use.
55	Oxen, for slaughter.
0103 10	Hogs, live, weighing 35 kilos or less per head.
95	Other hogs, for slaughter.
ex 0104 21	Lambs, for general use.
25	Lambs, for slaughter.
ex 31	Sheep other than lambs, for general use.
35	Sheep other than lambs, for slaughter.
0201 11	Hog sides, fresh or chilled.
12	Part of loin (for rib pork chop), fresh or chilled.
13	Unrendered pig fat, fresh or chilled.
ex 19	Other pork of domesticated hogs, fresh or chilled.
21	Hog sides, frozen.
22	Part of loin (for rib pork chop), frozen.
23	Unrendered pig fat, frozen.
ex 29	Other pork of domesticated hogs, frozen.
31	Veal, fresh or chilled.
32	Halves and quarters of cattle, fresh or chilled.
33	Loin cuts, fresh or chilled.
39	Other beef, fresh or chilled.
41	Veal, frozen.
42	Halves and quarters of cattle, frozen.
43	Loin cuts, frozen.
49	Other beef, frozen.
51	Mutton, fresh or chilled.
55	Mutton, frozen
93	Edible offals of hogs, fresh, chilled, or frozen.
95	Edible offals of cattle, fresh, chilled, or frozen.
ex 99	Edible offals of sheep and lambs, fresh, chilled, or frozen.
ex 0202 50 [1]	Chicken, slaughtered.[2]
0205	Unrendered pig fat, not containing lean meat:
11	Fresh or chilled.
13	Frozen.
15	Salted only.
17	In brine, dried or smoked.
30	Lard, neither pressed nor rendered.
ex 0206 11	Ham of domesticated hogs, salted, in brine, dried, or smoked.
13	Pig fat, containing lean meat, salted only.
ex 19	Pork, other than ham and bacon, of domesticated hogs, salted, in brine, dried, or smoked.
20	Beef and veal, salted, in brine, dried, or smoked.
ex 50	Mutton and lamb, salted, in brine, dried, or smoked.
ex 91	Edible offals of domesticated hogs, salted, in brine, dried, or smoked.
ex 99	Edible offals of cattle, calves, sheep, salted, in brine, dried, or smoked.
ex 0301 35	Carp, fresh or chilled.
ex 0302 19	Fillets of herring, only salted or in brine.
51	Herring, salted or in brine.
0401 10	Whole milk and skim milk, fresh.
20	Butter milk, whey, sour milk, etc., fresh.
50	Cream, fresh.
0402 11 [1]	Whole milk, powdered.
13	Skim milk, powdered.
19	Other milk, preserved, concentrated, or sweetened.
90	Other (e.g., condensed milk).
0403 10	Butter.
50	Butter oil.

See footnotes at end of table, p. 328.

A. AGRICULTURAL SECTOR—Continued

Foreign trade statistical commodity code No.	Description of commodity
0404 11	Hard cheese.
16 [1]	Other cheese for cutting.
60 [1]	Processed cheese and cheese preparations.
0515 10	Small fish, up to a length of 6 centimeters, de facto dried, inedible.
20	Crabs, dried, inedible.
ex 50 [3]	Animals, not live, inedible, other than dried small fish, crabs, and water fleas.
ex 90 [3]	Other products of animal origin, except formic eggs.
ex 0602 55	Azalea indica, with flowers or buds.
ex 57	Other azaleas, with flowers or buds.
0603 11	Carnations, fresh.
12	Rose, fresh.
13	Flowers from bulbs, fresh.
19	Other flowers, fresh.
0701 14	Tomatoes, fresh or chilled.
25	Potatoes for seed, fresh or chilled.
26	Potatoes for food.
ex 29	Potatoes for industrial purposes, except for the manufacture of starch or potato flakes under customs bond.
41	Cauliflower, fresh or chilled.
51	Head lettuce, fresh or chilled.
52	Endive salad, fresh or chilled.
71	Beans, fresh or chilled.
81	Small cucumbers, fresh or chilled.
85	Other types of cucumbers, fresh or chilled.
ex 0704 90	Potatoes, powdered, or otherwise chopped.
0705 11	Garden beans (phaseolus species), for seed.
21	Other beans, for seed (vicia faba var. minor).
22	Other beans, for seed (vicia faba var. megalosperma).
0705 31	Peas, for seed.
41	Fodder peas, for seed.
0806 19	Apples, other than for must, fresh.
39	Pears, other than for must, fresh.
1001 12	Spring wheat for seed.
13	Winter wheat for seed.
19	Other wheat.
90	Mixed grain.
1002 01	Rye for seed.
09	Other rye.
1003 01	Barley for seed.
05	Barley for brewing purposes.
09	Other barley.
1004 01	Oats for seed.
09	Other oats.
1005 01	Corn for seed.
09	Other corn.
1006 10 [3]	Paddy.
51 [3]	Cargo rice.
55 [3]	Milled rice.
91 [3]	Broken rice, not polished.
95 [3]	Broken rice, polished.
1007 20 [3]	Buckwheat.
40	Millet of all varieties.
1101 10	Flour of wheat or mixed grain.
20	Flour of rye.
50	Flour of barley, oats, or corn.
60	Flour of rice.
90 [3]	Flour of other grain.
ex 1102	Grits (fine and coarse); grains, etc., of
10	wheat or mixed grain.
30	of barley.
40	of oats.
ex 90 [3]	of other grain, e.g., other grains of rye, corn, buckwheat, or millet.
1105 00 [3 4]	Flour, grits, and flakes of potatoes.
1107 00	Malt (de facto liberalized).
1108 10	Starch of wheat.
21	Cornstarch, made up for retail sale.
29	Cornstarch, not made up for retail sale.
1203 11	Seeds of sugar beets.
19	Seeds of fodder beets.
1203 41	Seeds of English Ray grass (lolium perenne).
42	Seeds of Italian Ray grass (lolium multiflorum italioum).
45	Seeds of Brazil Ray grass (lolium multiflorum var. brasilianum).
46 [1]	Seeds of French Ray grass (arrhenatherum elatius).
47	Seeds of timothy grass (phleum pratense).
48 [1]	Seeds of grass (dactylis glomerata).
53	Seeds of grass (festuca pratensis).
54	Seeds of grass (festica rubra).
1204 19	Sugar beets, also chips, other than fresh.
ex 1210 95 [1]	Alfalfa, dried and ground.
1501 01	Lard, for human consumption.

See footnotes at end of table, p. 328.

A. AGRICULTURAL SECTOR—Continued

Foreign trade statistical commodity code No.	Description of commodity
ex 1502 10 [3]	Tallow, unrendered, of cattle, sheep, and lambs.
21 [3]	Tallow of cattle, sheep, and goats, rendered, premier jus, for human consumption.
31 [3]	Other tallow, rendered, for human consumption.
1503 01 [3]	Lardstearin, oleostearin, lardoil, oleomargarine, and tallow oil, neither emulsified, mixed, nor otherwise processed, for human consumption.
ex 1504 71 [3]	Whale oil and whale fat, for human consumption, refined.
ex 91 [3]	Other marine fats and oils, for human consumption, refined.
1507 03	Cotton seed oil, processed, for human consumption.
07	Oil of beechnut, corn, and poppy seed, processed, for human consumption.
13	Peanut oil, processed, for human consumption.
23	Coconut oil, processed, for human consumption.
1507 27	Linseed oil, processed, for human consumption.
ex 31 [1 3]	Olive oil, except sulforic and "lampantes" olive oil, processed, for human consumption.
37	Palmkernel oil, processed, for human consumption.
43	Palm oil, processed, for human consumption.
1507 47	Rape and colzar oil, processed, for human consumption.
53	Safflower oil processed, for human consumption.
57	Sesame oil, processed, for human consumption.
63	Soya oil, processed, for human consumption.
67	Sunflowerseed oil, processed, for human consumption.
97	Other fatty vegetable oils, processed, for human consumption.
1512 11	Whale oil, edible without further processing.
17	Whale oil, for human consumption, hydrogenated, also refined.
21	Fish oil, edible without further processing.
27	Fish oil, for human consumption, hydrogenated, also refined.
51	Other fats and oils, edible without further processing.
57	Other fats and oils of animals, for human consumption, hydrogenated, also refined.
81	Vegetable fats and oils, edible without further processing.
87	Other vegetable fats and oils, for human consumption, hydrogenated, also refined.
1513 10	Margarine.
90	Shortening and other processed edible fats.
1601	Sausages and the like of meat, offals or animal blood from cattle, hogs, sheep:
ex 19	with liver;
ex 90	without liver.
ex 1602 19 [1]	Meat and offals, otherwise prepared or preserved, of cattle, hogs, sheep; with liver.
ex 1602	Meat and offals, otherwise prepared or preserved; without liver:
50	of cattle.
61	of hogs; ham.
69	of hogs, other than ham.
ea 90 [1]	of sheep and lambs.
1603 00 [3]	Meat extracts and meat juices.
1701 11	Cane sugar, raw, solid.
15	Beet sugar, raw, solid.
31	Candy sugar, and brown sugar.
39	Other sugar for human consumption.
1702 10	Artificial honey, also mixed with natural honey.
91	Juices and liquid residues from processing beet and cane sugar, syrups of beet and cane sugar.
ex 99	Other sugar and syrup (maltose, invert sugar, etc.).
1703 00	Molasses, also decolorized.
1705 10	Vanille sugar.
ex 90	Aromatic or colored sugar, syrup and molasses, other than vanille sugar, with a purity of more than 70 degrees.
1902 10	Food preparations for infants based on flour or starch.
30	Special types of flour for food preparations (Quellmehle).
50	Powder for the preparation of pudding and the like, also containing cocoa.
91	Other food preparations with sugar or cocoa added.
1902 99	Other food preparations without sugar or cocoa.
1903 00	Macaronis, noodles, and the like.
ex 2001 10	Cucumbers, preserved in vinegar, canned.
ex 90	Other vegetables preserved in vinegar, in airtight containers, except olives.
2002	Vegetables and pot-herbs, preserved without vinegar, in containers weighing less than 5 kilos:
55	Peas.
56	Beans.
ex 59	Other vegetables and pot-herbs, also mixed (except artichokes and spinach).
2004	Fruits and plants, and parts thereof, preserved with sugar:
51	Cherries.
59	Other fruits, plants and parts thereof.
2005 10	Applesauce.
ex 95	Jams, jellies, marmalades, etc., with sugar or syrup, but other than of apples, plums, quinces, and bitter orange marmalade.
2006	Fruits, prepared or preserved otherwise, also with sugar or alcohol, in containers weighing less than 5 kilos:
72	Apricots.
74	Peaches.[5]
75	Strawberries.
79	Other fruits (than citrus and aforementioned fruits).[5]

See footnotes at end of table, p. 328.

A. AGRICULTURAL SECTOR—Continued

Foreign trade statistical commodity code No.	Description of commodity
2007 13	Fruit juice concentrates of apples or pears, without sugar, also mixtures thereof.
23	Fruit juices of apples or pears, without sugar, also mixtures thereof.
ex 2105 10 [3]	Preparations on the basis of meat or meat extracts of cattle, hogs, or sheep, for the production of soups and broths.[6]
ex 2107 00	Ice cream and ice cream powder.
2205 10	Champagne.
23	Wine for the production of champagne.
2205 51	Red wine in containers of more than 2 liters.
59	Red wine in containers up to 2 liters.
61	White wine in containers of more than 2 liters.
2205 69	White wine in containers up to 2 liters.
90	Wine, other than red and white wine (e.g., dessert wine).
2210 00	Vinegar for food.
2301 10 [3]	Fish meal, including fish liver meal, inedible.
20 [3]	Greaves and greave cake and similar residues from whale-oil boiling, inedible.
90 [3]	Other residues of fish, and meat meal, inedible.
2302 10 [3]	Rice meal for feed.
20	Bran.
90 [3]	Other residues from the processing of grains or pulses.
ex 2303 10	Beet pulps and other residues from the production of sugar.
ex 90 [3]	Residues from the production of starch, beer, and malt.
2304	Meals from extraction of oilseeds, also pressed in forms:
11 [3]	Of peanuts.
12 [3]	Of coconuts or copra.
13 [3]	Of linseed.
14 [3]	Of palm kernels.
15 [3]	Of sunflower kernels.
16 [3]	Of soybeans.
17 [3]	Of rapeseeds.
18 [5]	Of cottonseeds.
19 [5]	Of other oilseeds or oil-containing fruits.
	Oilcake, including expellers, also pressed in forms, except those for the production of oil; with a content of fat up to 8 percent.
ex 51 [3]	Of peanuts.
ex 52 [3]	Of coconuts or copra.
ex 53 [3]	Of linseed.
ex 54 [3]	Of palm kernels.
ex 55 [3]	Of sunflower kernels.
ex 56 [3]	Of soybeans.
ex 57 [3]	Of rapeseeds.
ex 58 [3]	Of cottonseeds.
ex 59 [3]	Of other oilseeds or oil-containing fruits.
ex 90 [3]	Other residues from the manufacture of vegetable oils, except those for the production of oil; containing fat up to 8 percent; and except mustard flower.
2307 10	Fodder, containing molasses or sugar.
30 [3]	Solubles.
ex 91 [3 7]	Other fodder, mainly of organic substances, except fodder yeast.
99	Fodder preparations, mainly of inorganic substances (e.g., mixtures of feed lime and mineral salts).
2943 10	Dextrose, chemically pure.
20 [1]	Lactose, chemically pure.
30	Levulose, maltose, chemically pure.
3501 11 [1]	Casein, not hardened, for food and feed.
3505 10 [1]	Dextrine, soluble or roasted starch.

B. INDUSTRIAL SECTOR

3706	Movie films consisting only of sound track, exposed and developed:
ex 41 [8]	Negatives and lavender copies for feature films screened in the Federal Republic.
ex 49 [8]	Positives for feature films as above.
3707	Other movie films, exposed and developed:
ex 41 [8]	Negatives of feature films screened in the Federal Republic.
ex 43 [8]	Colored positive films of feature films, as above.
ex 49 [8]	Other positive films of feature films, as above.
4102 31	Bottom leather of cattle, undressed.
39	Other leather of cattle, undressed.
51	Bottom leather of cattle, undressed.
52	Upper leather of cattle, undressed.
57	Dressed neat's leather.
59	Other leather of cattle, undressed.
5104	Fabrics of synthetic or artificial filament:
01	Tire cord fabrics.
05 [9]	Fabrics for furniture and interior decoration weighing more than 250 grams per square meter.
11	Fabrics for curtains or draperies of synthetic filaments.
	Other fabrics of synthetic filaments:
21 [9]	Gray or bleached.
25 [9]	Dyed.
26 [9]	Printed.
	Woven of dyed yarn—
28 [9]	In a width of more than 55 up to 75 centimeters;
29 [9]	Other widths.

See footnotes at end of table, p. 328.

B. INDUSTRIAL SECTOR—Continued

Foreign trade statistical commodity code No.	Description of commodity
5104 41 [9]	Fabrics other than crepe, of artificial filaments: Gray or bleached.
51	Dyed, with a width— Up to 55 cm.;
52 [9]	Exceeding 55 up to 75 cm.;
54 [9]	Exceeding 75 up to 115 cm., without design;
55 [9]	Exceeding 75 up to 115 cm., with design;
56 [9]	Exceeding 115 up to 135 cm.;
57 [9]	Exceeding 135 up to 145 cm.;
58 [9]	Exceeding 145 cm.
61 [9]	Printed, with a width— Up to 115 cm.;
65 [9]	Exceeding 115 cm.
71	Woven of dyed yarn, with a width— Up to 55 cm.;
72 [9]	Exceeding 55 up to 75 cm;
74 [9]	Exceeding 75 up to 115 cm., without design;
75 [9]	Exceeding 75 up to 115 cm., with design;
76 [9]	Exceeding 115 up to 135 cm.;
77 [9]	Exceeding 135 up to 145 cm.;
78 [9]	Exceeding 145 cm.
5307	Worsted yarn of wool, not made up for retail sale:
ex 11 [9]	Unbleached: Single, other than hard worsted yarn.
ex 15 [9]	Double, other than hard worsted yarn.
ex 19 [9]	Triple or multiple, other than hard worsted yarn.
51 [9]	Bleached, dyed, or printed: Single.
55 [9]	Double.
59 [9]	Triple or multiple.
5310	Yarns of wool, fine or coarse animal or horse hair, made up for retail sale:
10 [9]	Hand-knitting and similar yarns of wool.
21 [9]	Worsted yarns of wool, in skeins, unbleached.
29 [9]	Other worsted yarns of wool.
5311	Fabrics of wool or fine animal hair:
01	For furniture and interior decoration, with a weight exceeding 250 grams per square meter.
21 [9]	Fabrics with warp— Of synthetic filaments;
25 [10]	Of artificial filaments.
50 [10]	Other fabrics, with a weight per square meter— Exceeding 700 grams;
60 [10]	Exceeding 500 up to 700 grams;
70 [10]	Exceeding 300 up to 500 grams;
80 [10]	Exceeding 200 up to 300 grams;
91 [10]	200 grams or less— Unbleached;
95 [10]	Bleached or dyed;
96 [10]	Printed;
97 [10]	Woven of dyed yarn.
5507 10	Cotton gauze for curtains or draperies.
90	Other cotton gauze.
5509	Other fabrics of cotton:
01 [10]	For furniture and interior decoration, with a weight per square meter exceeding .50 grams.
10 [10]	Fabrics with warp— Of synthetic filaments;
21 [10]	Of artificial filaments; Unbleached or bleached dye;
24 [10]	Dyed, with a width— Up to 115 cm.;
25 [10]	Exceeding 115 cm.
26 [9]	Printed with a width— Up to 115 cm.,
27 [9]	Exceeding 115 cm.
28 [9]	Woven of dyed yarn, with a width— Up to 115 cm.,
29 [9]	Exceeding 115 cm.
40	Other fabrics containing flax or ramie: Linings for outer garments (padding).
51 [9]	Other: Unbleached, with a weight— Up to 450 grams per square meter;
52 [9]	Exceeding 450 grams per square meter.
53 [9]	Bleached.
58 [9]	Dyed, printed, or woven of dyed yarn.
	Other fabrics not containing flax or ramie:

See footnotes at end of table, p. 328.

B. INDUSTRIAL SECTOR—Continued

Foreign trade statistical commodity code No.	Description of commodity
	Other fabrics of cotton:—Continued
	Other fabrics not containing flax or ramie:—Continued
5509 60	Linings for outer garments (padding).
	Other:
	Unbleached, with a weight—
71 [9]	Up to 450 grams per square meter;
72 [9]	Exceeding 450 grams per square meter.
73 [9]	Bleached.
75 [9]	Dyed.
76 [9]	Printed.
77 [9]	Woven of dyed yarn.
5607	Fabrics of synthetic or artificial textile filaments:
01 [9]	for furniture and interior decoration, with a weight exceeding 250 grams per square meter.
05	Linings for outer garments (padding).
	Other fabrics of synthetic fibers:
11 [9]	With warp of synthetic or artificial filaments.
15 [9]	Others of synthetic fibers.
	Other fabrics of artificial fibers:
	With warp:
18 [9]	Of synthetic filaments.
	Of artificial filaments:
21 [9]	Unbleached or bleached.
	Dyed, with a width:
24 [9]	Up to 115 cm.
25 [9]	Exceeding 115 cm.
	Printed, with a width:
26 [9]	Up to 115 cm.
27 [9]	Exceeding 115 cm.
	Woven of dyed yarn, with a width:
29 [9]	Up to 115 cm.
29 [9]	Exceeding 115 cm.
	Other fabrics of artificial fibers:
51 [9]	Unbleached or bleached.
55 [9]	Dyed.
56 [9]	printed.
57 [9]	woven of dyed yarn.
5710 00	Woven fabrics of jute.
5802 75 [9]	Rugs woven of coir fibers.
5804 05	Epinglé or Frisé of cotton, with a weight exceeding 400 grams per square meter.
	Other velvet and plush:
55 [9]	cotton cord.
59 [9]	other velvet and plush of cotton.
5905 10 [9]	Fishing nets of synthetic textiles.
6004	Knitted underwear, neither elastic nor rubberized:
21	of synthetic textiles.
50	of cotton.
6005	Knitted bathing suits, neither elastic nor rubberized:
02	of snythetic textiles.
	Knitted outer garments, neither elastic nor rubberized:
21 [9]	of synthetic textiles.
23 [9]	of wool or fine animal hair.
6101	Outer garments for men and boys:
ex 05	of cotton terry towelling.
50 [9]	of cotton fabrics.
6102	Outer garments for women, girls, and infants:
ex 05	Of cotton terry towelling.
	Other garments for women, girls, and infants of:
21 [10]	Synthetic textiles, except kimonos;
25	Artificial filaments, except kimonos;
30 [10]	Wool or fine animal hair, except kimonos;
50 [10]	Cotton, except kimonos;
60 [10]	Artificial fibers, except kimonos;
6103 50 [10]	Underwear for men and boys, of cotton.
6104 50 [10]	Underwear for women, girls, and infants, of cotton.
6105 01	Handkerchiefs, wholly or partly of tulle, laces, or embroideries, etc.
02	Silk scarves and the like, nearly square shaped, with no side measuring more than 60 cm.
	Handkerchief:
51 [10]	Of cotton, containing flax or ramie.
55 [10]	Wholly of cotton, or mixed with textiles other than flax or ramie.
6106 10	Silk shawls, scarves, etc.
6202	Household linen:
01 [10]	Wholly or partly of tulle, laces, or embroideries;
ex 05 [10]	Of cotton terry towelling (e.g., bathing towels);
51 [10]	Of cotton, mixed with flax or ramie;
55 [10]	Wholly of cotton, or mixed with textiles, other than flax or ramie.
6303 51	Sacks and bags of jute, new.
6909 51	Laboratory supply of porcelain or other ceramic materials.

See footnotes at end of table, p. 328.

B. INDUSTRIAL SECTOR—Continued

Foreign trade statistical commodity code No.	Description of commodity
6911	Tableware and kitchenware:
	Plain white or of one color:
11 [9]	Restaurant, hotel, and hospital ware.
19 [9]	Other.
	Decorated:
51 [9]	Restaurant, hotel, and hospital ware.
59 [9]	Other.
6912 49	Tableware, kitchenware, and toilet articles, of fine earthenware.
	Tableware and kitchenware of other ceramic materials (e.g. stoneware, semiporcelain):
71 [9]	Plain white or of one color.
75 [9]	Decorated.
6913	Statuettes and other ornaments, fancy articles, articles of furniture, etc.:
70 [9]	Of fine earthenware.
90 [9]	Of porcelain.
	Of other ceramic materials.
6914 70	Patent stoppers for bottles with a metal wire mechanism and buttons thereto.
7019 11	Imitation pearls.
8441 11	Household sewing machines.
19	Special household sewing machines (e.g., zigzag, automatic sewing machines).
90	Parts thereof.
8525	Insulators of ceramics:
21 [9]	Without metal parts.
29 [9]	With metal parts, except insulators for appliances.
8526 20	Insulating fittings of ceramic materials (e.g., porcelain, steatit).
9005 20	Binoculars, for manual use, with prisms.
9703 97	Toys (other than weapons, projectors and musical toys), of base metals.
9810 29	Pocket lighters of base metals, neither gold- nor silver-plated.
59	Table lighters of base metals, neither gold- nor silver-plated.
90	Parts thereof.

[1] Liberalized to OEEC countries.
[2] Import restrictions relaxed April 1961.
[3] De facto liberalized as of July 1, 1959.
[4] Potato flakes only.
[5] Canned peaches and canned fruit cocktail to be liberalized July 1, 1961.
[6] De facto liberalized as of Apr. 20, 1961.
[7] Only dog biscuits de facto liberalized.
[8] De facto liberalized toward the United States since Mar. 7, 1960.
[9] De facto liberalized toward the United States since May 31, 1960.
[10] De facto liberalized toward the United States since May 31, 1961.

Ghana

Ghana established new import controls on December 1, 1961, placing virtually all imports under licensing. Since then, only a few commodities have been allowed to enter free of restriction. These include cocoa, confectionery and beverages, animal feeds, seeds, and live chicks. Selected items, such as live animals and certain agricultural products including rice, corn, and millet, may also be imported freely from West Africa territories.

In addition, a new National Trading Corporation was established during the latter part of 1961. At present, the corporation imports only nondurable consumer goods but its operations are expected to expand to include building materials, particularly cement. So far it has not exercised monopoly control over any commodities.

Greece

Although most goods may be imported into Greece without quantitative import restrictions, a number of products require import licenses or are subject to special regulations, various consumption taxes, and advance deposit requirements. The list of controlled products was extended somewhat during 1961.

Items requiring an import license are divided into two groups: List A includes commodities for which import licenses are issued, although not very liberally. Products falling into this group comprise rice, lumber, newsprint, coal, tires and tubes, motor vehicles. List B, which is more extensive, covers farm equipment, mechanical equipment and machinery, for which licenses are very seldom issued.

Another restraining influence on imports are Greek regulations requiring advance cash deposits. These measures are more severe for luxury items and less stringent for products considered necessary to the economy. Credit controls range from payment terms of 24 months for the purchase of machinery in excess of $5,000 in value, to cash deposit requirements of 280 percent of the cost, insurance, and freight value of certain textiles.

High consumption taxes, with rates varying from 20 to 45 percent, based on the cost, insurance, and freight duty-paid value of imports also adversely affect imports.

In addition to the above-listed measures special regulations apply to imports of motion pictures, commercial shipments of wheat and flour, and on government monopoly items such as cigarette paper and kerosene. In some instances governmental efforts to dispose of agricultural surpluses through bilateral trade agreements have restricted market possibilities in Greece for third countries.

Haiti

Haiti maintains import licensing restrictions on a few products such as rice and shoe polish. In addition, tobacco, tobacco products, matches, soap, soap products, edible oils, cement, sugar, and some agricultural chemicals, although not requiring import licenses, are subject to state monopoly distribution. Also, a single private firm has been granted the exclusive right to import and sell television sets.

A Presidential decree of September 9, 1960, authorizes the establishment of an import quota system for the promotion and protection of domestic industry. However, no restrictions have been imposed to date under this authority.

Honduras

Honduras does not ordinarily impose quantitative restrictions on imports from any source.

Iceland

In June 1960, as part of an overall economic stabilization plan, Iceland freed from import licensing control commodities which represented approximately 60 percent of her total imports prior to the liberalization action. The goods affected may be imported from countries with which Iceland does not have bilateral trade and/or payments agreements; i.e., the United States and most non-Soviet bloc countries. In addition, 10–15 percent of imports (based on 1958 trade patterns) from these multilateral trade and payment sources are licensed under global quotas. These quotas cover commodities the greater part of which are obtained from the European Soviet bloc countries under bilateral trade and payments agreements. The quotas are mainly to provide for residual import needs or to facilitate importation of items which cannot be obtained satisfactorily from bilateral trading sources.

Commodities not falling under the categories mentioned above are, by and large, reserved for import from the Soviet bloc countries. This portion of Iceland's import trade is also subject to licensing requirements, mainly of a bookkeeping character, established to facilitate compliance with existing bilateral trade and payments commitments.

Effective September 15, 1961, new motor vehicles were freed from licensing requirements when imported from Iceland's multilateral trading partners. However, special taxes and fees levied according to vehicle weight and/or length place U.S.-produced vehicles at a competitive disadvantage since most U.S. exports fall into the heavier taxed weight and length categories.

Among commodities of interest to the United States which are still restricted are: pork, milk products, rye meal, hops, sausages, meat preparations, fruit and vegetable juices, coal and coke, petroleum and petroleum products, leather gloves and many articles of leather, tires and tubes, panels of fir and pine, cardboard containers, cotton carpets and floormats, cotton hosiery and tablecloths, rubber footwear, iron and steel bars and sheets, iron and steel galvanized pipes, barbed wire, some automobiles, motorcycles, phonographs and parts, transformers, and electrical motors.

India

India's import policy continues to be highly restrictive, and quantitative import restrictions apply to all but a few commodities of limited commercial importance. This situation is attributable mainly to the adverse balance-of-payments position stemming from heavy external expenditures for economic development purposes.

Quota limitations are placed on a wide range of goods, and imports of less essential products or those produced in adequate quantity in India are severely limited or entirely prohibited. However, imports of plant and machinery of sub-

stantial value are permitted if covered by long-term foreign loans or investments, private or governmental; financed by the National Small Industries Corporation of India, a Government institution; or provided under a bilateral trade and payments agreement. A period of approximately 10 years is considered long term. Virtually all foreign aid granted bilaterally to India is tied to purchases in the donor country. Special payments agreements with Soviet bloc countries permit payment in rupees.

During 1961 there was a pronounced shift in import policy favoring actual user industrial units rather than established importers. Established importers now account for about 25 percent of India's import trade; the remaining 75 percent consists of imports of capital goods by actual users which are tied to foreign credits, iron and steel products licensed by the iron and steel controller, and food grains imported on Government account. To ease the supply situation of some scarce commodities and reduce procedural delays in issuance of import licenses, basic quota periods were extended and "repeat" licenses were again permitted for esablished importers. Raw materials needs of actual users were given priority consideration and special import licenses were granted for raw materials to be used in the manufacture of commodities for export.

Indonesia

Imports remain under strict control and may be effected only by officially recognized importers. All commercial imports require prior licenses from the Government's Commercial Foreign Exchange Bureau in the form of combined import-exchange premits. License applications must be accompanied by evidence that the required amount of prior deposit (currently 100 percent of the import's entrepôt cost and freight value) has been made to an authorized foreign exchange bank. The purposes of the controls are to permit the efficient utilization of foreign exchange and, to a lesser extent, to protect and promote domestic industries.

Indonesia's current system of controls does not provide for formal discrimination by currency areas. However, license applications are continuously subject to administrative screening with a view toward fulfilling bilateral trade agreement aims and budgeting the overall expenditure of foreign exchange.

A new series of finnacial measures, largely revising the country's exchange rate and import system, was announced in August 1960. The new measures effected a slight devaluation of the rupiah, simplified the multiple exchange rate structure and widened the spread in the selling rates. (Whereas previously there were in effect seven selling rates for foreign exchange ranging from 36 rupiah per dollar to 135 rupiah, under the new and current system the number of effective rates was reduced to five. Imports and invisible payments now are subject to the selling rates of 45, 56.25, 72, 90, and 200 rupiah per dollar.) The major effect of the change was a sharp depreciation for about one-third of the imports, mostly so-called less essential goods. Attention focused on the so-called free-list rate (200 rupiah) after the change since for the first time in several years importers were permitted to bring in a wide range of "luxury type" consumer articles.

The easing of import restrictions in 1960 caused a sharp increase in Indonesia's imports in 1961 in which the United States shared substantially as its major trading partner. On April 4, 1961, to reduce the rising volume of imports of less essential goods and check the worsening of its balance-of-payments position the Government shifted certain less essential commodities to more depreciated effective rates, raising the overall effective rate for imports. This reclassification and the accompanying movement of some commodities to a higher duty category were expected also to raise tax revenues. Subsequent tightening of import licensing in June still failed to reduce imports sufficiently and in November the Government stopped the licensing of all "free list" imports (at the 200 rupiah rate) and further reduced licensing of less essential imports.

The move toward increased state trading, which had picked up momentum in 1959, remains strong despite some disillusionment with the performance of the 10 state trading companies. These companies have monopoly responsibility for importing the country's most essential items, including rice, cloves, cambrics, fertilizer, raw cotton, weaving yarn and threads, textiles and textile machinery,

tinplate, paper and paper products (including newsprint), cement, concrete reinforcing rods, and wheat flour. Including other import commodities which are not reserved for them, it is estimated that state enterprises handle as much as 80 percent of the total import trade.

Ireland

Approximately 90 percent of Ireland's dollar imports is now free of import restrictions. An extensive list of raw materials and foodstuffs comprising a large percentage of Irish imports may be imported freely from the dollar area and all other areas without regard to exchange control restrictions. All other dollar goods may be imported up to a limit in value of $14,000 for any one item in any 12-month period. Exchange permits are generally issued freely for goods in excess of this amount when such products are not available from domestic sources. About 16 industrial items require licensing, including electric light bulbs, motorcars, trucks, tires and tubes, and wearing apparel. Most grains and flours are also under licensing control. Many meat and poultry products may not be imported for hygenic reasons. There is no import discrimination except in the case of apples, tomatoes, seed wheat, and private motor cars of a cost, insurance, and freight value of not less than £1,300. The United Kingdom receives preferential treatment with respect to apples, tomatoes, and seed wheat. Imports of large motorcars are admitted free of quantitative restrictions from the United Kingdom and Canada, but are subject to global quotas when imported from other countries.

Israel

Israel requires an import license for all imports. The license is automatically granted for an estimated 60 percent of Israel's total imports, while the remaining 40 percent are licensed at the discretion of the licensing authorities based on such factors as the needs of importers, prices and quality, availability from local or alternative sources. Part of Israel's imports are linked to bilateral arrangements, which are restrictive with respect to specific imports such as sugar and certain types of lumber and wood.

Israeli restrictions on imports were eased in 1961 to free certain imports from quantitative limitations, including tobacco pipes, electric dishwashers and driers, and wax paper, but heavy levies have been imposed on these items to discourage imports. Also, quota limitations were removed from books, periodicals, and newspapers, but importers must finance these imports with freely acquired currency at a higher rate of exchange than the official rate.

The recent trend in Israel's import restrictions is toward higher purchase taxes, and surcharges rather than licensing controls. In some cases Israel has fostered domestic industry adjusting tariff rates commensurate with the domestic industry's abiltiy to produce for local consumption. Most of Israel's restrictive trade measures have an across-the-board effect and do not discriminate against the United States.

Italy

Italy is no longer entitled under the rules of GATT and the IMF to apply import restrictions for balance-of-payments reasons and has made considerable progress in dismantling remaining controls.

At present, Italy maintains five separate systems of import restrictions: table A, applicable to dollar-area countries, including the United States; table B, applicable to former OEEC countries and a number of other countries; table C, applicable to the Sino-Soviet bloc and a few other countries; an individual list for Japan; and an individual list for Yugoslavia.

At the start of 1961, only 264 of the 6,785 statistical classifications in the Italian tariff remained under licensing restriction to the dollar area. In June, a liberalization move was made, mainly in agriculture products, reducing this number to 209. Thus, the percentage of classifications free from control is close to 97 percent at the present time.

Of these 209 classifications still restricted to the United States, almost half are agricultural products, including poultry, dairy products, honey, raisins, cereals and flour, lard, linseed and soya oil, sugar, vegetable juices, and some fruit

juices. The only two industrial items of importance are printing machinery and motor vehicles. Annual quotas, however, have been established for the bulk of these items and it is expected that in many cases these quotas will be gradually increased until complete liberalization is achieved.

There are 133 classifications on the table B list resulting in a certain amount of discriminatory treatment toward the United States vis-a-vis the former OEEC countries, but it is concentrated in agricultural products. The table C list and the individual lists for Japan and Yugoslavia are considerably longer than the table A and table B lists. Effective January 1, 1962, quotas on imports of industrial products from other Common Market countries were removed and replaced by a system of automatic licensing.

A new restriction has developed with respect to some livestock products whereby their importation is prohibited at less than minimum prices. Commodities presently affected include live slaughter cattle, beef, veal, bacon, and lard. These restrictions are applicable on a worldwide basis. Moreover, certain items have been put on the table A and table B lists on a temporary basis. Presently, live hogs and pork products are restricted in this way.

State trading represents another restrictive practice. The importation of bananas, tobacco and tobacco products, salt, and wheat, e.g., is handled exclusively by state monopolies. These control systems, however, do not contain features that discriminate against U.S. products. Italian imports of wheat from the United States, e.g., in 1960, were valued at approximately $14.2 million and in the first 9 months of 1961, at approximately $70 million.

ITALY IMPORT RESTRICTIONS

AGRICULTURAL SECTOR

Tariff item No.	Description of product
02.02 [1]	Dead poultry and edible offals thereof (except liver), fresh, chilled, or frozen.
04.01	Milk and cream, fresh.
04.02	Milk and cream, preserved, concentrated, or sweetened.
04.03	Butter.
04.04 [1]	Cheese and curd.
04.06 [1]	Natural honey.
08.01 b ex 1	Dates in packages of more than 500 grammes.
ex 08.03 b 2	Figs, dried, except those in packages weighing 500 grammes or more.
08.04 b 1	Fresh grapes, wine.
2	Dried grapes (raisins).
ex 10.02 [1]	Rye, other than that used for fodder.
ex 10.03 [1]	Barley, excluding two-row barley (liberalized Nov. 1–Apr. 30).
10.05 [1]	Maize (liberalized Jan. 1–June 30).
ex 10.07 [1]	Grain sorghum.
ex 11.01	Sorghum flour; rye flour not intended as cattle feed.
ex 11.02 a	Cereal meal and cereal groats.
12.04 a ex 2	Sugarbeet, whole or sliced, dried or powdered.
ex 12.08 a	Locust beans, whole, kibbled or ground.
15.01	Lard and other rendered pig fat; rendered fat of geese and other poultry.
15.07 a [1]	Crude linseed oil
c	Soya oil.
15.09 [1]	Degras.
15.10 a	Acid oils from refining, etc.
15.17 a	Oil foots and dregs; decolourizing earths and carbons containing fats.
15.17 ex b	Soap stocks.
17.01	Beet sugar and cane sugar, solid.
17.02 a	Saccharose syrup.
ex 17.03	Molasses.
ex 17.05	
ex 19.02 a 3 beta	Preparation of flour of any kind and sugar.
19.03 [1]	Macaroni, spaghetti, and similar products.
ex 20.05	Date paste, paste of dried figs or raisins.
ex 20.07 [1]	Fruit juices (including grape must) and vegetable juices, whether or not containing added sugar, but unfermented and not containing spirit, except grapefruit and pineapple juice.
22.04	Grape must in fermentation, etc.
22.05	Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol.

INDUSTRIAL SECTOR

Tariff No.	Commodity description
25.03 b	Sulphur of all kinds, other than sublined sulphur, precipitated sulphur, and colloidal sulphur, other.
28.01 d [1]	Iodine.
28.02	Sulphur, sublimed or precipitated; colloidal sulphur.
28.34 [1]	Iodides, oxyiodides, iodates, and periodates.
29.02 [1] a (5)(6)(11)(12) b 3.	Methyl iodides, etc.
29.16 a 4 (alpha and beta) I.	Citric acid and crude calcium citrate.
29.34 a	Tetraethyl lead.
33.01 a 1 and b 1	Essential oils, concrete or absolute, from citrus fruit.
ex 33.04 [1]	Mixtures of two or more odoriferous substances, with a basis of citrus essence.
ex 36.01 [1]	Propellent powders, excluding those used for hunting purposes.
36.02 [1]	Prepared explosives.
36.14 a	Antiknock preparations based on tetraethyl lead.
45.01 and 45.02	Natural cork, unworked, crushed, granulated or ground; waste cork; blocks, plates, sheets, etc.
58.08	Tulle and other net fabrics (but not including woven, knitted, or crocheted fabrics), plain.
58.09 a and b 1	Tulle, bobbin-net and knotted net fabrics, lace.
61.03 ex a; 61.04 b ex 1. 61.05 ex a; 61.06 ex a. 61.07 ex a; 61.08 ex a. 61.09 ex a; 61.10 ex a. 61.11 ex a; 62.01 ex a. 62.02 ex a; 62.05 ex a.	Articles of tulle, bobbin-net and other net fabrics (but not including woven, knitted, or crocheted fabrics), figured or of mechanically made lace.
ex 71.12 ex 71.13 ex 71.14	Semifinished gold alloys (excluding platinum-plated gold), except gold sheet in special alloys for dental work and gold foil strip for hot gilding, laminated with film rolls. Articles of jewelry and parts thereof, articles of goldsmiths' wares, and parts thereof, and other articles of gold, including platinum-plated gold with covering layer not thicker than 30 microns.
84.35 a, b, and d; ex 1; ex 2; ex f; ex g.	Other printing machinery; machines for uses ancillary to printing.
84.40 f 2; ex h	Machinery for printing wallpaper and wrapping paper and parts of such machinery except cutting cylinders for engraving wallpapers and wrapping paper.
37.02 [2] and 37.03 [2]	Motor vehicles for passengers, etc. and special purpose motor lorries and vans, etc.
ex 87.04 [2] and ex 87.05 [2]	Chassis fitted with engines, and bodies (including cabs) for the motor vehicles falling within headings Nos. 87.02 and 87.03.
87.07 [2] ex a and ex b	Trucks for the transport of goods driven by electric motors or by internal combustion engines and fitted with a device for lifting their load-carrying platform.
87.09 ex a; c 1	Motorcycles, sidecars, motor scooters, excluding motorcycles weighing more than 170 kgs. net each; sidecars for motorcycles.
87.12 a	Parts and accessories of motorcycles, sidecars and scooters.
93.07 [1] b	Parts of projectiles and munitions.

[1] Liberalized to list B countries, but under restriction to list A countries, including the U.S. quotas were opened for these products for list A countries beginning 1961.

List A includes: Brazil, Canada, Chile, Cuba, Dominican Republic, Haiti, Nicaragua, Peru, United States, Uruguay, Republic of China, Colombia, Costa Rica, Ecuador, Lebanon, Mexico, Paraguay, El Salvador, and Syria.

List B includes: Austria, Benelux, Denmark, France, Germany, Greece, Norway, Sweden, Switzerland, Turkey, United Kingdom, Spain, Iceland, Portugal, Australia, Burma, Ceylon, Ghana, India, Indonesia, Federation of Malaya, New Zealand, Pakistan, Federation of Rhodesia and Nyasaland, South Africa, and Finland, Afghanistan, Iraq, Ireland, Morocco, somali, Tunisia, Egypt, Vietnam, and Yemen.

[2] Automatic licensing in effect from Jan. 1, 1962.

Note: The following items are also subject to import license when used, rebuilt or reconditioned with obvious changes, or new but in poor condition: iron and steel containers for compressed or liquified gases, musical instruments, sound recordings and reproducing devices and related equipment: ball bearings; tractors; parts, spares, and accessories for motor vehicles; objects for parlor games, e.g., mechanical games, billiard tables, roulette tables, and the like; used machinery and apparatus in general.

Italian Circulation Tax on Automobiles

The present formula for computing the circulation tax effectively penalizes automobiles imported from the United States, which have a cylinder displacement generally larger than that of automobiles produced in Italy. The disadvantage to American cars is compounded by the fact that the high tax continues undiminished for the life of the car while its resale value diminishes sharply. This makes it virtually impossible to develop a used car market for U.S. automobiles or, for that matter, for any automobiles of larger cylinder displacement.

Import quotas for U.S. automobiles were abolished January 1962 and replaced with a nondiscriminatory automatic licensing system. However, as is shown by the persistently low volume of imports, the circulation tax, in addition to the relatively high Italian tariff, is a serious obstacle to the sale of American automobiles in Italy. Of some 33,800 foreign automobiles imported and registered in Italy in 1961, only 583 were manufactured in the United States.

ITALIAN STATE TRADING

AGRICULTURAL PRODUCTS SUBJECT TO STATE TRADING

Wheat and Meslin.
Wheat flour.
Semolina and Groats.
Manufactured tobacco products and tobacco extracts and essence.
All types of salt and pure sodium chloride.
Sulphur.
Phosphorous (white, yellow, and red).
Sulphide of phosphorous (including phosphorous trisulphide).
Paraethoxphenylurea (dulcin) and similar substances.
Orthobenzoicsulphimide (saccharin).
Vegetable alkaloids of cinchona, natural or reproduced by synthesis and their salts, others, and esters.
Nicotine and its salts.
Watches.
Ferro-cerium and other pyrophoric alloys in all forms (includes films).
Cigarette paper.
Gold or gold alloys, unwrought.
Mechanical lighters and similar lighters, including chemical and electrical lighters, and parts thereof.

Japan

All imports into Japan are subject to licensing. The three basic systems of licensing, in the order of increasing restrictiveness, are: the automatic approval (AA) system, the automatic fund allocation (AFA) system, and the exchange fund allocation (EFA) system. A semiannual foreign exchange budget allocates exchange among the three systems.

Import licenses for commodities on the AA list are issued automatically to importers at any foreign exchange bank. The import of commodities on the AFA list requires application to the Ministry of International Trade and Industry (MITI) but licenses, although normally issued automatically, are under closer control of MITI and funds are much more limited than in the case of AA commodities. Under the EFA system, which is the most restrictive, MITI indicates through notices the items for which exchange is available as well as the opening and closing dates for the filing of applications. For the Japanese fiscal year 1961 (ending March 1962) more than half of the allocations were for commodities on the AA list.

Japan maintains a number of bilateral trade agreements with various countries. Those agreements deal with specific commodities which the Government regards as "target" arrangements, representing the enlargement of global quotas. The administrative discretion in the licensing system, particularly in the EFA system, however, raises the possibility of less favorable treatment against third countries as a consequence of efforts to fulfill bilateral "targets."

Considerable progress was made in 1961 in the relaxation of trade and exchange restrictions, although Japan continues to maintain a relatively high degree of control over imports. The foreign exchange budgets for imports have been enlarged and allocations for items under the EFA system have increased. The liberalization program announced by the Japanese in June 1960 for the relaxation of import restrictions by transferring items from the EFA system to either the AA or the AFA systems had made substantial progress. In April of 1960 commodities which represented about 40 percent of Japan's total imports in 1959 were unrestricted in that they could be imported under either the AA or AFA systems. Since then, restrictions have been removed on other items so that by the end of 1961 70 percent of Japan's trade had been liberalized. U.S. exports to Japan in 1961 reached the unprecedented value of over $1.7 billion. Japan has committed itself to proceed with liberalization so that 90 percent of its trade will be free of restrictions by October 1962.

Despite the deterioration in Japan's balance of payments in 1961, Japan continues to liberalize its trade. The liberalization program, however, is being cushioned to some extent by tariff increases on a number of commodities as a

protection to domestic industries and by increased prior deposit rates on imports to discourage excessive or speculative imports. Although liberalization is of benefit to the United States, it has yet to be expanded to cover a significant portion of manufactured and consumer goods of American origin which have potential in the Japanese market.

Malaya

In July 1960, the Government of the Federation of Malaya and Singapore eliminated specific import licensing requirements for the importation of watches, radios, and automobiles from the dollar area, thereby completing the relaxation of restrictions which began in the previous year. Except for a few items which are restricted for health, morals, and security reasons, all products from the dollar area may now be imported under open general license.

Mexico

Mexico made additions to the list of products subject to quantitative import restrictions during 1961, further intensifying its restricive system, which covers a wide range of goods. About one-half of annual imports are subject to import controls. A prior permit, issued by the Ministry of Industry and Commerce, is required before such goods may be imported. Moreover, all agricultural, livestock, and forestry products, whether or not requiring a license from the Ministry of Industry and Commerce, require a prior import license from the Ministry of Agriculture. These controls do not discriminate against imports from the United States.

The import restrictions have a dual purpose; namely, to channel available foreign exchange into purchases of good deemed essential to the economy and to protect domestic industries. Accordingly, the criteria in passing on import applications are essentality of the product and whether or not satisfactory domestic substitutes are available. Import licensing is most restrictive on luxury goods and those which compete with domestic products.

Netherlands

The Netherlands undertook to further ease remaining import restrictions by eliminating quotas established for licensing methylchloride, wooden packing cases, and fishing nets imports. Similar steps were taken earlier in January and July 1960 respecting other goods subject to quota limitations.

Goods requiring an import license are now limited to slightly over 100 items, about evenly divided between agricultural and industrial products. Import licenses, where required, are usually granted liberally. Some of the products for which import licenses are required also are subject to quotas. For 38 tariff items, quotas are set for imports into the Netherlands from Belgium-Luxembourg and other EEC countries. For 13 tariff items, quotas are set for import into the Benelux area on a basis which differentiates between two source groupings; that is, the Common Market countries vis-a-vis all other countries, including the United States. In general, these quotas have not significantly impeded the flow of U.S. exports to the Netherlands.

The economic union of the Benelux countries came into existence on November 1, 1960, based on the Benelux Treaty signed in February 1948. With respect to import regulations, the three countries may be considered as a unit. Bilateral trade agreements between the Netherlands and other countries are being replaced upon their expiration by joint Benelux instruments establishing common commitments for the Benelux territory as a whole.

Wheat imports are regulated by mixing regulations, which specify the amount of domestic wheat to be used in the production of flour. Also, a special levy (monopoly fee) applied to flour imports serves to increase the price of the imported product.

Netherlands Antilles

Most imports from the United States do not require import licenses, although certain products, primarily high-priced luxury items, are still controlled. There were no changes in the Netherlands Antilles licensing policy in 1961.

New Zealand

All imports into New Zealand, except a small number of items specifically exempted, require import licenses. The licensing treatment for all imports is out-

lined in the yearly import licensing schedules. The schedule for the licensing period 1961 covering calendar year 1961 and revised later to include in addition the first 6 months of 1962, provides for five main licensing categories: (1) items for which import licenses were allocated on a basis of previous import history of the applicant (basic allocation); (2) items for which applications are considered individually; (3) items for which licenses are granted freely for the full amounts applied for; (4) items which may be imported from any source without the requirement of an import license; and (5) items for which no allocations were made for licenses.

Except for motor vehicles, all licenses are issued on a global basis and are available for imports from all sources. For motor vehicles, licenses are issued separately for imports from dollar and nondollar sources and are nontransferable.

By a series of liberalization measures in 1958, 1959, and 1960, the New Zealand Government relaxed import controls and virtually eliminated discriminatory licensing treatment of all dollar goods except motor vehicles and parts. Although some moderate increase in imports was provided for in the 1961 import licensing schedule when it was issued in September 1960, the New Zealand Government later felt compelled to make some adjustments in view of a deterioration in its balance-of-payments position. The first move in April suspended the "replacement" scheme of licensing on approximately 200 import categories, and a little more than half of the items were shifted to individual licensing procedures while the remainder were removed from any further licensing consideration for the remainder of the year. The second step, only a month later, involved extending the validity period of the 1961 licensing schedule to cover the first 6 months of 1962, resulting in a saving of £50 million on the 1961 allocation.

New Zealand is taking a cautious approach in the relaxation of import controls. The Government has stated that the controls will be liberalized or removed when the balance-of-payments situation indicates that such action may be taken, and that needed protection for essential domestic industries will be provided through tariffs or other measures but not through import licensing controls.

Nicaragua

Licensing of imports into Nicaragua is required in connection with exchange control regulations. Under the licensing system, there are no quotas, nor is there discrimination against dollar imports. Import licenses are granted so long as importers meet deposit requirements.

Nicaragua classifies imports into three categories or lists: list 1, essentials; list 2, less essentials; and list 3 nonessentials. There is no deposit requirement for items in list 1. For lists 2 and 3, importers must deposit in a Nicaraguan bank 100 percent of the cost, insurance, and freight value of the proposed import in order to obtain necessary import permits. In the case of list 2 goods, licenses are issued within 48 hours after the deposit has been made; for list 3 items, licenses are issued 30 days after deposit is made.

During 1960, the importation of cotton ginning plants, industrial plants for pasturizing and sterilizing milk, equipment for the slaughter of cattle and hogs, and other slaughterhouse equipment was made subject to approval by the Minister of Economy. In addition, all footwear imports except boots were prohibited.

Nigeria

Nigeria has removed quantitative import restrictions on most imports, allowing their importation under open general license for most sources, including the dollar area. Goods requiring specific import licenses are now limited to coal, petroleum products, and secondhand clothing. Licenses are usually granted for petroleum products and (to importers who are Nigerian nationals) for secondhand clothing. All imports from certain countries, mainly those in the Sino-Soviet bloc, require an import license.

Norway

Norway ceased to apply import restrictions for balance-of-payments reasons in 1961 and the Government announced that practically all nonagricultural commodities would be freed from control by the beginning of 1963.

A large number of goods was liberalized on January 1, 1962. Somewhat less than 100 products still require import licenses but most of these commodities may be imported under global quotas. In some cases bilateral quotas are provided for countries with which Norway has bilateral trade arrangements. A few commodities are subject to discretionary licensing and a few goods are prohibited on medical or veterinary grounds.

No liberalization schedule has yet been announced for a number of commodities of interest to the United States, such as canned and other variety meats, prepared baby food, fresh apples and pears, canned pears and plums, cheese, beef liver, and other offals.

NORWAY IMPORT RESTRICTIONS

AGRICULTURAL SECTOR

Tariff No.	Commodity description
01.01	Horse, live.
01.02	Cattle, live.
01.03	Swine, live.
ex 01.06	Reindeer, live.
01.04	Sheep and goats, live.
01.05	Chickens, ducks, geese, turkeys, and guinea fowl, live.
02.01; ex 02.04 and ex 02.06.	Meat and offals from horses, cattle, calves, swine, sheep, lambs and other domestic animals, fresh, cooled, frozen, dried, or smoked.
02.02, 02.03 and ex 02.06.	Meat and offals, including liver, from poultry, fresh, cooled, salted, or frozen.
ex 02.04 and ex 02.06	Reindeer, fresh, cooled, frozen, salted, dried or smoked.
04.01	Milk and cream, fresh, dried, evaporated and sweetened, condensed.
04.03	Butter.
04.04	Cheese and curd.
04.05	Eggs and egg yolks.
04.06	Honey.
07.01 A	Potatoes.
ex 07.01	Vegetables, fresh.
ex 07.03, ex 20.02	Canned vegetables.
ex 08.04	Black currants and red currants.
ex 08.06	Apples and pears, fresh.
ex 08.07	Cherries, plums and peaches.
ex 08.08	Raspberries, gooseberries, and strawberries.
ex 08.09	Melons.
ex 08.11, ex 20.06	Canned fruits.
09.01	Coffee.
09.02	Tea.
09.02	Maté.
09.04	Pepper.
09.06	Cinnamon.
09.07	Cloves.
09.08	Nutmeg, mace, and cardamoms.
ex 09.10	Other spices.
10.06	Husked and broken rice.
ex 11.01	Wheat flour.
ex 11.05	Flour and grits of potatoes.
ex 11.06	Tapioca, manioc, arrowroot, milled.
ex 11.08	Potato starch.
11.09	Gluten and gluten flour.
12.07	Live plants and parts of live plants.
15.01	Leaf fat and lard.
ex 15.07	Vegetable oils, crude and refined (soya oil, cottonseed oil, groundnut oil, and coconut oil)
15.12	Animal or vegetable fats and oils, hydrogenated, whether or not refined, but not further prepared.
16.02 and 16.03	Preparations from meat and offal, including canned meat, extracts, etc.
17.01	Beet and cane sugar, solid.
ex 17.02	Glucose.
19.02	Preparations of 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.
19.04	Tapioca and sago; tapioca and sago substitutes obtained from potato or other starches.
ex 19.07	Crisp bread.
19.08	Cakes, biscuits, and other fine bakers wares, also containing cocoa, irrespective of quantity.
ex 21.07	Ice cream, ice cream powder, pudding powder, and other food preparations.

INDUSTRIAL SECTOR

Tariff item No.	Description of products
3401 201 [1]	Soap powder.
3401 209 [1]	Do.
	Surface active preparations and washing and cleaning preparations:
3402 210 [1]	Containing surface active agents, but not containing soap.
3402 221 [1]	Perfumed, containing soap.
3402 229 [1]	Other, containing soap.
3502 100	Egg albumin.
3809 100	Wood tar.
3809 200	Wood tar oils; wood creosote.
	Wood and articles of wood; wood charcoal:
4402	Wood charcoal, agglomerated or not.
4418 [2]	Reconstituted wood, being wood shavings, wood chips, sawdust, wood flour or other ligneous waste, agglomerated with natural or artificial resins or other organic binding substances, in sheets, blocks or the like.
4423	Builders carpentry and joinery:
4423 300 [1]	Doors and door frames.
4814 200 [1]	Boxes, pouches, wallets, and writing compendiums, containing only an assortment of paper stationery.
5701 201	Oakum of true hemp (cannabis sativa).
5703 002	Oakum of jute.
7338 910 [2]	Enamel bathtubs other than cast bathtubs.
ex 8415	Refrigerators and refrigerating equipment.
8415 112 [2]	Refrigerators (excluding freezers) incorporating a refrigerating unit, for domestic use, with a capacity of not more than 0.284 cubic metre.
8415 142 [2]	Do.
8415 310 [2]	Deep freezers, incorporating a refrigerating unit, for domestic use.
8515 500 [2]	Receiving apparatus for television.
8515 600 [2]	Receiving apparatus combined for radio broadcasting and television, including those incorporating gramophones and/or tape recorders.
8515 981 [2]	Parts for radio-broadcasting and television reception apparatus, with a f.o.b. value over N.kr.100 ea.

[1] Will be liberalized on July 1, 1962.
[2] Will be liberalized on Jan. 1, 1963.

Pakistan

Although Pakistan maintains a fairly restrictive import control system for balance-of-payments reasons, with the notable exception of imports financed under foreign aid agreements, including those with the United States, the system is essentially nondiscriminatory.

The steady improvement of Pakistan's foreign exchange position in 1961 allowed the Government to continue the liberalization policy instituted in January 1960. In the January–June 1961 period, the automatic licensing list was expanded by 33 items, making a total of 62 items which were virtually freed from import quotas. The regular licensable list for the same period remained substantially the same, numbering 186 items which could be imported under an individual import license. In March 1961, the Government of Pakistan placed 13 items under "open general license" to encourage the entry of more Pakistani firms into the foreign trade field.

Pakistan's import policy for the second half of 1961 incorporated two significant policy changes affecting a large portion of the country's import trade. The most important was the provision to liberalize the import of raw materials and spare parts necessary for the full utilization of existing industrial capacity in 173 industries. The other notable change was the increase in the number of items importable under open general license from 13 to 49 items. In the case of the new items, however, all were restricted to newcomers outside of Karachi.

Paraguay

Paraguay maintains no licensing restrictions on imports. However, many goods are subject to advance deposit requirements and special exchange surcharges are also applied.

During 1961, the advance deposit requirement for goods in one of the three categories into which imports are classified for exchange purposes was eliminated and the 110- and 200-percent deposit requirements for the other two categories were reduced to 100 percent of the c.i.f. value of the goods. On the other hand, the exchange surcharge was raised from 20 to 24 percent of the c.i.f. value for goods from other than neighboring countries, and a tax of 20 percent was imposed on goods from the latter which were formerly exempt.

Peru

Apart from the prior authorization requirement on imports which could affect public health or safety and the ban on goods from the Soviet bloc, there are

virtually no nontariff restrictions on imports entering Peru. Prior authorization is required in order to import such items as pharmaceuticals, livestock, plants, seeds, firearms, explosives and similar items.

Portugal

All imports into Portugal require advance import registration certificates. However, most nonagricultural and some agricultural commodities are included in "liberalization lists" and certificates for commodities on these lists are issued automatically. The certificates have the effect of licenses in the case of items not included on the "liberalization lists."

In January 1960 the Portuguese removed most discriminations against the dollar area. However, there are still 19 tariff positions, covering chiefly agricultural goods such as cotton, edible oils, wheat, feed grains, rice, fresh citrus fruit, milk, and butter which are liberalized for the former OEEC countries but not for the United States. Among commodities which Portugal restricts from all sources are: bacon, meat offals, honey, canned and frozen fruits, some vegetable oils, some plastic materials and resins, some electrical apparatus and automobiles.

Federation of Rhodesia and Nyasaland

The Federation of Rhodesia and Nyasaland permits most goods to enter freely under open general licensing from all sources. Remaining restrictions affecting U.S. goods are those which apply to a few agricultural commodities. Licenses are granted for these on a nondiscriminatory basis when domestic production is not adequate to satisfy local needs.

Republic of South Africa

Except for goods on a "free list," imports from all countries into the Republic of South Africa are subject to the prior issuance of an import license. Such import licenses are valid for purchases in any country or currency area without distinction.

Licensed goods fall into two categories depending upon whether or not they are licensed on the basis of exchange allocations (quotas). Nonquota goods are licensed on the basis of the importer's reasonable requirements, and include such items as capital equipment, industrial raw materials and specified consumer goods. Quota goods are licensed on the basis of exchange allocations to registered importers and include mainly consumer goods and luxury items.

In 1961, lower import quotas were part of an effort on the part of the South African Government to reduce imports and improve its foreign reserve holdings which had been deteriorating since the beginning of 1960 due to persisting capital outflows. In May of 1961, further trade restrictions were imposed through additional licensing controls. For example, certain goods—i.e., woven and knitted piece goods, were removed from the free list and subjected to an import license. A restricted list reportedly including only nonessential and luxury goods was created, but the composition of the list would seem to indicate that protection for local industry was also a consideration involved. Among the items covered by this list are mining machinery, household refrigerators, electrical appliances, wood and wooden products and certain dairy products.

Spain

Commodities which represent about 40 percent of all Spanish imports have been liberalized and may be imported without restriction from most countries with which Spain has no bilateral payments agreement. The liberalized area includes OECD and about 18 other countries. Liberalized goods consist largely of raw materials, chemicals, and machinery. Two lists of goods were added to this group during 1961 and another was published early in 1952.

Other goods are imported under global quotas applicable to liberalized area countries, under bilateral trading arrangements or under state trading. The state traded list consists of about 33 items including grains, flours, tobacco, coffee, meats, milk, several other food items, certain types of coal, petroleum and derivatives, cotton, newsprint, sulfur, wool, hemp, and jute fibers. A number of items which were state traded in 1960 were transferred to the global quotas or liberalized lists in 1961. Additional transfers are expected when the 1962 lists are announced.

Surinam

Surinam maintains quotas for only a few articles of minor importance. No licenses are required for foreign exchange payments for imports made through banks either by a confirmed bank credit against documents, valid for a term not

greater than 6 months, or by documentary drafts with a term not greater than 90 days. An import license is required for importation of all goods payable under other terms, including those made on open account.

Sweden

Sweden ceased to apply import restrictions for balance-of-payments reasons in June 1960 and has now eliminated nearly all remaining controls.

Only three or four industrial items and about five agricultural items are under restritcion when imported from all areas. Included in this list are some fish products and fresh apples and pears. An additional 11 agricultural items are liberalized when imported from the former OEEC countries and several less-developed countries, but are under restriction from all other areas, including the United States and Canada. In this latter category are pork, hog fat, poultry meat, eggs, ice cream powder, and sausage.

The importation of sugar, tobacco, alcoholic beverages, almanacs, and calendars is restricted to state-owned, state-controlled or state-authorized organizations or firms.

Switzerland

Almost all nonagricultural commodities may be imported into Switzerland without quantitative restrictions from all sources. Only motor buses and trucks require licenses for economic defense reasons. There is no indication that this restriction has been detrimental to U.S. trade.

Approximately 50 agricultural items require import licenses; however, many of these are licensed liberally. Commodities under control of interest to the United States include wheat, feed grains, edible oils, oilseeds, oilseed cake and meals, rice, poultry meat, certain canned fruit and vegetables, fresh and processed meat, lard, butter, dried whole milk, and fresh fruit.

SWITZERLAND IMPORT RESTRICTIONS

AGRICULTURAL SECTOR

Tariff No.	Commodity description
	Cereals and feeding stuff:
	Bread grains.
10.01	Wheat and meslin.
10.02	Rye.
	Coarse grains, feeding stuff, and seed grains.
10.03	Barley.
10.04	Oats.
10.05	Corn (maize).
11.01	Cereal flours.
12.03.20	Other seeds for sowing.
	Animals and meat:
	Cattle, horses and foals; pigs, goats, and lambs and meat of these animals.
01.01	Live horses and foals.
01.02	Live cattle.
01.03	Live swine.
01.04	Live sheep and goats.
02.01	Meat and edible offals of the above animals, fresh, chilled, or frozen.
16.01, 16.02, 16.03	Canned meat and meat preparations of the above animals.
	Dairy products.
04.03	Butter.
ex 04.02.10	Fullmilk powder and casein.
	Eggs:
04.05.10	Fresh eggs.
	Vegetable and pulses (of kinds growing in Switzerland):
ex 07.01	Fresh vegetables.
07.01.40, 42	Potatoes, for food and for seed.
	Fruits and fruit preparations (of kinds growing in Switzerland):
08.06, 08.07, 08.08	Fresh apples and pears, stone fruits, strawberries, raspberries, blackberries, and currants.
ex 08. ex 13.03 (pectin), ex 20.07 (juice)	Apples and pears for cider manufacture, juices of apples, and pears, fruit pectin.
	Wine and grape juices:
ex 22.05	Ordinary white wine, white wine, specialites and red wine in casks.
22.04.01	Wine must.
ex 20.07	Grape juices.
	Animals oils and fats:
15.01.10	Lard for food.
15.02.01	Tallow for food.
ex 06.03	Fresh cut flowers.
ex 06.02	Young plants of fruit trees and wine stock.

Note: Industrial sector: Except for restrictions on heavy tricks and buses, Switzerland applies no quantitative import restrictions to industrial imports. Import licenses are required for a few products; such licenses are issued automatically and without quantitative retrictions.

Tunisia

Foreign trade policies announced in 1959 continue to govern Tunisian foreign trade. U.S. products can be imported under three categories: Liberalized products, on which there are no quota restrictions and for which import licenses are granted automatically; nonliberalized products subject to global quotas; and nonliberalized products listed in annual dollar import quota programs.

In line with the Tunisian Government's policy of encouraging and protecting domestic industries, the importation of some goods, including certain aluminum and iron products, battery parts, and men's and children's socks and stockings, is prohibited. A few additional items such as leather, wood furniture, and shoes were added to the list in 1961.

At the end of 1961 Tunisia had bilateral trade agreements with 28 countries, mostly European and Soviet bloc.

Turkey

Under Turkey's current import control system, all imports are subject to licensing. However, a list of "liberalized" products has been issued for which licenses are granted freely on application. There is a further list of commodities for which global quotas are established. In addition, certain goods are imported under bilateral arrangements, principally from the Soviet bloc. This trade represents only a small percentage of total imports. Goods not in any of the above categories are not ordinarily imported. These include semiluxury products, such as refrigerators and household appliances, and state monopoly items, such as tobacco products. AID-financed goods are subject to the policy of limited worldwide procurement which favors U.S. suppliers.

Although Turkey's balance-of-payments position remains precarious, the import control system, while still restrictive, has undergone a marked liberalization and simplification since its inception in September 1958. The import programs issued during 1961 continued the trend toward administrative simplification and of emphasizing imports of essential productive goods such as construction, mining, and industrial equipment, while curtailing or banning those of nonessential or luxury items.

United Kingdom

The United Kingdom has removed controls on all but a very limited number of goods. During 1961 a number of additional products including canned fruit, other than apples and citrus; wine; beer; and gin were liberalized.

Only six categories of goods—large aircraft; rum; pharmaceuticals; cigars; fresh, chilled or frozen pork; and fruits of various kinds—remain under control when imported from the dollar area while being liberalized to former OEEC countries. Most of these commodities can be imported under quotas specifically provided for imports from the dollar area. An annual quota of over $2 million is provided for grapefruit and orange juices, and canned grapefruit; a quota of 25,000 long tons for fresh, chilled, or frozen pork; a quota of $560,000 for pharmaceuticals; and a quota of $84,000 for cigars, other than Cuban.

In addition to controls applied specifically on imports from the dollar area, some 16 categories of goods are still subject to restrictions from most countries including the United States. These are: arms and ammunition; baskets and basketware; coal, coke and solid fuels manufactured from coal or coke; feathers of certain birds; fresh apples and pears; bottled or canned fruit; whole hams; fresh, frozen, evaporated, condensed, dried, or preserved milk and animal feeding stuffs containing milk solids; fresh potatoes; radioactive substances; clover and grass seeds; sugar; jute manufactures; cotton woven fabrics; watches and parts. Of these goods, global quotas are in effect for baskets and basketware, fresh apples and pears, canned and bottled apples, and inexpensive watches.

UNITED KINGDOM IMPORT RESTRICTIONS

AGRICULTURAL SECTOR

Canned grapefruit segments.[1]
Grapefruit and orange juice.[1]
Fresh winter grapefruit.[1]
Pork and preparations containing pork.[1 2]
Bananas.[1]

[1] Restricted to dollar area, including Canada.
[2] Imports prohibited from United States under sanitary regulations.

AGRICULTURAL SECTOR—CONTINUED

Fresh apples.[3]
Fresh pears.[3]
Canned and bottled apples.[3]
Whole hams.[3]
Milk and milk products.[3]
Potatoes.
Sugar.

INDUSTRIAL SECTOR

Airplanes over 4,500 pounds.[1]
Rum.[1]
Cigars.[1]
Coal, coke, and solid fuels manufactured from coal or coke.[3]
Dyestuffs.[3]
Certain arms and ammunition.
Certain feathers of birds and articles of feathers.
Radioactive substances.
Certain jute manufacturers.
Watches and parts thereof (with certain exceptions).

Uruguay

Aside from the customs tariff, Uruguay regulates imports through a system of surcharges and prior deposit requirements according to the essentiality of the product. Four classes of imports are established: (1) Those free of surcharges and prior deposits: (2) those subject to a 40-percent surcharge based on the c.i.f. value; (3) those subject to a 75-percent surcharge; and (4) those subject to a 150-percent surcharge and a prior deposit of 100 percent. The Government has indicated its intention of dispensing with the application of surcharges and prior deposits as soon as the balance-of-payments position of the country improves sufficiently to warrant such action.

Venezuela

Venezuela placed further restrictions on imports during 1961 for balance-of-payments reasons and in some cases to protect domestic industries, continuing the trend in evidence since July 1959. Commodities added to the list requiring a prior import license included canned meats and meat preparations, textile machinery, selected bathroom fixtures, fumigants in compressed form, soups in many forms, and building materials of refractory earth.

In addition, the exchange rate for financing selected imports were changed during the year. A list was issued on March 20 of approximately 2,000 essential consumer goods; raw materials, machinery, and related items for which unlimited dollars would be available at the controlled rate of exchange. This rate is the more favorable of two rates at which imports are financed. However, a subsequent list issued on June 15 eliminated a considerable number of items eligible for importation at this rate.

All imports at the controlled rate of 3.35 Venezuelan bolivares to the dollar require both an import and an exchange license. All other imports are financed at the controlled "free" rate which has been quoted at 4.58 Venezuelan bolivares per U.S. dollar since June 1961. Imports at this less favorable rate may require licenses, at the discretion of the Central Bank. Certain goods are either prohibited or may be imported only by the Government.

European Restrictions on U.S. Coal

Among the major European countries, only Italy admits American coal without restrictions.

Import restrictions against imported coal from all sources are maintained by the United Kingdom and Belgium. The Netherlands admits coal freely from the ECSC, but restricts the entry of coal from the United States and other third countries. The Federal Republic of Germany admits coal freely from ECSC countries, but maintains a strict tariff quota against imports from the United States, the United Kingdom, Poland, and other third countries.

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[1] Restricted to dollar area, including Canada.
[2] Imports prohibited from United States under sanitary regulations.
[3] Restricted from nonsterling area.

Germany has a 2-year tariff quota system under which some 12 million metric tons are admitted free of duty over the 2-year period, but all imports from non-ECSC countries outside of the tariff quota are subject to a prohibitive duty of about $5 a ton. The United States receives about 10 of the 12 million ton tariff quota. However, the Federal Government has stated it may deduct from the commercial quota for future years the amount of coal brought in from the United States under U.S. military procurement.

Belgium has been given permission by the High Authority to restrict the entry of coal both from the ECSC and third countries. Out of an approximate annual quota of 620,000 metric tons established for non-ECSC countries, the United States receives about 400,000 tons.

The restrictions maintained by the United Kingdom, the Netherlands, and Belgium are not considered to be consistent with the GATT obligations of the countries concerned.

Coal is subject to state trading in France and Luxembourg. Coal is imported duty free.

OTHER RESTRICTIONS AFFECTING U.S. EXPORTS

In addition to tariffs and quantitative import restrictions, U.S. exports may, on occasion, be hindered by technical, fiscal, and administrative obstacles to trade. Exports may be hindered, or even barred, from markets by regulations concerning health and sanitary requirements, customs valuation, marks of origin, grading standards, minimum quality, and fees and formalities connected with imports. Internal taxes may be nominally nondiscriminatory, but bear particularly heavily on imports.

Such technical and fiscal regulations affecting trade are common to all countries, including the United States. Because of the wide diversity of regulations, and the opportunity for administrative interpretation of such regulations, the U.S. Government must rely heavily on information supplied by U.S. exporters in treating with such obstacles to trade. The listing below of nontariff, nonquota restrictions is, therefore, no more than illustrative.

Benelux

The Benelux countries follow the policy of most Western European countries by not admitting items for the reasons of health, morals, or national security. Examples are absinthes, narcotics (except for medicinal use), pornographic literature, and abortive devices. The Benelux countries have employed variable levies on designated products to equalize prices of imports with domestic production. Such levies have only been applied on items where the duties have not been bound in tariff schedules or applied within the limits specified in the schedules. The Benelux countries also apply a levy transmission or sales tax, both on domestic transactions as well as on imports.

France

France prohibits the import of only those nonagricultural goods considered potentially injurious to public health or morals. These are specifically certain wines and liquors of exceptionally high alcoholic content, parathyoxyphenylurea, absinthe extract, pinball games, slot machines, pornographic material, publications for youth deemed to glorify immorality, and contraceptives. The French tax automobiles by European classifications of horsepower, and this tax bears heavily on U.S. automobiles.

The Federal Republic of Germany

Germany bans the importation of firearms and munitions, explosives, nuclear and radioactive material, narcotics, certain matches, paper used in the manufacture of banknotes, obscene written and graphic matter, written and graphic material which are politically subversive, and publications of products endangering the security of the Allied armed forces. Germany also applies health and sanitary regulations against certain imports of fruits with the result that imports from the United States are adversely affected. Exports of U.S. lemons have suffered particularly, and other products may be affected.

Italy

Italy applies safety, sanitary, and marking regulations to numerous items in commodity sectors such as munitions, drugs, etc. In general, such regulations are comparable to those in force in other trading countries, including the United States. The present formula for computing the circulation tax on automobiles

effectively penalizes automobiles imported from the United States which have a cylinder displacement generally larger than that of automobiles produced in Europe. The disadvantage to American cars is compounded by the fact that the high tax continues undiminished for the life of the car while its resale value diminishes sharply.

[From the Foreign Commerce Weekly, Nov. 9, 1959]

TRADE LIBERALIZATION PATTERN MAINTAINED

The pattern of dollar liberalization established in the first 6 months of the year was maintained in the third quarter as countries of the British Commonwealth and Western Europe continued to reduce discrimination against dollar imports.

The move to convertibility of major European currencies in December 1958 dramatically emphasized the improved foreign exchange position of European nations, and with the rationale for dollar discrimination eliminated, liberalization has proceeded at a rapid rate. Today many U.S. products can be sold in markets which had been restricted or closed since World War II. Further improvement is anticipated.

In countries of Latin America, Asia, and Africa, foreign Government actions have tended to be a mixture of liberalizing and restrictive moves, though without discrimination against the dollar. No clear trend or pattern is apparent except that members of the sterling area are following the examples of the United Kingdom in eliminating discriminatory restrictions.

OEEC DOLLAR MARKET EXPANDS

Western Europe in the third quarter improved as a market for American goods as France, Turkey, Spain and the United Kingdom removed discriminatory restrictions and France, Norway, and the Netherlands simplified import procedures.

France, on September 26 continued liberalization of dollar imports by freeing from quantity limitations a wide variety of products. These include certain plunes, dried apricots, passenger automobiles of a cylinder capacity of 3,000 cubic centimeters or over (the $3 million 1959 quota remains in effect for smaller U.S. automobiles), outboard motors, carbon black (tunnel process), monosodium glutamate, terramycin, sensitized plates and film, rolling mills, electric junction boxes, some cinematographic films, products of polymerization of styrene without added material and polymerized chloroacete. In addition, the Government has announced that quantitative restrictions will be removed on January 1, on edible offals, medicines and vaccines for human and veterinary use, and synthetic rubber.

This latest move brings the French level of dollar trade liberalization up to about 80 percent, based on 1953 private trade, and follows the liberalization of certain industrial products at the end of July. France also introduced a simplified procedure for importation of liberalized products.

One of the most important developments in the quarter was the inclusion of Spain in the Organization for Economic Cooperation. In joining OEEC, Spain accepted a stabilization program agreed to by other OEEC members and the International Monetary Fund. Although special charges and duties on imports were generally increased, the 25-percent ad valorem exchange tax was abolished and the Spanish Government liberalized about 50 percent of 1950 private imports both from OEEC and the dollar area. Spain on August 7, announced its first nondiscriminatory global quotas to a total of $75 million.

The United Kingdom in August freed import or butter from the dollar area. The freeing of butter was hastened by a decline in U.K. production as a result of dry weather and poor pasture conditions. Import of other dollar dairy products were freed in June.

Turkey on August 3, removed from quota control an additional 110 groups of items, mostly raw materials for the chemical and drug industry. Demand for these goods was officially estimated at US$25 million. The newly freed items, together with items freed from quota controls in the second global list issued in mid-May—raw materials, machinery, spare parts—make a total of 270 groups of items now liberalized for import into Turkey from the dollar area.

Norway on July 1 removed from import-licensing control cement, organic chemicals, plastics, air-conditioning equipment, packing machinery, coin-operated dispensers, machinery for the food industry, and phonograph records and tapes. These items had previously been licensed liberally.

The Netherlands, in July, simplified its import procedures by eliminating licensing for most imports from all sources as well as the requirement that permits be obtained for the foreign exchange for current payment transactions between the Netherlands and most other countries, including the United States.

Also, Finland expanded its list of imports freed from quantitative restrictions in April by adding roasted and unroasted coffee from the dollar area.

COMMONWEALTH AREAS RELAX CONTROLS

Sterling convertibility has permitted many British Commonwealth areas to follow the United Kingdom's lead in reducing dollar discrimination. Australia, the Federation of Rhodesia and Nyasaland, Malaya, Singapore, British West Indies, Ghana, Sierra Leone, Cyprus, Ceylon and British East Africa, relaxed discrimination in the third quarter.

Australia, effective August 1, increased its authorization for annual imports from A£800 to A£850 and further removed dollar restrictions so that 90 percent of Australian imports will now be licensed without discrimination. Most imports remaining subject to discriminatory licensing are made up of motor vehicles and timber. This move will permit importation of U.S. goods not imported into Australia for many years.

The Federation of Rhodesia and Nyasaland announced on September 11 further liberalization of dollar imports. Among the newly decontrolled items are aircraft, refrigerators, stoves, heating appliances, washing machines, firearms, hardware, lamps, playing cards, hairclippers and scissors, quilts, cocoa and drinking chocolate, carbon and blotting paper, and military band instruments. In addition, the quota established in August of $28,000 for ladies' silk and nylon stockings was increased to $56,000. The newly decontrolled items are significant in that American trade possibilities appear promising even with a comparatively high rate of duty for some items.

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NONTARIFF TRADE BARRIERS OF THE UNITED STATES [1]

(By Noel Hemmendinger, Counsel, United States-Japan Trade Council)

INTRODUCTION

As the United States and its trading partners prepare for the Kennedy round of negotiations on tariffs, the subject of non-tariff trade barriers looms large. It has been agreed that steps to reduce and eliminate such barriers are an important part of the negotiations now to take place. It is not easy to elaborate principles to govern this negotiation. There is, however, a very considerable measure of agreement among the leading trading nations: first, that non-tariff trade obstacles are very important; second, that they should be reduced or abolished; and third, that the other fellow's obstacles are much more serious than one's own.

Despite some excellent studies, most recently that of the Canadian-American Committee, the subject is obscured by legal technicalities and remains nearly impenetrable to the general public. This paper is an attempt to explain U.S. barriers, with emphasis upon the vexations, uncertainties, and additional costs that they entail. It is focused upon the barriers of the United States not because they are necessarily greater or more odious than those of other nations but because they are here. If something is going to be done about them, it must be done by the United States Government; and the American public must understand the need. While general in nature, the paper emphasizes trade with Japan because that is the special concern of the United States-Japan Trade Council.

[1] Study submitted as part of the presentation of the United States-Japan Trade Council before the Trade Information Committee established pursuant to the Trade Expansion Act of 1962 in connection with its hearings on non-tariff trade barriers.

It should be recognized at the outset that we are discussing mainly governmental trade barriers. There are many other barriers of geography, language, history, and culture that place foreign suppliers at an inherent disadvantage compared with domestic sources. While not removable by government decree, these natural, political, and anthropological factors remain an important facet of the problem. They sometimes represent an advantage for the import—as in the case of Scotch whiskey and French perfume; but for most imported goods in the American market, they represent a built-in, invisible tariff that is just as real as a customs duty. Quality for quality, there must exist a definite price differential to overcome buyer resistance to a foreign source as compared with a domestic source of supply. The reasons for the domestic preference vary widely; but most of it is explained by greater difficulties in communication, delivery, and service where imported goods are involved.

Governmental barriers are many and varied in character, from sanitary regulations to internal taxes. This paper treats at length five that appear the most important in the United States: quantitative restrictions, Buy-American policies, marking requiremens, antidumping legislation, and customs practices.

ADMINISTRATIVE SWORDS OF DAMOCLES

It is necessary to observe that, apart from the particular restrictions that may be put into effect, there are statutory provisions for the upward revision of tariffs or the impostion of restrictions on the complaint of an affected American industry whose very existence has an inhibiting influence upon trade. These administrative swords of Damocles are: the escape clause, the national security clause, equalization of cost of production (Section 336 of the Tariff Act of 1930), and embargo for unfair acts (Section 337 of the Tariff Act of 1930).

Section 336 and Section 337 are obsolete and should be repealed. Recent cases have shown that they retain considerable nuisance power. The national security clause has actually been invoked by the President, only in the case of oil imports, but the threat of its use is always there.

The obstacles to trade which have resulted from application of the escape clause are perhaps less significant than the discouragement of potential trade that results from the fear that it may be invoked. The possibility of abuse of the escape clause has been somewhat diminished by the Trade Expansion Act of 1962, since it is now explicit that, for the clause to be invoked, any increased imports must be found to have a direct causal connection with previous tariff concessions. Moreover, by providing alternative remedies of a domestic character in the form of adjustment assistance, the 1962 Act has gone a long way toward recognition of the fact that some domestic readjustments from a general reduction of tariffs must be accepted. It is to be hoped that adjustment assistance will eventually supersede import restrictions as the normal remedy for injury that can be traced to tariff concessions.

NOTES

At the GATT meeting of May 21, 1963, the Ministers agreed that the trade negotiations to start May 4, 1964, should "deal not only with tariffs but also with non-tariff barriers." The Trade Negotiations Committee charged with elaborating the trade negotiation plan was instructed to consider:

"The rules to govern and the methods to be employed in the treatment of non-tariff barriers, including inter alia discriminatory treatment applied to products of certain countries and the means of assuring that the value of tariff reductions will not be impaired or nullified by non-tariff barriers." (GATT Press Release No. 794, May 29, 1963.)

The classic study of U.S. barriers is Percy Bidwell's THE INVISIBLE TARIFF published in 1939. The outstanding recent study is *INVISIBLE TRADE BARRIERS BETWEEN CANADA AND THE UNITED STATES* (1963) by Francis Masson and H. Edward English, for the *Canadian-American Committee,* sponsored by the *National Planning Association* (*U.S.A.*) and the Private Planning Association of Canada. That study contains valuable background and statistics on applications of the U.S. escape clause, arbitrary valuation, antidumping act, and marking requirements. It is long on facts but tries not to draw policy conclusions. The present paper is not so inhibited.

The escape clause is now embodied in Sections 301(b) and 351 of the Trade Expansion Act of 1962, 19 U.S.C.A. §§ 1901, 1981 (Supp. 1964); the national security clause in Section 232 of the Trade Expansion Act of 1962, 19 U.S.C.A. § 1862 (Supp. 1964). Sections 336 and 337 of the Tariff Act of 1930, as amended, 19 U.S.C.A. §§ 1336, 1337 (1960), are not changed by the 1962 Act.

Section 336 is obsolete because it embodies the theory that tariffs should equalize costs of production at home and abroad, which would stifle all trade in competitive products. It has been inapplicable for twenty-nine years to articles that are the subject of trade agreement concessions (Section 2(a) of Act of June 12, 1934; 19 U.S.C.A. § 1352 (1960), as amended 19 U.S.C.A. § 1352 (Supp. 1964) and therefore can be applied to very few products. However, in the case of Brooms Made of Broomcorn, Investigation No. 336–121, January 17, 1962, the Tariff Commission found that the present duty does not equalize the differences in costs of production and that, to do so to the fullest extent permissible under

Section 336, it is necessary to apply the duty on the basis of the selling price of American-made brooms. The President refused to do so, without further explanation, on the ground that the Commission's report did not show need for the duty to be so applied. White House announcement of February 15, 1963.

Section 337 is obsolete because it has been applied almost exclusively in patent cases, for which it is peculiarly unsuitable, since the Tariff Commission cannot adjudicate the validity of the patent or the issue of infringement. The Tariff Commission has repeatedly requested repeal; and in 1962, the Supreme Court handed down a decision that casts considerable doubt upon its constitutionality. Section 337 provides that the importer may appeal on questions of law from the Tariff Commission to the Court of Customs and Patent Appeals and that the matter then goes to the President for decision. Glidden v. Zdanok, 370 U.S. 530 (1962), indicates that the Court of Customs and Patent Appeals may not constitutionally render such an advisory opinion. Nevertheless, the Tariff Commission considered another case in 1963: Folding Doors, Investigation No. 337–22, June 7, 1963 (dismissed).

The first seven petitions, five by workers and two by firms, under the Trade Readjustment provisions of the Trade Expansion Act of 1962, were turned down by the Tariff Commission on various grounds, principally the lack of a causal connection between increased imports and trade agreement concessions.

QUANTITATIVE RESTRICTIONS

The United States has never imposed quantitative limitations upon imports in order to protect its balance of payments—the most common reason for such restrictions in the post-war world. Rather, it has used import quotas as adjuncts to agricultural policies and for protectionist reasons. They fall into four categories: absolute quotas, tariff quotas, quotas established by international agreement, and foreign, so-called "voluntary" quotas on exports to the United States.

The GATT forbids quantitative restrictions as a general principle but contains elaborate exceptions for agricultural products under domestic controls, for conservation of natural resources, and for restrictions imposed to safeguard the balance of payments.

The inherent vice of all quotas, of course, is that they distort the normal patterns of trade and do not permit market forces to operate freely. In this respect, they are worse than customs duties. A limit on the quantity of any particular commodity that may come in either creates a chaotic struggle for priority—distorting normal business decisions in the interest of participation in the limited supply—or, like a cartel, involves some mechanism for allocation of the quota among exporters or importers or both. The disturbance to trade resulting from such restrictions can hardly be exaggerated. Because of them, importers have been unable to gain access to a source of supply, have had to pay premiums for quotas assigned to others, or have made their purchases when they were able to get the goods at the additional cost of higher prices or storage charges to keep them until needed. These handicaps to importers have been reflected in damage to consumers, in terms either of higher prices or limted supply or both.

U.S. absolute quotas

Absolute quotas are presently in effect by virtue of agricultural legislation designed to set a high domestic price level for the following farm products and to protect that price by limiting the quantity of imports: raw cotton and cotton wastes, wheat and rye, cheese, butter substitutes, dried milk and cream, and peanuts. In addition, under the Sugar Act, there is a quota on sugar imports.

By virtue of the national security clause and a Presidential finding that imports of residual oil threaten the security of the United States, there are quotas on petroleum and products; and under the escape clause, there are quotas on lead and zinc.

A recent study by the United States-Japan Trade Council indicates that in the years 1959–1961 these various quotas (including cotton textiles, discussed below) affected approximately 14 per cent of all U.S. imports.

U.S. tariff quotas

Tariff quotas are higher tariffs on imports, which come into effect only after a certain quantity has been reached. Like absolute quotas, they may be global or country by country. They have aspects of both tariffs and quotas. If the post "break-point" duty is prohibitive, they operate exactly like absolute quotas; if the higher duty is one that can be surmounted, then they seriously distort the patterns of trade and invite cartel-like controls.

U.S. tariff quotas are in effect on tuna canned in brine, ground fish fillets (fresh or frozen), cattle, potatoes, fresh butter, milk and cream, walnuts, and stainless steel flatware.

International agreements and voluntary quotas

There are three general types of so-called voluntary quotas imposed by the exporting country. The first type results from an explicit international agreement, such as the multilateral and bilateral agreements on cotton textiles. The second is unilateral in form but results from diplomatic negotiations or other types of pressures at the governmental level. The third is also unilaterally imposed by the exporting country, but as a result of an evaluation of the market situation in the importing country and without any commitment with respect to the amount or duration of the quota. It is estimated that from 30 to 40 per cent of Japan's exports to the United States are subject to restrictions of these three types.

The international agreements by which other countries limit their exports to the United States are the results of strong diplomatic pressures by the United States. Where there is an international agreement, U.S. law provides also for enforcement through U.S. import controls.

"The United States and Canada are forcing Japan to restrict exports voluntarily." This comment in the news columns of the *Japan Times* (September 22, 1963) speaks volumes. The pressures may be direct or subtle. Quotas have been found expedient in Japan in some instances where extreme competition has led to undesirable marketing practices, such as multiple offers of the same product of the same manufacturer by many different exporters or importers. It is rarely possible, however, to distinguish such a motive from the fear of import restrictions.

It is not enough to say that most of these restrictions are made by Japan and can be altered by Japan. As a matter of law, this is true; but it does not accurately describe the relationship between the United States and Japan. The Japanese have shown great sensitivity to U.S. views; and leading U.S. officials have frequently praised and endorsed Japan's "self-restraint". In some cases, the unilateral abrogation by Japan of self-imposed export restrictions would be regarded here as breach of a moral obligation by Japan. It can be said with good grace that such restrictions by Japan are truly voluntary only when the United States Government ceases to endorse them and make clear that they are inconsistent with fundamental U.S. trade policies.

It should be noted that Section 352 of the Trade Expansion Act of 1962 provides for the negotiation by the President of "orderly marketing agreements" as one form of remedy, if the Tariff Commission has found that increased imports resulting from tariff concessions have caused or are threatening serious injury to an American industry. This statutory provision obviously embodies a policy that such agreements should be negotiated only *after* such a finding has been made by the Tariff Commission. Adherence to that policy will eliminate the political pressures for extra-legal restrictions on imports imposed without impartial scrutiny by any official U.S. fact-finding body. Such pressures are strong right now in the fields of woolens and footwear.

NOTES

Agricultural quotas are based mainly on Section 22 of the Agricultural Adjustment Act as amended, 7 U.S.C.A. § 624 (1952), as amended, 7 U.S.C.A. § 624 (Supp. 1963). Sugar quotas are based on the Sugar Act of 1948 as amended, 7 U.S.C.A. §§ 1150–60, as amended, 7 U.S.C.A. §§ 1154–55, 1157–58, 1161 (Supp. 1963). The legislative authority for U.S. enforcement of the Geneva Agreement on Cotton Textiles of February 9, 1962, and other cotton textile agreements is Section 204 of the Agricultural Act of 1956 as amended, 7 U.S.C.A. § 1854 (Supp. 1963), which applies even to countries not parties to the agreement.

Citations to the national security clause and escape clause are in notes to introduction.

Some U.S. tariff quotas are negotiated duties under the Trade Agreements Act of 1934, as amended, 19 U.S.C.A. § 1351 (1960).

An unpublished study of the U.S.-Japan Trade Council of May 21, 1963, calculates the percentage of actual U.S. imports which were subject to quantitative restrictions. In 1961, 14.3 per cent were under absolute quotas, 0.5 per cent under tariff quotas, and 1.5 per cent under the Geneva cotton textile quotas. Of course, these figures do not reveal the restrictive effect.

American Embassy, Tokyo, Dispatch No. 549 of December 26, 1961, listed forty-one commodity groups that were under voluntary export controls to various destinations, all but five to the United States.

BUY-AMERICAN POLICIES

Federal

The term "Buy-American" refers in its broadest sense to purchasing practices and consumer attitudes which favor American-made goods at the expense of or to the exclusion of foreign-made goods. More specifically, the term refers to

policies pursued by Federal, state, and local governments with respect to procurement for their own use. Governmental Buy-American policies are based in part upon chauvinistic preferences, in part upon obsolete economic theory, in part upon special concessions to favored industries, and in part upon genuine balance of payments problems.

The Federal Buy-American Act became law during the last days of the Hoover Administration. It was adopted during the depression as a means of assisting depressed domestic industries and also, apparently, as a means of minimizing potential German competition on Hoover Dam contracts for heavy electrical equipment. Its usefulness as an anti-depression measure proved to be illusory; and the theory on which it was based (that we should have high tariffs to protect and stimulate our own industries (has been overwhelmingly rejected, most recently in the Trade Expansion Act of 1962.

The Buy-American Act applies to Government procurement of articles, materials, and supplies for public use within the United States and to contracts growing out of appropriated funds for the construction, alteration, or repair of public buildings or works within the United States. Since the Buy-American statute itself is either vague or silent on practical questions which a procurement officer must ask, it has been implemented through administratively developed percentage preferences and definitions of country of origin. The basic Executive Order now in effect under this Act provides that a foreign bid can be accepted only if 6 per cent below the lowest domestic bid. By administrative practice, another 6 per cent is added if the American supplier obtains his materials in an area of labor surplus. The basic Executive Order also requires that some procurement be reserved for U.S. small businesses. Finally, the Executive Order defines items as foreign in origin when 50 per cent of the cost of their constituent materials is foreign in origin.

By its terms, the Executive Order in question applies to "all executive departments, independent establishments, and other instrumentalities of the executive branch of the government". However, for balance of payments reasons, the Department of Defense and the military services have virtually stopped buying foreign-made goods in significant amounts. The Executive Order's percentage requirements have been abandoned through exercise of "administrative discretion" provisions of the Order.

The Buy-American Act does not apply to procurement of items or to construction for use overseas. However, for balance of payments reasons, procurement for such use overseas in the world market has been sharply curtailed since 1960 under presidential directives. For overseas use, the Department of Defense usually applies a 50 per cent preference. The Agency for International Development requires that its loans be used to buy American-made goods. A.I.D. grant money can be used for procurement outside the United States provided that the items are bought in one of the nations receiving assistance and not in the principal industrial countries of the world.

In deference, in part, to the existence of the American law, the General Agreement on Tariffs and Trade recognizes that governments may grant preferences to domestic products in their purchases for governmental purposes. It is manifest, however, that Buy-American governmental policies are simply a variety of protectionism and are as unjustified as other varieties of protectionism. Governmental purchases loom extremely large today in the United States: for roads, for schools, for defense, for postal communications, for research and countless other things. In many other free countries, these governmental expenditures extend to railroads, airlines, telephone, and telegraph systems and, in France, England and Germany, for instance, to certain government-owned industries. Governmental purchases are thus an important part of the world's commerce, and there is no reason in principle to except them from non-discriminatory trading policies.

Buy-American laws are simply a special type of protectionism which is justifiable only when applied with restraint in the interest of the nation's balance of payments or security. The spurious, protectionist grounds are difficult to exclude from policy-making and tend to lead to a much greater rigidity in the application of Buy-American principles than is called for. Offshore procurement apart, the dollar savings from the Federal Buy-American policies have been estimated at less than $40 million a year, perhaps 1 per cent of the U.S. procurement involved. Such savings must be weighed against the losses—the weakening of the U.S. bargaining position in trade matters vis-a-vis the rest of the world; the absence of the spur of foreign competition to domestic quality and price; the

distortion (particularly in foreign aid) of normal trade patterns; and of course, the fact that the available funds can accomplish less. When these factors are fully considered, no increase of the 6 to 12 per cent differential appears justified for domestic U.S. procurement; and it is unlikely that the much larger differentials for offshore procurement can be justified.

State and local

Apart from the Federal Government, there is a vast, scarcely charted area of Buy-American laws, regulations, and undeclared policies in the states and local governments. There has never been a thorough study of the limitations on purchase of foreign goods that prevail in this area. It seems clear that the relevant policy consideration should be at most the same as apply to the Federal Government. As a matter of law, a state may be constitutionally able to give preference in its purchases to the domestic industries of that state. But, when it comes to legislation and practices giving preference to American-made products as distinguished from imports, then the state is invading the area of regulation of foreign commerce which is reserved by the Constitution to the Government of the United States. There is no occasion for the states to enter this field; and if national interests require, the Federal Government should take steps, legislatively or administratively, to insure that state measures are compatible with the policy of the Federal Government. Since most state programs of any magnitude involve substantial Federal contributions, notably those for roads, this is not a difficult thing to accomplish. Indeed, such an order was formulated by the Bureau of Public Roads of the Department of Commerce several years ago but has never been put into effect. It is time this order was revived and state policies made conformable to the national policy.

Non-governmental

Non-government Buy-American policies—for instance, of large companies—represent an even larger uncharted area than the policies of states and local governments. Perhaps it can be assumed that the great American corporations, which on the whole have supported a liberal U.S. trade policy in recent years, apply the same liberal trade policy in their own purchase—but this is by no means clear. Manufacturing companies frequently use foreign-made components, but other purchasing areas appear to be relatively untouched by foreign competition—for instance, basic equipment of power companies and office supplies. There is need for study as to how far such purchasing decisions reflect well-considered corporate policies.

NOTES

The Buy-American Act is the Act of March 3, 1933, 41 U.S.C.A. § 10a–d (1957). Differentials and definitions are set forth in Executive Order No. 10582, 19 Fed. Reg. 8723 (1954). For the Department of Defense's practices, see *Hearings on the Impact of Military Supply and Service Activities on the Economy Before the Subcommittee on Defense Procurement of the Joint Economic Committee,* 88th Cong., 1st Sess., 356–60 (1963). For offshore procurement under the Foreign Assistance Act of 1961, see Section 604(a), 22 U.S.C.A. § 2354(a) (Supp. 1963), and Presidential Memorandum of October 18, 1961, 26 Fed. Reg. 10543, and Presidential Memorandum of August 1, 1962, 27 Fed. Reg. 7603. For DOD Regulations on procurement of supplies, see 32 CFR Sec. 6.100–.105 (1961); special provisions excepting Canadian goods are set out at 32 CFR Sec. 6.103–5 and Sec. 6.103–5 (1961) (Supp. 1963); for DOD regulations on construction, see 32 CFR Sec. 6.200–.206 (1961). For the General Services Administration Buy-American regulations on supplies, see 41 CFR Sec. 7.101–14, 9–7.5004–16 (1963); on construction, 41 CFR Secs. 1-6.200–.206, 9–7.5004–17 (1963).

Various pieces of miscellaneous legislation supplement the Buy-American Act. Thus, Federal funds made available to state, county, municipal, or other agencies for low rent housing are subject to the Buy-American Act's restrictions. 42 U.S.C.A. § 1406(c) (1957). The Berry Amendment, an annual rider to the Department of Defense's Appropriation Acts, directs the armed services to buy "no articles of food, clothing, cotton, woven silk or woven silk blends, spun silk yarn for cartridge cloth, or wool" unless the item is grown, reprocessed, reused, or produced in the United States, subject to certain exceptions. Eg., Sec. 523 of the Department of Defense's Appropriations Act, 1963, 76 Stat. 318, 332 (1962); 32 CFR Sec. 6.300–.305 (1961). Several pieces of legislation establish Buy-American restrictions on shipping of Government or military supplies, and the shipment of U.S. agricultural or other products by an instrumentality of the Government. 15 U.S.C.A. § 616a (1963) (shipments of agricultural products financed by Government on United States vessels); 46 U.S.C.A. § 1241(a) (1958) (transportation of U.S. Government personnel on American vessels); 46 U.S.C.A. § 1241(b) (Supp. 1963) (provisions with respect to shipment of cargoes procured, furnished, or financed by the United States Government; 10 U.S.C.A. § 2631 (1959) (preference for United States vessels in transportation by sea if supplies bought for Army, Navy, Air Force or Marine Corps). Since 1844, American goods have been preferred in purchases for the Senate and House of Representatives. 2 U.S.C.A. § 109 (1927). The Buy-American Act applies to purchases of strategic and critical materials for stockpile purposes. 50 U.S.C.A. § 98b (a) (1951). The Buy-American restriction, however, does not apply to purchase of stockpile materials with funds raised under the Agricultural Trade Development and Assistance Act, 7 U.S.C.A. § 1704(b) (Supp. 1963).

The War and Navy Departments and the U.S. Maritime Commission were exempted from the provisions of the Buy-American Act shortly after the declaration of the Second World War. Executive Order 9001, 6 Fed. Reg. 6787 (1941). The President is empowered by law to authorize any department or agency exercising functions connected with the national defense to dispense with other provisions of law (eg., the Buy-American Act) when he deems that such action would assist the national defense. National Defense Contracts Act, 50 U.S.C.A. § 1431 (Supp. 1963).

For a general review of procurement under the Federal Buy-American Act, see Van Cleve, *The Use of Federal Procurement to Achieve National Goals*, 1961 WIS. L. REV. 566, 577–92; Knapp, *Buy-American Act: A Review and Assessment*, 61 COLUM. L. REV. 430 (1961); Gantt and Speck, *Domestic* v. *Foreign Trade Problems in Federal Government Contracting*: *Buy-American Act and Executive Order*, J. PUB. L. 378 (1958). See also Note, *National Power to Control State Discrimination Against Foreign Goods and Persons: A Study in Federalism*, 12 STAN. L. REV. 355 (1960).

A 1959 survey by the Council of State Governments reveals that fifteen states—including California, Indiana, Massachusetts, Maryland, Ohio and Pennsylvania—had restrictions against purchase of foreign-made goods by public agencies. A 1961 survey by the Bureau of Business and Economic Research at the University of Utah showed that nineteen states had established preferences for goods originating in the state.

The Attorney General of California has ruled that California Buy-American laws are inapplicable to the purchase of Swiss turbine generator units by the city of Los Angeles because such exclusion of foreign goods is contrary to the National Treatment Clause of the Trade Agreement with Switzerland read in the light of GATT. The GATT provision making the national treatment clause inapplicable to governmental purchases (GATT, Pt. II, Art. III, Paras. 5, 8(a)) was found to be inapplicable because this purchase was for "use in the production of goods for sale." Calif. Atty. Gen. Op. No. 59/164 (1959); Calif. Atty. Gen. Op. No. 60/141 (1960). The California Superior Court for the City of San Francisco held that the California Buy-American Act cannot be applied in connection with power equipment procurement by the city of San Francisco because of the National Treatment Clause of GATT and because of the National Treatment Provision in the Treaty of Friendship, Commerce and Navigation with Japan. *Baldwin-Lima-Hamilton Corp.* v. *Superior Court*, 208 Cal. Ap. 2nd 803, 25 Cal. Rep. 798 (1962).

The Texas Supreme Court has held an order of the Texas Highway Commission requiring use of U.S. made steel in the construction and maintenance of the Texas highway system to be contrary to the Texas Competitive Bidding Law and without legal justification. *Texas Association of Steel Importers* v. *Texas Highway Commission*, Docket No. A–9515, Supreme Court of Texas, November 6, 1963, *rehearing denied*, December 11, 1963.

Country-of-Origin Marking

At the individual level, the right to indulge a whim or prejudice—for or against the import—ought to be protected. But there is an important question as to how far importers or distributors should be required by law to insure that the purchaser cannot overlook the country of origin, thus encouraging whatever prejudices he may harbor. Under the U.S. customs laws, the country of origin of imported goods must be legibly marked, where this is practical. The fact that, for some products and some markets, obstrusive marking is a serious commercial handicap makes the marking requirement a definite trade obstacle. Cases may be cited where an importer has abandoned a line of goods because the prominence demanded by customs for the country-of-origin mark made them usaleable.

After customs has been satisfied, the importer or distributor can still run afoul of the Federal Trade Commission, which has construed its mandate to pursue deceptive practices as requiring it practically to insure that the purchaser knows the goods are imported. This is based on the unchanging assumption that there is a preference for domestic goods—which, of course, may or may not be true in a given situation— and that, unless otherwise noted, the customer will assume all goods to be of American origin.

That the customer should know the truth appears at first blush unchallengeably right and good; but there is an important distinction to be made between *legible* and *obtrusive*. The distinction is illustrated by the ingredients of candy as stated on the wrapper, which is there for those who look, and the label "poison" which is too prominent to overlook. There is no national policy requiring that the customer know the national origin before he buys; there is simply a public interest that the facts be available if he cares. Questions of public health apart, the basic premise of laws protecting the consumer's right to choose is that he *cares* to choose. Public policy favors unfettered international trade, but there lurk in the background passions and prejudices which often influence actions without rising to the level of considered decisions.

History shows—most recently in the case of the vetoed Canadian lumber-marking bill—that country-of-origin marking can be a potent tool for protectionism. This is not always true, of course. For many products and many consumers, it is helpful. However, the marking problem, by definition, arises only in those few market sectors where the country of origin is regarded in the trade as a bad sign. If the distributor thinks it is good or neutral, he is glad to feature it. In addition to questions of consumer attitudes, the actual marking required is frequently onerus and expensive.

Where the problem arises, it is important that country-of-origin marking be narrowly confined to the genuine public policy that is served.

NOTES

The basic country-of-origin marking law is Section 304 of the Tariff Act of 1930 as amended, 19 U.S.C.A. § 1304 (1960):

> ". . . every article of foreign origin . . . imported into the United States shall be marked in a conspicuous place as legibly, indelibly, and permanently as the nature of the article (or container) will permit in such manner as to indicate to ultimate purchaser in the United States the English name of the country of origin of the article. . . ."

The Secretary of the Treasury is given wide powers to determine the precise marking and to grant exceptions. There are specific statutory requirements for timekeeping mechanisms. The regulations and exceptions are summarized in a pamphlet published by the Bureau of Customs, *Exporting to the United States*, at pages 33–37. Marking requirements and decisions of the Customs Bureau are collected in another Customs publication, CIE 1600/59 Digest of Decisions for the Marking of imports.

Acting under Section 5, the Federal Trade Commission Act, 15 U.S. Code, Section 45, the Federal Trade Commission has required country-of-origin marking in cases where Customs did not so require and has even required that it be shown on display cards as well as the merchandise itself. *In the Matter of Baldwin Bracelet Corp.*, Docket 8316 (1962), appeal pending.

By virtue of a 1938 trade agreement with Canada, TD 49690, lumber is unmarked. On December 31, 1963, President Johnson announced that he was vetoing H.R. 2513, a bill urged by the U.S. lumber industry, which among other things would have required that lumber be stamped with the country of origin.

ANTIDUMPING LEGISLATION

United States law, in common with that of many other trading countries and in common with the General Agreement on Tariffs and Trade, forbids the sale of imported goods in the American market at prices lower, after appropriate adjustments, than the prices in the domestic markets of the supplying country, where the effect is to injure an American industry. There exists a wide consensus that such practices are undesirable; but beneath this apparent simplicity, there lurk many difficult questions, both conceptually and administratively. There arises, in fact, a serious conflict between a justifiable objective and the accomplishment of that objective without undue interference with normal commerce.

The law actually refers to sales at less than fair value, which is interpreted to mean at prices lower than prices in the domestic market or, if such sales are insubstantial, than prices for third country sales or, failing such data, than cost of production. This determination was once characterized as purely a matter of arithmetic; but elaborate regulations have been developed for the determination of what adjustments are to be allowed and what are not to be allowed. The determinated of whether sales are below fair value has, therefor, become a complex exercise involving many questions of judgment.

It has always been recognized that different prices for one market as against another are not necessarily to be condemned and that there may well be good economic and business reasons for them. Hence, the United States, along with GATT and most trading nations, applies some further test of injury; and this requires an examination of what actually happens in the market place and the reasons for it. This determination of injury was formerly made by the Treasury Department along with the determination of fair value; but since 1954, the question of injury has been passed upon by the Tariff Commission if the Treasury Department has found sales below fair value.

The cases decided by the Tariff Commission have been without elaborate discussion and have defied any rationalization. They may all be consistent with one another, but it is difficult to tell from the facts and reasons given. Recently, in the case of Titanium Dioxide from France, a step has been taken toward a consistent exposition of a doctrine of injury. This decision held that the injury contemplated by the Act must be material. It also indicated that the intent must be predatory: "unfair competition" in the sense of the Federal Trade Commission Act. What this means in concrete situations remains to be developed as the cases arise. It would appear, however, that a defense would be allowed that a lower price was necessary to meet competition—a defense which is permissible in domestic price-determination cases under the United States Robinson-Patman Act. It is hoped that the Tariff Commission will reexamine, if it should become necessary, its decisions in some earlier cases finding injury to an entire United States industry because of a purely regional impact on a few producers.

In the period January 1, 1955, to November 1, 1963, Treasury acted on 282 dumping complaints. In six cases, dumping duties were assessed. Of the other 276, sixty-two were terminated because the supplier voluntarily adjusted his prices; in 187, absence of price discrimination was found; and 27 cases, there was absence of injury. Thus, there were results favorable to complainants in 68 cases out of 282—or about one-fourth—although the price adjustments did not all result from the dumping complaints. However, appraisement was withheld in many more than a quarter of the cases, with considerable injury to the imports.

In fact, the great threat to the import trade from the Antidumping Act comes not so much from findings of injury and the consequent imposition of dumping duties since these actions have actually been infrequent, as from the withholding of appraisement when Treasury finds a suspicion of dumping. Withholding of appraisement means simply that the importers cannot know for an indefinite period what duties will be assessed and have great difficulty in completing their sales and entering into new contracts without undue risks. There are times when it simply puts a stop to all business. The evil is compounded by the fact that under the law the dumping duty, when assessed, is retroactive to entries 120 days prior to the date of the complaint. In actual fact, the Treasury Department has in recent years usually required more than a faint suspicion of dumping before withholding appraisement. Nevertheless, the record shows that in the great majority of cases where appraisement is withheld, in the end there is no assessment of dumping duties. The withholding of appraisement is itself a severe sanction that should be imposed only where the evidence strongly indicates sales at less than the home market price *and* that, under the principles and precedents laid down by the Tariff Commission, injury to an American industry is resulting.

Legislation is pending in the Congress, at the instance of United States steel, cement, and other industries, that would put a highly protectionist stamp on the Antidumping Act. Presented in the guise of plausible measures to improve procedures and close loopholes, the proposed amendments would give the United States industry access to the confidential data of the foreign supplier and give it virtually unlimited opportunities for harassment and delay, through withholding of appraisements and court proceedings. Fortunately, the Federal executive agencies are opposed to the bills and hearings, if held, will disclose the bias of the proposed changes.

If changes are to be made in the Antidumping Act, they should be in the other direction. For instance, the retroactive provision, found in the laws of only one other country, applying dumping duties to entries within one hundred twenty days before the complaint should be abolished; and the President should be given the right to veto or modify dumping findings in the United States national interest. Other desirable steps can probably be effected by the Treasury Department and the Tariff Commission through changes in regulations or practice: permit the exporter to reimburse the importer for the dumping duty; permit inclusion of deductions for selling and advertising costs in determining home market expenses; define the United States industry affected as nationwide, at least so long as dumping duties are nationwide.

NOTES

The U.S. law is the Antidumping Act of 1921 as amended, 19 U.S.C.A. §§ 160–173 (1960). The GATT provision is Article VI, which recognizes that imports at "less than the normal value" are to be condemned if they cause or threaten "material injury" or materially retard the establishment of a domestic industry and which defines normal value in terms of the home market price.

The fullest statement of actual practice under the Antidumping Act is in *Background Material for Remarks To Be Made at Georgetown University Law Center Forum, November 8, 1963, on the Antidumping Act,* by James Pomeroy Hendrick, Deputy Assistant Secretary of the Treasury. See also Masson and English, Supra, at 44; legislative history of the 1921 Act and 1954 and 1958 amendments; Viner, *Dumping: A Problem in International Trade* (1923); Ehrenhaft, *Protection Against International Price Discrimination,* 58 COLUM. L. REV. 44 (1958); Kohn, *The Antidumping Act,* 60 MICH. L. REV. 407 (1962); Hendrick, *The Future of the Antidumping Act,* address before the National Council of American Importers, May 22, 1963.

The case of *Titanium Dioxide from France* is T. C. Publication 109, September 24, 1963. The California soil pipe decision was *Cast Iron Soil Pipe from the United Kingdom,* October 26, 1955; see T.D. 53934.

The pending amendments referred to are contained in the Humphrey-Scott bill (S. 1318), Walter bill (H.R. 5692), and similar bills, sponsored at this writing by twenty-seven Senators and forty-eight Congressmen. A number of these bills, H.R. 6033, 6116, 6214, and 6517, would grant relief not only if an industry was injured but also if "the sales of a product of a member of such industry" were injured. The Humphrey-Walter bills would not affect the definitions of "injury" and "industry", but S. 2241 (Senators Allott and Dominick) would provide a conclusive presumption of injury if the imports complained of

were more than 10 per cent and less than 90 per cent of domestic production. The Pillion bill (H.R. 7362) is unique. It would make labor a party before the Tariff Commission and shift the burden of proof to the importer.

The United States-Japan Trade Council distributed a critical analysis, dated July 9, 1963, of S. 1318, H.R. 5692, and similar bills. Copies are available upon request.

On January 23, 1964 the Treasury Department conducted hearings to hear proposals for changes in the regulations under the Antidumping Act.

Customs Practices

Suppose that, in the internal trade of the United States, rail freight rates were rarely known for certain in advance of shipment and that many months later shippers were met with demands for payments greatly exceeding deposits made in good faith at the time of shipment. Were this the case, there would be an obviously intolerable burden on commerce.

Nevertheless, this is a fair description of the kind of burden that international commerce has to bear. A tremendous uncertainty hanges over the amount of customs duties that must be paid on goods imported into the United States, despite the Customs Simplification Acts of 1938, 1953, 1954, and 1956 and many additional steps taken by the Customs Service itself to improve matters. A survey of possible improvements is being made by the Bureau right now.

A substantial part of the problem lies in the unnecessary complexity of the system and the administrative steps that are required to clear goods through customs and resolve doubtful questions. A few illustrations will suffice. Most of the U.S. duties are *ad valorem* and have two parts: the rate and the valuation. Applying one to the other yields the duty. Selecting the applicable rate of duty is called classification. The key man in the determination of duties is the examiner at the port, who, under the supervision of the appraiser, makes an advisory classification and determines value. But, if the importer wishes to challenge the value, he has one set of procedures prior to "liquidation", the word used for the final determination of the duty by the Collector. If he wishes to challenge classification he has a different set of procedures, after liquidation. The collector and the appraiser are independent officials with separate staffs and, in New York, the principal port of entry, are in buildings two miles apart.

Legally, the collectors and appraisers at the various ports are also quite independent of the Customs Bureau in Washington. Practically, however, steps have been taken to try to make this archaic system work; and there is an elaborate network of communications and advice flowing between the ports and the Bureau and among the ports themselves. This actual system is not fully described in the regulations or any document available to the general public.

The people who understand how this system works have become so used to it that they scarcely notice how outlandish it is. It is high time that collectors and appraisers a the various ports were merged, under centralized control of the Bureau, and review procedures combined into a single method of challenging a duty, whatever the reason.

Problems of classification have been somewhat eased by the entry into force on August 30, 1963, of the revised Tariff Schedules of the United States, prepared by the Tariff Commission pursuant to the mandate of the Customs Simplification Act of 1954. The new schedules eliminate many anomalies (such as the charging of duty on synthetic rubber automobile tires as articles in part of carbon because they contain more than 2 per cent carbon) and introduce a greater certainty and ease in the determination of the applicable rates. Temporarily, of course, there are many new questions of interpretation and some untoward results that call for legislative authority to correct.

While the new schedules represent a big accomplishment, they have only scratched the surface of simplification of the U.S. tariff schedules, which remain an incredible thicket. There is still no sense whatever to the proliferation of commodity descriptions and rates. There are reasons, of course, how they got the way they are, but few if any of those reasons are valid reasons today, if they ever were. Protectionists and liberal traders alike have to take responsibility for the present maze—almost every item and rate represents a victory for one or the other in some historic battle or forgotten skirmish. The tariff paragraphs as enacted (most recently in 1930) reflect the notorious log-rolling of the tariff acts, creating a hodge-podge of product descriptions and rates. The 1930 Act is simplicity itself, however, compared with the descriptions and rates that result from a series of presidential proclamations—some under the flexible tariff, escape clause etc., but mostly implementing duty reductions on specific commodities under the trade agreements acts.

In the 1963 revision the Tariff Commission was greatly limited by the Congressional injunction not to change rates of duty. What is needed is a thorough revision that does change rates of duty where this is necessary to drastically reduce the number of categories. To take just one example, there should be one rate for footwear instead of the 20 items found in the new schedules, which is a reduction of only 4 from the old.

The Trade Expansion Act of 1962 represents an important break away from product-by-product negotiations of tariff reductions, but it does not establish the means for further simplification of the schedules. For this, a new legislative approach is required, inspired by the bold thinking of the Trade Expansion Act of 1962 rather than the timidity of the 1954 Act that authorized the new schedules. Perhaps reciprocal reductions through international negotiations can be combined with further reduction of dutiable categories. In any case it is necessary to recognize that we reduce and simplify tariffs mainly because of the U.S. national interest in an unrestricted flow of imports. The process of simplification of schedules should not be shackled by fear of changing existing rates, nor the process of rate reductions by failure to obtain exactly equal concessions from other countries.

Many of the uncertainties and vexations in the process of customs administration reside in valuation. In the long run, of course, the best cure is the enlargement of the list of articles that enter free of duty through the exercise of the bargaining authority granted in the Trade Expansion Act of 1962. In the short run, attention must be given to improvements of procedure and the introduction of certain overdue substantive reforms.

These are: (1) the elimination of the American Selling Price (ASP) basis for valuation of certain products and (2) the elimination of the so-called "final list" of products to which the new valuation procedures of the Customs Simplification Act of 1956 do not apply. The first reform was recommended to the Congress by the Administration in 1950 but was thereafter abandoned because of protectionist opposition. The need for the second arises from a compromise made in Congress when the Customs Simplification Act of 1956 was finally enacted after many years of deliberation—a compromise which, instead of simplifying valuation, saddled the trade with two parallel systems.

American selling price valuation

A favorite objective of American protectionists for many years was the establishment as a basis for valuation not the value of the imported articles themselves but the value of like or similar domestic products. Since imports are normally cheaper, the "American valuation" would normally be higher. By increasing the valuation, protection could be achieved just as effectively as by increasing the rate of duty and much less obviously. So-called "American valuation" was decisively rejected by the Congress in 1922 after an elaborate investigation of how it would actually work. However, pieces of the system were adopted at that time in consequence of the concern over competition that might come from the revived German chemical industry.

American selling price valuation was incorporated in two provisions of law. The selling prices of competitive American-made articles were made the basis for valuation in the case of coal tar chemicals; and authority was given to the Tariff Commission and the President to put American selling price valuation into effect under certain circumstances under the so-called flexible tariff. The flexible tariff was first enacted in 1922 and is presently found in the virtually obsolete Section 336 of the Tariff Act of 1930 which empowers the Tariff Commission to investigate costs of production at home and abroad and to recommend to the President rates of duty designed to equalize such costs. If an increase in the rate by 50 percent will not accomplish such equalization, then the President is to establish the American selling price as the basis for valuation rather than the normal value.

This American selling price provision was invoked five times under the 1922 Act; but these special valuations were abolished when the Tariff Act of 1930 was adopted. There have been three cases under Section 336 of the Tariff Act of 1930; these ASP bases for valuation remain in effect. They apply to rubber footwear, canned clams, and certain wool knit gloves of an obsolete value bracket. There are significant imports of canned clams, and the rubber footwear has become quite important. The amount of rubber footwear and of coal tar chemicals to which American selling price valuation has been applied are about equal—around $20–25 million each; but of course, this does not indicate the quantities excluded.

In recent years, the vexations for the customs service and the trade attendant upon the enforcement of the American selling price valuation have probably equalled those caused by any other single problem in tariff administration.

To grasp the inequity of this method of valuation, it is necessary to go back to first principles. The only reasonable basis for valuing imports is their actual transaction value, which is normally reflected in the invoice. This is the only true value that the importer knows, and it is the only realistic value. The Customs Service of the United States has long recognized this, and the vast majority of all import valuations are actually based on the invoices. It has been thought necessary, however, to have some kind of theoretical value which will give the appraiser the right to reject an entered value that seems out of line without having to prove that it was not the actual transaction value. This is the reason that actual transaction value is not used in principle in customs administration, although the method adopted permits the customs service to use actual transaction value most of the time.

However, when resort is had, not to the value of the imported article, but to the value of some American-made product that is "like", "similar", or "competitive" of which the importer has no knowledge, then the results are highly arbitrary and unfair. In many cases, the duty is increased by five or six times over what it would be on the transaction value; and moreover, great uncertainties are introduced. It is even possible for the basis of valuation to change between the time the order is placed and the time of shipment, through circumstances of which the importer has no knowledge or control. This method of valuation is contrary to basic principle as set forth in the General Agreement on Tariffs and Trade, which provides that the value of imported merchandise for customs purposes should be based on the actual value of the imported merchandise on which duty is assessed and not on the value of merchandise of national origin or on arbitrary or fictitious values.

It is high time the American selling price method of valuation was removed from U.S. customs practice and products subject thereto valued on the same basis as other items in the schedules. This can be done by legislation or through trade negotiations under the Trade Expansion Act of 1962.

The final list

One of the cardinal reforms of the Customs Simplification Act of 1956, originally proposed by the Administration in 1950, was the abolition of "foreign value" and the establishment of "export value" as the first and principal basis for customs valuation. Foreign value is the value of such or similar goods sold in the home market. Export value is the value of such or similar goods sold for export to the United States. The same law made important changes in the value definitions to permit Customs to select realistic prices at which most goods were actually moving in commerce. The basic language—"freely offered to all purchasers in the usual wholesale quantities in the usual course of trade"—had become so restricted by court decisions that it often required the selection of transactions at which few goods moved.

Under protectionist pressures, the Senate Finance Committee balked at adopting the new standards until Treasury came up with a compromise to except articles whose duties would be affected by 5 per cent or more. The bill aimed at customs simplification thus ended up by producing two parallel systems of valuation (Section 402 and 402a of the Tariff Act of 1930, as amended). The Treasury proposal was intended to be temporary; but somehow in the shuffle of legislation, the final list of articles not subject to the new standards became firmly imbedded where only another act of Congress is likely to dislodge it.

It is estimated that less than 15 per cent of dutiable imports fall within the "final list"; and of these, many are actually valued upon the invoices, whether denominated foreign value or export value. However, the new definitions, which cannot be applied to articles on the "final list", are of critical importance. Interestingly, these definitions are important for many of the articles subject to American selling price valuation. It was the opposition of the American chemical industry that caused the Congress to create exceptions in approving the Customs Simplication Act of 1956; and this opposition was based largely upon the new definition of "freely sold" as applied to the American selling prices of coal tar chemicals. The inequity of ASP valuation is thus compounded by the inability of the Customs Service, as it construes the law, to select the most realistic American transactions as the basis for valuation.

Examination of the actual workings of the final list will certainly reveal that it gives very little protection to American industry except where it leads to unconscionably unrealistic valuations. The basic concept adopted by the Congress, in refusing to apply the Customs Simplification Act of 1956 where it would lead to lower duties by more than 5 per cent, was erroneous because it assumed that American industry was somehow entitled to the precise level of protection that was then in effect. The protection actually afforded came about accidentally rather than by design. If there is any basis to the claim for such protection, then it is the rate itself that should be adjusted and defended.

Both ASP valuation and the "final list" are under attack by America's trading partners. The impending negotiations offer a splendid opportunity to rectify these arbitrary methods of valuation not only in the interest of successful negotiation but also in the interest of U.S. import trade.

Conclusion

Problems in international trade are inevitable as long as we have separate economies, languages, legal systems, currencies, balance of payments problems—in short, separate sovereignties. But trade is the life blood through which greater freedom and well-being can be achieved for all peoples. The barriers are being broken down through a multitude of efforts and international arrangements. It is hoped that this paper may make a contribution to an understanding of some of the U.S. barriers that require attention.

Notes

The valuation provisions of the Tariff Act are §§ 402 and 402a, 19 U.S. Code §§ 1401a and 1402. They are conveniently reprinted with explanations in a pamphlet published by the National Council of American importers, *United States Customs Valuation Procedure*, which also contains the "Final List" (T.D. 54521). Valuation invoicing etc. are explained in the Customs publication, *Exporting to the United States*, cited above, and the Final List is set forth here also. For historical background, prior to 1956, see R. Elberton Smith, *Customs Valuation in the United States* (1948).

The legislative history of American selling price valuation and other details are set forth at length in an address by Noel Hemmendinger before the National Council of American Importers, *The Need for a New Customs Simplification Act*, February 7, 1963. Copies are available from the United States-Japan Trade Council.

The elimination of American selling price duties by converting to the equivalent duties on the usual valuation basis was proposed by the Administration in H.R. 1535, 82nd Cong., 1st Sess., See Ways & Means Committee Hearings, Simplification of Customs Administration, August-September 1951.

It is believed that the President is authorized to negotiate the elimination of ASP valuation and perhaps also the "Final List" under the Trade Expansion Act of 1962. The relevant sections are 201(a)(2), authorizing modification of "any existing duty or other import restriction"; Section 405(2) defining "duty or other import restriction" to include "(A) the rate and form of an import duty, and (B) a limitation, prohibition, charge, and exaction other than duty, imposed on importation or imposed for the regulation of imports," and Section 405(6) providing: "The term 'modification', as applied to any duty or other import restriction, includes the elimination of any duty." Without question, the President would have power to convert the present duties to specific duties in the course of trade negotiations, staying within the limitation that rates not be reduced below 50 per cent of the July 1, 1962 rate. Presumably, this would require as an initial step the conversion of present duties to average specific equivalents.

Imports of coal tar chemicals that actually were assessed on the American selling price of competitive American products had a foreign value of about $18 million in 1962. *Imports of Coal-tar Products, 1962*, U.S. Tariff Commission Publication 98.

FOB values of imports of rubber footwear in 1962 paying ASP duties are estimated by the writer at about $25 million (based on U.S. Census Bureau, FT 110, Nos. 2031010, and 2032100). Many other items of footwear have not actually incurred ASP duties, largely because there is no like or similar American product. Imports of canned clams paying ASP were valued in 1962 at about $860,000 (FT 110, No. 0081500).

A sampling by the Customs Bureau in 1960 showed about 17 per cent of import shipments to be "final list" items (see Masson and English, p. 7); but the Bureau advises that this contained an unusually high number of automotive parts paying duty on the basis of foreign value. ASP items were statistically negligible. This shows the limitations of statistics for determining problem areas.

(The following was included at the request of Chairman Boggs:)

National Chamber Calls for New Flexibility to "Most-Favored-Nation" World Trade Principle

WASHINGTON, July 9.—The Chamber of Commerce of the United States today called for continued adherence to the "most-favored-nation" principle in world trade, but said there should be added the element of flexibility to permit limited departures from the principle "in the interest of developing more world trade."

The position was outlined in a major statement on post-Kennedy Round U.S. foreign trade policy approved by the National Chamber Board of Directors.

Specifically, the Chamber statement said that "in certain circumstances trade may be promoted more effectively through limited departures such as temporary tariff preferences sanctioned in connection with the establishment of common markets . . . or extended by industrialized nations to the exports of developing countries."

The statement endorsed expansion of developing countries' exports, careful consideration of qualified extension of trade preferences by the industrialized countries to the exports of developing nations, and the integration of national economies into nonprotectionist regional markets.

At the same time, the Chamber called for increased protection and stability for private foreign investment in the less-developed countries.

The statement urged a two-year extension of the unused "residual" (post-Kennedy Round) authority of the 1962 Trade Expansion Act, without additional authority to further reduce tariffs. It endorsed continuation of the escape-clause provision of the present law, and liberalization of trade adjustment assistance to firms injured by imports. The statement recommended a high-level joint business-government study of long-range U.S. foreign trade policy.

The Chamber Board also approved a study to identify and propose ways to eliminate nontariff barriers to trade (special taxes, quotas, licenses and other restrictions on imports).

FOREIGN TRADE POLICY STATEMENT, CHAMBER OF COMMERCE OF THE UNITED STATES, JUNE 30, 1967

1. PROSPECTIVE FOREIGN TRADE POLICY LEGISLATION

Principles

That adherence to the most-favored-nation principle continue to be the basic tenet of international trading relationship, allowing support of the concept of regional economic integration, consistent with continued efforts to develop and expand the world economy; but the adherence to the most-favored-nation principle of nondiscrimination be flexible to the extent that departures from the principle may be permitted in the interest of developing more world trade.

Proposals

1. That residual authority of the Trade Expansion Act be extended for a period of two years with the extention to include the following essential provisions:

(*a*) That no major round of tariff negotiating be undertaken during this period and that prior to additional negotiating authority there shall occur an interim study of the results of the Kennedy Round negoiations, an examination of appropriate negotiating techniques, and an assessment of remaining trade barriers—both tariff and nontariff.

(*b*) That Congress authorize appointment of a high-level joint U.S. Government-Business Commission to study long-range U.S. foreign trade policy in an international context.

(*c*) Continue the Trade Adjustment Assistance and Escape Clause provisions of the Trade Expansion Act, liberalizing the criteria for Trade Adjustment Assistance to firms and workers to make them consistent with similar authority under the Canada-U.S. Automotive Products Trade Act of 1965.

2. That these recommendations be adopted with the greatest urgency possible so that work may go forward by all appropriate bodies in ascertaining the most desirable foreign trade policy for the United States in an ever-increasingly interdependent world economy.

2. TRADE WITH LESS-DEVELOPED COUNTRIES

While it continues to be advisable to advance most-favored-nation tariff treatment as a general principle of United States foreign trade policy, in certain circumstances trade may be promoted more effectively through limited departures such as temporary tariff preferences sanctioned in connection with the establishment of common markets or other economic groupings of states or extended by industrialized nations to the exports of developing countries.

As a means of advancing trade with the developing countries and thereby promoting their economic development, the National Chamber favors:

1. The encouragement, by all reasonable means, of the expansion of developing countries' exports to enable them to take their place among the trading nations of the world.

2. The integration of national economies, through arrangements which will promote trade both among the participating nations and with other nations as it becomes economically advantageous. These arrangements should avoid perpetuating protection of noncompetitive enterprises and should seek the maximum degree of unrestricted trade.

3. Careful consideration and analysis of proposals for the extension of temporary tariff preferences to exports of developing countries. Such extension by the United States should be in concert with other industrialized nations, whereby such nationals would share in granting preferences on a basis of equality to developing countries. Such preferences should be periodically reviewed to determine their continuance. These preferences would be most effective in collaboration with increased foreign private investment. The preferences should be in connection with understandings and agreements, participated in by the developing countries to provide protection and stability for such investment under principles of international law. These understandings and agreements should include the usual stipulations as to performance of contractual obligations relating to foreign investment.

3. NONTARIFF BARRIERS

Calls for the "greatest possible relaxation of discriminatory and restrictive trade and investment practices which reduce the flow of goods and services and the volume of international payments, and which obstruct production, distribution, and economic growth, such as: exchange controls, quotas, preferential or discriminatory treatment, monopolies, subsidies, bilateral trade and exchange agreements, or other devices. * * *" This policy also states that the Chamber "supports a trade agreements program which provides the government with adequate authority exercised through the proper agencies for negotiation and administration to make effective agreements for the selective adjustment of tariffs and the orderly and gradual reduction of other barriers to world trade. Such adjustments should be accompanied by comparable or appropriate tariff reductions and the elimination of trade restrictions, whether in the form of quotas, exchange controls, or otherwise, on the part of foreign nations. * * *"

Nontariff barriers are frequently more significant impediments to trade than are tariffs; and as tariffs become less restrictive, nontariff barriers tend to be greater restraints on trade. These restraints are thorny and difficult to negotiate.

Nontariff barriers, for the most part, were left intact at the conclusion of the Kennedy Round. They must not be long neglected.

No meaningful or definitive effort appears to have been made in or out of government to develop the required information.

It is recommended, therefore, that the National Chamber, in cooperation with its organization and business members, undertake immediately a study to identify, catalog, and propose effective ways to eliminate nontariff barriers which inhibit the access of goods to foreign markets and which significantly otherwise impair the healthy expansion of trade.

PROGRAMME FOR THE LIBERALIZATION AND EXPANSION OF TRADE IN MANUFACTURES AND SEMI-MANUFACTURES OF INTEREST TO DEVELOPING COUNTRIES*

REPORT ON ITEMS OF EXPORT INTEREST TO THE DEVELOPING COUNTRIES
NOTE BY THE UNCTAD SECRETARIAT

1. At its resumed first session, the Committee on Manufactures noted the secretariat documents TD/B/C.2/8 and Corr. 1 and TD/B/C.2/9 as progress reports on items of export interest to the developing countries and describing some of the barriers hampering their exports to the developed countries. It was noted that further information would be made available by the developing countries in order that this basic information might be completed. In addition, it was suggested that in compiling the next report, the secretariat of UNCTAD should should take into account relevant information already supplied to the GATT secretariat, and that the information to be presented should be tabulated in a more detailed form and not only up to the three-digit level of the SITC.[1]

2. Accordingly, the Secretary-General in his letter of 31 May 1966 requested member States which had not supplied information, and also those which wished to revise the material already supplied to provide by 31 July 1966 the supplementary information required. Replies have been received from the following States: Argentina, Brazil, Costa Rica, Cuba, Cyprus, Greece, Guatemala, India, Israel, Madagascar, Malta, Mexico, New Zealand, Niger, Peru, Philippines, Portugal, Turkey, Western Samoa, Yugoslavia.

3. In preparing the tables in Annex A to this document the secretariat has, in accordance with the Committee's request, taken into account not only the replies received from the member States mentioned above, but also the relevant information supplied to the GATT secretariat as recorded in GATT document COM.TD/23 and addenda. Furthermore, as requested by the Committee the tables have, in general been prepared according to four-digit or five-digit classification (SITC).

4. The secretariat of UNCTAD has used, in compiling these tables, the definition of semi-manufactures and manufactures given in document TD/B/C.2/3 of 2 July 1965; that document had been prepared jointly by the United Nations Statistical Office and the UNCTAD secretariat at the request of the Special Committee on Preferences. A further explanation in respect of the definition used was provided in document TD/B/C.2/L.10 which was before the Committee at its resumed first session.

5. Annex B to this document gives particulars of the tariff rates in force in the European Economic Community (EEC), the United Kingdom, the United States of America and Japan in respect of the selected semi-manufactured and manufactured products of export interest to the developing countries. This selection was made primarily on the basis of there being actual exports from the developing countries. The tariff rates have been obtained from the national tariff schedules of the developed countries mentioned above, as well as from the GATT secretariat document COM.TD/7.

6. Since the SITC items, especially at the three-digit and four-digit level, do not correspond precisely with the Brussels Tariff Nomenclature (BTN), the rates given in Annex B can only be considered as approximate. The rates have been shown, however, in order to illustrate the likely magnitude of the tariff barriers in the major developed countries in respect of particular items of export interest to the developing countries.

7. For the United Kingdom, the British preferential tariff has been indicated along with the most-favoured-nation (MFN) tariff. In the case of the EEC, the preferential tariff for associated countries is similar to the preferential rates applied in respect of the trade of the countries members of EEC with each other. The rates will, therefore, be zero when the duties on trade among these

*United Nations Conference on Trade and Development, Trade and Development Board, Committee on Manufactures, Second Session, Geneva, 4 July 1967, Item 5 of proposed revised provisional agenda.

[1] See report of the Committee on Manufactures on its resumed first session (TD/B/69–TD/B/C.2/14), para. 26.

countries are abolished, and this abolition is planned for 1968. In the United States, the present preferential tariff in respect of imports from the Philippines is generaly 40 per cent of the MFN rate indicated. The preferential rates will be 60 per cent of the MFN rates for the calendar years 1968 through 1970, 80 per cent of the MFN rates for the calendar years 1971 through 1973 and terminated thereafter.

8. Non-tariff barriers, applied in the developed countries in respect of these items of export interest to the developing countries, are not dealt with in this paper, since a more detailed analysis of these barriers is made in document TD/B/C.2/26.

ANNEX A

List of manufactured and semi-manufactured articles of export interest to developing countries

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ANNEX A

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES

SEC. 0—FOOD MANUFACTURES

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
012.1	02.06A	Bacon, ham, and other pig meat	ARG, CHL, COS, ETI, NIR, TAL, YUG.
013.3	16.03	Meat extracts and meat juices	ARG, BRZ, COS, IND, NIR, URU.
013.4	16.01	Sausages and the like, of meat, meat offal, or animal blood.	ARG, CHD, DR, ETI, MAG, NIR, TUR, UGA, URU.
013.8	16.02	Other prepared or preserved meat or meat offal.	ARG, BRZ, CHD, COS, ETI, IND, NIC, NIR, TUR, UGA, URU, YUG.
032.01	16.04	Prepared or preserved fish	ARG, CHD, CHL, CHN, COS, CUB, ETI, GUA, MAG, MEX, MTN, NIC, PAK, PER, PHL, PRT, SPN, TUR, UAR, URU, YUG.
032.02	16.05	Crustaceans and mollusks, prepared or preserved.	BRZ, CHL, CHN, CUB, DR, ETI, IND, PAK, PRT, SPN, TUN, UAR, YUG.
046.01	11.01A	Wheat or meslin flours	ETI, NEP, NGA, NIR, UGA, URU.
046.02	11.02A	Meal and groats of wheat or meslin	BRZ, ETI, NEP, NIR, UGA.
047.01	11.01B	Other cereal flours	DR, ETI, NIC, NIR, TAL, TUR, UGA.
047.02	11.02B	Cereal groats and meal, other than of wheat or meslin.	ETI, NIC, NIR, TAL, TUR, UGA.
	11	Unspecified products of the milling industry, malt and starches, gluten, inulin.	ARG, GUA.
048.12	19.05	Puffed rice, corn flakes, and similar products.	ARG, CHL.
048.2	11.07	Malt	CHL, UAR.
048.3	19.03	Macaroni, spaghetti, and similar products	ARG, DR, ETI, GUA, MLT, NIR, PRT, TUR
048.41	19.07	Bread, ships biscuits, and other ordinary bakery wares.	CEY, COS, ETI, GUA, MEX, UGA.
048.42	19.08	Biscuits, etc	ARG, CEY, CUB, ETI, GUA, KEN, NGA PRT, UAR, UGA.
048.82	19.02	Preparation of flour, starch, or malt extract	ARG, ETI, MEX, NEP, NIR.
052.01	08.011	Tropical dried fruit	CHD, DR, ETI, IND, JAM, MEX, MTN, NGA, NIC, SPN, TT, UGA.
052.02	08.03	Figs, dried	TUR.
052.03	08.04	Grapes, dried	TUR.
052.09	08.12	Fruit, dried, not elsewhere specified	ARG, CHL, CHA, NIC, SPN, TUR, YUG.
053.2	20.04	Fruit, fruit peel, and parts of plants, preserved by sugar.	CEY, CHL, CHN, CUB, DR, ETI, IND, NIC, PAK, SPN, TAZ, TUN.
053.3	20.05	Jams, fruit jellies, marmalades, fruit puree, and fruit paste.	ARG, CEY, COS, DR, IND, TUR.
053.5	20.07	Fruit juices and vegetable juices	ARG, BRZ, CHL, CHN, COS, CUB, CYP, DR ETI, GHA, GRC, IND, ISR, MEX, SPN TUR, UAR, URU.
053.61	08.10	Fruit preserved by freezing	ARG, CHN, ETI, GHA, NGA.
053.62	20.03	Fruit preserved by freezing, containing added sugar.	CEY, CHL, CHN, ETI, NIC, UAR.
053.63	08.11	Fruit provisionally preserved	ARG, CHL, CHN, DR, ETI, GHA, NGA, NIC, PHL.
053.64	08.13	Peel of melons and citrus fruit	ARG, CHN, DR, SPN.
053.9	20.06	Fruit otherwise prepared or preserved	ARG, BRZ, CEY, CHL, CHN, ETI, GRC, ISR, MEX, MLS, NIC, PER, PRT, SPN, TUR, UAR, URU, YUG.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. 0—FOOD MANUFACTURES—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
055.1	07.04	Dried, dehydrated, or evaporated	ARG, CHL, CHN, ETI, MWI, NIC, NIR, PAK, RHD, SPN, TAL, TUR, UAR, YUG.
055.41	11.03	Flours of the leguminus vegetables	CHL, CHN, ETI, NIR.
055.43	11.05	Flours, meal, and flakes of potato	CHL.
055.44	11.06	Flour and meal of sage and of manioc, tapioca, cassava, etc.	BRZ, CHN, ETI, IND, TUR, UGA.
055.45	ex 19.04	Tapioca and tapioca substitutes obtained from potato starch.	ARG, BRZ, CHN, DR, ETI, IDN, MAG.
055.51	20.01	Vegetables and fruit, prepared or preserved by vinegar or acetic acid.	CEY, CHL, CHN, CYP, ETI, IND, ISR, JAM, PER, RHD, SPN, TAZ, TUN, TUR, UAR, YUG.
055.52	20.02	Vegetables prepared or preserved otherwise than by vinegar or acetic acid.	ARG, BRZ, CHL, CHN, CYP, DR, ETI, IND, ISR, MLS, MLT, MWI, NIR, PAK, PER, RHD, SPN, TAZ, TUN, UAR, YUG.
	20	Unspecified preparations of vegetables, fruit, or other.	ARG, BRZ, COS, CUB, GHA, GRC, GUA, MAG, NIC, PAK, TAL, TAZ, TT, UAR, YUG.
062.01	17.04	Sugar confectionery	ARG, CEY, CHD, CHL, COS, CUB, CYP, DR, MAG, NIC, PAK, TAL, TAZ, TT, TUR, UAR, UGA.
062.02	17.05	Flavored or colored sugars, syrups, and molasses.	CYP, ETI, NEP, NGA, NIC.
071.3	21.02A	Instant coffee, coffee extracts, essences, concentrates, and similar preparations of coffee.	ETI, GUA, IND, ISR, NIC, PER.
072.2	18.05	Cocoa powder	BRZ, COS, CUB, DR, GHA, JAM, NGA, NIC.
072.31	18.03	Cocoa paste	DR, GHA, JAM, NGA.
072.32	18.04	Cocoa butter	BRZ, COS, DR, GHA, JAM, NGA, NIC.
073.0	ex 18.06	Chocolate	COS, DR, GUA, NGA.
091.3	15.01	Lard and other rendered pig fat; rendered poultry fat.	ARG, COS, PAK.
091.4	15.13	Margarine, imitation lard, etc	ARG, COS, GUA, MEX, NGA, NIR, UGA.
099.01	21.01	Roasted coffee substitutes, etc	TUR.
099.02	21.02B	Instant tea	BRZ, CEY, ETI, IND, MAL, UGA.
099.04	21.04	Sauces, mixed condiments, and mixed seasonings.	ARG, CHL, ETI, IND, JAM, TUR.
099.05	21.05	Soups and broths	ARG, CHL, ETI.
099.07	ex 22.10	Vinegar	CHL, GUA.
099.09	21.07	Food, preparations, not elsewhere specified	ARG, CHL, ETI, MLT, NEP.
		SEC. I—BEVERAGES AND TOBACCO	
111.02	22.02	Beverages, nonalcoholic	CHD, ETI, TUR, UGA.
112.12	22.05	Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol.	ARG, CHL, CYP, ETI, GRC, ISR, MEX, MLT NEP, SPN, TUR, UAR, YUG.
112.13	22.06	Vermouths, etc	ARG, CYP, ETI, MEX, NEP, SPN, TUR.
112.2	22.07	Cider, perry, mead, etc	AGR, CYP, ETI, MEX, NEP, SPN, TUR.
112.3	22.03	Beer	CEY, GRC, GUA, MLT, NGA, PRT.
112.4	22.09	Spirits, liquors, etc	ARG, CUB, CYP, DR, GRC, GUA, JAM, MAG, MEX, NIC, PER, SPN, TT, TUR.
122.1	24.02A	Cigars and cheroots	ARG, BRZ, CHD, CUB, CYP, DR, ETI, GUA, IND, JAM, MEX, NIC, UGU.
122.2	24.02B	Cigarettes	ARG, CHD, CUB, CYP, DR, ETI, GRC, GUA, IND, MAG, PRT, TT, TUR, UAR, UGA.
		SEC. II—CRUDE MATERIALS, EXCEPT FUELS	
231.2	ex 40.02	Elastomer	BRZ.
231.4	ex 40.04	Synthetic rubber moldings	MLT, NGA.
243.1	44.07	Railway or tramway sleepers of wood	BRZ, CHL, CHN, DR, NEP, TAL, TUR.
243.21	44.05A	Wood sawn lengthwise, sliced or peeled	CHL, CHN, COS, GAB, CHA, GUA, NEP, NGA, NIC, TAL, UGA.
243.22	44.13A	Wood planed, tongued, grooved, rebated, etc.	BRZ, CHL, CHN, GUA, NEP, NIC, TAL, TUR.
243.31	44.05B	Woodsawn lengthwise, sliced or peeled	CHL, CHA, COS, GAB, GHN, GUA, NEP, NIC, TAL, UGA.
243.32	44.13B	Wood planed, tongued, grooved, rabated etc.	BRZ, CHL, GUN, NEP, NIC, TAL, TUR.
244.02	45.02	Natural cork in blocks, plates, sheets and strips.	SPN, TUN.
251	47.01	Pulp	BRZ, CHD, CHL, CHN, COS, CUB, DR, GUA, NEP, PRT, TUN.
266.23 266.33	ex 56.04	Synthetic fibers (discontinuous or waste), carded, combed, or otherwise prepared for spinning manmade fiber tops.	CEY, GUA IND, MLT.
267.02	ex 63.02	Old hemp rope cuttings, jute caddies	IND, TUR.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. III—PETROLEUM PRODUCTS

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
331.02	ex 27.10A	Petroleum, other than crude	BRZ, IND, NGA, PRT, TAL, TT, TUR.
332.1	ex 27.10B	Petrol	TUR.
332.4	27.10E	Residual fuel oil	TUR.
332.62	ex 27.13	Paraffin wax	CHN, IND, TAL, TT.
332.92	27.08A	Pitch obtained from coal or mineral tars	MEX, TUR.

SEC. V—CHEMICALS

512	29	Organic chemicals	CHN, GUA
512.12	ex 29.01B	Benzine, excluding chemically pure butylene.	BRZ, MEX, IND.
512.13	ex 29.02	Bromides, polybromides, and insecticides	ISR.
512.14	ex 29.03	Dimethyl-dichlorovinyl phosphate	MEX.
512.23	ex 29.05	Menthol	BRZ.
512.24	22.08	Ethyl alcohol or neutral spirits	ARG, BRZ, CUB, GHA, GRC, NGA, PER, UAR.
512.26	15.11	Glycerol and glycerol lyes	ARG, BRZ, CEY, CUB, PHL, TAL, UAR, URU.
512.32	ex 29.09	Ethylene oxide	MEX.
512.51	ex 29.14	Vinyl acetate	BRZ.
512.52	ex 29.15	Oxalic acid	BRZ.
512.53	ex 29.16	Oxygen-function acids and derivatives	MEX, SPN.
512.74	ex 29.25	Urea, poliamides	CHL, MEX.
512.85	ex 29.35	Heterocyclic compounds	COS, DIR, GUA, ISR.
512.91	es 29.40	Pepsin	UGA.
513	28	Inorganic chemicals	CHN.
513.21 513.22	ex 28.01	Iodine, bromine, chlorine	CEY, CHL, GUI, ISR, PER.
513.24	ex 28.04D	Silicon	UAR.
513.25	ex 28.05A	Mercury	CHL, TUR.
513.27	28.03	Carbon black	MEX.
513.33	ex 28.08	Sulfuric acid	IND, PER, TAZ, UGA.
513.35	ex 28.10	Phospheric acid	ISR.
513.36	28.11	Arsenic trioxide	MEX.
513.37	ex 28.12	Boric acid	ARG.
513.39	ex 28.13	Inorganic acids and oxygen compounds	ISR, TUR.
513.52	ex 28.22	Manganese dioxide	MEX.
513.53	ex 28.23	Iron oxides	IND, MEX, TUR.
513.56	ex 28.27	Lead oxide	MEX.
513.61	28.16	Ammonia	CHL, TT.
513.62	ex 28.17A	Sodium hydroxide (caustic soda)	CEY, GUI, TAZ.
513.65	ex 28.20A	Aluminium oxide and hydroxide	CHA, JAM.
514.12	ex 28.30	Cerium chloride	BRZ.
514.15	28.33	Bromides and bromine compounds	ISR.
514.24	ex 28.38	Manganese sulfate	IND.
514.25	ex 28.39	Sodium nitrate, containing more than 16.3 percent by weight of nitrogen.	GHL.
514.26	28.40	Phosphites	ISR, MEX.
514.29	ex 28.42B	Lithium carbonate, cerium carbonate	BRZ, TUR.
514.33	ex 28.45	Sodium silicate	UGA.
514.35	ex 28.47	Sodium dichromate	BRZ, IND.
514.94	28.56A	Calcium carbide	GUI, TUR.
521.4	27.07	Oils and other products of the distillation of coal tar.	TUR.
531.01	32.05	Synthetic organic dyestuffs and natural indigo.	TUR.
532.1	ex 32.04	Dyeing extracts (vegetable and animal)	JAM, NIR, TUR.
532.4	32.01	Tanning extracts of vegetable origin	ARG, BRZ, IND, NIC, NIR, TUR.
532.5	32.02	Tannings	BRZ.
533.31	ex 32.08	Prepared pigments, enamels, etc	GUA, GUI, JAM, TT, TUR, UAR.
533.32	ex 32.09	Varnishes and lacquers	IND, ISR.
533.33	32.10	Dyes for retail sale	PER, PRT, TUR.
541		Pharmaceutical products	COS, GRC, PAK, TAL, UAR.
541.1	ex 29.38	Vitamin B_{12}	BRZ.
541.3	29.44	Antibiotics (penicillin in bulk)	BRZ, ISR.
541.4	ex 29.42	Caffeine; opium alkaloids, cocaine, etc. of quinine sulfate and other quinine preparations; alkaloids other than opium and onichine groups.	BRZ, GUI, IND, ISR.
541.5	ex 29.39	Hormones (testosterone, progesterone follicolin, etc.).	BRZ, MEX.
541.61	ex 29.41	Saponin	CHL.
541.62	ex 30.01	Organo-therapeutic glands or other organs extracts.	BRZ, PAK, URU.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. V—CHEMICALS—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
541.63	30.02	Anticora, vaccines and ferments	BRZ, MGA, PAK.
541.7	30.03	Medicaments	ARG, BRZ, COS, GUA, ISR, NGA, PAK, TUR.
551.1	33.01	Essential oils, etc	ARG, BRZ, CEY, COS, CUB, DR, GRC, GUI, IDN, IND, ISR, MAG, MEX, NIC, PHL, SPN, TUR, UAR, UGA.
553.0	33.06	Perfumery (talcum powder) (bay rum)	GHD, COS, CYP, GRC, GUA, IND, JAM, NGA, PER, PHL, SPN, TAL, TT.
554.1	34.01	Soap	ARG, CYE, CHD, COS, CYP GRC, GUA, GUI, IND, NEP, NGA, PAK, SPN, TAL, TAZ, TOG, TT, TUR, UAR, UGA.
554.2	ex 34.02	Oil of marine animals, sulfonated or sulfited, detergent powder.	CHL, CYP, GUA, MLT.
561.29	ex 31.03B	Superphosphates and hyperphosphates	COS, GRC, GUI, IND, MEX, TAZ, TUN, UAR, UGA.
561.3	ex 31.04B	Potassium chloride and sulfate	ISR.
561.9	31.05	Ammonium sulfate, urea	TT.
571.12	ex 36. 02	Gelignite	ARG.
571.4	ex 93.07A	Shooting cartridges	UAR.
581	39	Artificial resins and plastic materials, cellulose esters, and others; articles therof.	CHN, COS, IND.
581.1	ex 39.01	Alkydes	BRZ, TUR.
581.2	ex 39.02	Vinyl resins (vinilite), polyethylene and polypropylen from natural gas, expanded polystyrene.	BRZ, GRC, MEX, MLT, TUR.
581.32	ex 39.03B	Cellophane, cellulose acetate	CHL.
581.92	39.05	Modified natural resins, ester gums, etc	TUR.
581.99	ex 39.06	Sodium alginate	CHL.
599.51	ex 11.08	Starches	BRZ, CHL, DR, GHA, GRC, MAG, NGA, NIC, NIR, TUR, UAR, YUG.
599.52	ex 11.09	Gluten	ARG, IND, NIR.
599.53	35.01	Casein and casein derivatives; casein glues	ARG, NIC, NIR, URU.
599.54	ex 35.02	Albumins	BRZ, NIR.
599.55	35.03	Gelatin, glues	ARG, NIR, URU.
599.56	35. 04	Peptones and other protein substances	NIR.
599.57	ex. 35. 05	Dextrins and starch glues	NIR, TUR.
599. 59	35. 06	Prepared glues, not elsewhere specified	ARG.
599.63	ex 38. 07	Spirits of turpentine (gum, wood, and sulfate), etc.	IND, MEX, NIC.
599.64	ex 38. 08	Resin and resin acids	NIC, SPN, TUR.

SEC. VI—BASIC MANUFACTURES

611.2	41. 10	Reconstituted and artificial leather containing leather.	ETI, GRC, TUR.
611. 3	41. 02	Calf leather, bovine cattle leather, and equine leather.	ARC, BRZ, CHD, DR, ETI, GUA, GUI, IND,
611.4			MAG, NIC, NIR, PAK, TUR, UGA, URU.
611.91	41. 03	Sheep and lamb skin leather	ARG, DR, ETI, IND, MAG, NGA, NIC, NIR, PAK, SPN, TUR, UGA, URU.
611.92	41. 04	Goat and kid skin leather	ARG, DR, ETI, IND, NGA, NIC, NIR, PAK, TUR, UGA, URU.
611.93	41. 06	Chamois-dressed leather	CHD, DR, ETI, IND, URU.
611.94	41. 07	Parchment-dressed leather	ETI, URU.
611.95	41. 08	Patent leather and metalized leather	CHD, ETI, URU.
611.99	41. 05	Other kinds of leather	ARG, BRZ, ETI, IND, NGA, NIC, NIR, PAK, UAR, UGA, URU.
612		Unspecified articles of leather, etc	CEY, CHD, COS, MAG, PAK, SPN, TAL, UAR, UGA.
612.1	42. 04	Articles of leather used in machinery, etc	DR, ETI.
612.2	42. 01	Saddlery and harness	ETI, GUA, IND, NIR.
612.3	64. 05	Parts of footwear	COS. ETI, GUA, IND, NIR.
612.9	42. 05	Other articles of leather	ETI, GUA, IND, NIR.
613.0	43. 02	Furskins, tanned or dressed	ARG, CHD, IND, NIR, SPN, TUR, UGA.
621.01	40. 05	Plates, sheets and strip, of unvulcanized rubber.	MLS, NGA, PER.
621.02	ex 40. 06	Unvulcanized natural rubber and articles thereof.	MLS, NGA.
621.03	40. 07	Rubber articles	COS, GUA, NGA, PER, UAR.
621.05	ex 40. 09	Rubber hoses	GUA, TUR.
629. 1	ex 40. 11	Rubber tires and tubes for vehicles	BRZ, CEY, GHA, GUA, IDN, IND, ISR, NGA, PER, TUR, UAR, UGA.
629.4	ex 40. 10	Conveyor or elevator belts	IND.
629.98	ex 40. 14	Articles of sponge rubber, and foram rubber	CEY, GHA, CUA, IND, MLT, NGA, UAR.
631.1	44. 14	Veneer sheets and sheets for plywood	BRZ, CHL, CHN, COS, GAB, IND, NEP, NGA, NIC, TAL, TUR, UGA, YUG.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VI—BASIC MANUFACTURES—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
631.21	44.15	Plywood, blockboad, laminboard, battenboard, and veneer panels.	BRZ, CHL, CHN, COS, ETI, GAB, GUA, IDN. IND, ISR, KRR, MEX, NEP, NGA NIC, PHL, PRT, SPN, TAL, TAZ, TUR, UAR, UGA, YUG.
631.22	44.16	Hollow or cellular panels of wood	CHL, CHN, NEP, YUG.
631.41	44.17	"Improved" wood in sheets, blocks, or the like.	BRZ, CHL, CHN, NEP, NIR, TUR, YUG.
631.42	44.18	Reconstituted wood	CUB, MEX.
631.83	44.09	Hoopwood, split poles, piles, etc	ETI, GUA.
631.87	44.19	Wooden beadings and moldings	CHL, CHN, IND, MEX, NEP.
632.1	44.21	Complete wooden packing cases, bo es, crates, drums.	BRZ, ETI, GUA, NGA, NIC.
632.2	44.22	Casks, barrels, vats, tubs, buckets	GUA, NIC.
632.4	44.23	Builders' carpentry and joinery	BRZ, CHL, DR, GUA, YUG.
632.71	44.20	Wooden picture frames, photograph frames, mirror frames, and the like.	BRZ, GUA, NGA.
632.72	44.24	Household utensils of wood	CHL, DR, GRC, GUA, IND, NIC, UAR, YUG.
632.73	44.27	Lamps of wood, articles of furniture of wood not falling within 94, fancy articles.	COS, DR, GUA, IND, NGA, NIC, SPN, UGA, VIR, YUG.
632.81	44.25	Wooden tools, tool and handles, broom and brush bodies and handles, boot and shoe lasts and trees.	BRZ, NGA, NIC, YUG.
632.89	44.28	Other articles of wood	CHL, COS, NIC, SPN, YUG.
633.01	45.03	Articles of natural cork	SPN, TUN.
633.02	45.04	Agglomerated cork and articles thereof	SPN, TUN.
	48.01	Paper and paperboard	CHN, GRC, IND, NGA, PAK.
641.1	48.01A	Newsprint	CHL, PAK.
641.21	48.01B	Printing and writing paper	CHL, UAR, YUG.
641.3	48.01C	Draft paper and draft paperboard	CHL, UAR, YUG.
641.6	48.99	Building board of wood pulp or vegetable fiber.	TUR.
641.7	48.02	Handmade paper and paperboard	CHN, IND, YUG.
642.11	ex 48.16	Boxes and cartons of corrugated paperboard.	COS, GUA, ISR, IND, UGA.
642.2	48.14	Writing blocks, envelopes, postcards, etc	TUR.
652.92	ex 48.13	Carbon paper	GUA, TUR.
642.93	ex 48.15	Toilet paper	GUA, MLT, PRT.
642.99	48.21	Other articles of paper pulp, paper, paperboard or cellulose wadding (papier mache, etc.).	GOS, GUA, IND, NIC.
651.11	50.04	Silk yarns	IND, KRR, UAR.
651.12	50.05		
651.13	50.06		
651.14	50.07		
651.21	53.06	Woolen yarn	CHL, GUA, ISR, URU.
651.22	53.07	Worsted yarn	ARG, CHL, ISR, KRR, UR.
651.23	53.08	Yarns of fine animal hair, carded or combed.	ARG, PER.
651.25	ex 53.10	Woolen yarn for weaving (put up for retail sale).	ARG.
651.3	55.05	Cotton yarn, not put up for retail sale	BRA, CHN, GRC, QUA, IND, ISR, MEX, MLT, NIR, PAK, PER, TUR, UAR.
651.41			
651.42	55.06	Cotton yarn put up for retail sale	GRC, MEX, PER.
651.51	54.03	Flax and ramie yarn	CHL, NIC, UAR.
651.52	ex 54.04	Flax yarn, put up for retail sale	CHL, NIC, UAR.
651.53	57.05	Yarn of true hemp	IND.
651.61	51.01A	Yarns of synthetic fibers, not put up for retail sale.	IND, MLT, YUG.
651.64	ex 56.05A	Nylon or perlon yarn	CHN, CUB, GUA, ISR, YUG.
651.71	ex 51.01B	Rayon yarn and monofil	CHL, MEX, UAR.
651.72	ex 51.02B	----do	CHL, MEX, UAR.
651.73	ex 51.03B	----do	CHL, MEX, UAR.
651.74	ex 56.05B	Yarn of synthetic fiber	CHN, GUA, ISR, MEX, YUG.
651.91	52.01	Metalized yarn	IND.
651.92	57.06	Yarn of jute	IND, NIC, PAK, PER.
651.93	ex 57.07	Yarn of sisal and coir	DR, CEY, MAG, MEX, NIR.
652.11	55.07A	Cotton gauze, unbleached	ETI, NIR, PER, TUR.
652.12	55.08A	Terry fabrics of cotton, unbleached	TUR.
652.13	55.09	Other woven fabrics of cotton	BRZ, CHD, CHL, COS, ETI, GRC, GUA, IND, KRR, MAL, MEX, MLS, NIR, PAK, PER, PRT TUR, UAR, UGU, YUG.
652.29			
653.11	50.09	Woven fabrics of silk or of waste silk other than noil.	IND, KRR, TUR.
653.12	50.10	Woven fabrics of noil silk	
653.21	ex 53.11	Woven fabrics of sheep's or lamb's wool cashmere fabrics.	ARG, CHL, GRC, GUA, IND, KRR, PAK, TUR, URU.
653.31	ex 54.05	Woven fabrics of flax	CHL, IND, UAR.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VI—BASIC MANUFACTURES—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
653.4	57.10	Woven fabrics of jute	BRZ, IND, JAM, NEP, PAK, PER.
653.51	ex 51.04A	Woven fabrics of manmade fibres for tyres	ISR.
653.52	ex 56.07	Rayon woven fabrics. Fabrics of synthetic	CUB, GUA, IND, KRR, TUR, UGA.
653.62		fibers and spun glass.	
653.61	ex 51.04B	Piece goods entirely of art silk	KRR, UAR, YUG.
653.7	60.01	Fabric	IND.
653.91	ex 52.02	Fabrics, containing gold and silver thread and imitation of both (hand loom) silk saris with jari border; saris embroidered with gold and silver thread.	IND.
653.94	ex 57.11	Woven fabrics of sisal or coirs	DR, KRR, MAG, MEX, NEP, NIR.
654.01	ex 58.05	Webbing of jute	ETI, IND.
654.03	ex 58.07	Cotton loops, fringes, and other trimming wares, nonelastic.	BRZ.
654.04	58.08	Tulle and other net fabrics	IND, KRR, MLT, PRT.
654.05	58.09		
654.06	58.10	Embroidery, in the piece, in strips or in motifs.	GYP, IND, MLT.
655.1	ex 59.02	Namdah	IND.
655.42	59.07	Textile fabrics, coated for artistic canvas	IND.
655.43	ex 59.08	Artificial leather	TUR.
655.44	ex 59.09	Packing cloth	TUR.
655.61	ex 59.04	Twine, cordage, ropes, and cables of coir, jute and flax.	BRZ, IND, NIC, PAK, PER, PRT, UAR.
655.62	ex 59.05	Cotton nets, excluding fishing nets, sisal mats, fishing nets.	BRZ, DR, KRR, UAR, UGA.
656.1	62.03	Sacks and bags	BRZ, CEY, COS, IND, PAK, PRT, TUR.
656.2	62.04	Tarpaulins, sails, tents, etc	CEY, IND, TUR, UAR.
656.61	62.01	Traveling rugs and blankets	ARG, CEY, CHL, COS, IND, NGA, NIR, TUR.
656.62			
656.69			
656.91	62.02	Linen, curtains, and other furnishing articles.	CEY, CHL, COS, CYP, IND, KER, PRT, TUR, UAR.
656.92	62.05	Other made-up textile articles	CEY, CHL TAL, TUR.
657.42	ex 59.10	Linoleum	IND, TUR, UAR.
		Unspecified knitted and crocheted goods	CHN, GRC, GUA, IND, TAL, UAR.
657.5	58.01	Carpets, carpeting and rugs, knotted	AGR, CEY, GRC, GUA, IND, PAK, TUR, UAR, YUG.
657.6	58.02	Other carpets, carpeting, rugs, mats and matting.	ARG, CEY, CHD, ETI, IND, PAK, TUR, UAR, YUG.
657.8	ex 46.02	Products suitable for making or ornamenting bonnets, hats, or hoods.	NIC.
661.1	25.22	Lime	DR, ETI, GUI, NEP, NGA.
661.2	25.23	Cement	ARG, COS, DR ETI, GRC, GUI, ISR, JAM, KRR, NEP, NGA, PRT, TT, TUR, UAR, UGA.
661.32	ex 68.02	Worked monumental or building stone; granite.	BRZ, CUB, GUA.
661.83	ex 68.12	Articles of asbestos-cement	CEY, GUA, ISR, NGA, PERT, TUR, UGA.
662.32	69.02	Refractory bricks, etc	BRA, IND, TUR, YUG.
662.42	69.05	Roofing tiles, chimney pots, etc	ETI, NEP, UGA.
662.43	69.06	Ceramic piping, conduits, and guttering	DR.
662.44	ex 69.07	Ceramic tiles	DR, GUA, MEX, PRT, SPN, TUR, UGA.
662.45	ex 69.08		
663.11	68.04	Grinding etc., wheels and stones for machines.	MEX.
663.2	68.06	Abrasive cloths and papers	MEX.
663.4	68.15	Worked mica and articles of mica	BRZ, GUA, IND.
663.62	ex 68.11	Cement pipes, reinforcing concrete bars	GUA, NGA, UGA, UAR.
663.7	69.03	Other refractory goods	MLT.
663.81	68.13	Fabricated asbestos and articles thereof	CEY, GUA, IND, ISR, NGA, TAL, TUR, UAR, UGA, YUG.
663.82	68.14	Brake lining	ISR.
663.92	69.14	Other articles of ceramic materials not elsewhere specified.	CHD, TUR, UGA, VIR.
	70	Glass and glassware	BRZ, CHN, GRC, GUA, IND, TAZ, UAR.
664.1–664.3	70.01–70.05	Unworked drawn or blown glass in rectangles.	BRZ, ISR, MEX, SPN, TUR.
664.4	70.06	Cast, rolled, drawn or blown glass, in rectangles, surface ground or polished.	MEX, SPN.
664.6	70.16	Bricks, tiles, slabs, etc	GUA, MEX, TUR.
664.91	70.07	Cast, rolled, drawn, or blown glass in rectangles, surface ground or polished.	MEX, SPN.
664.92	70.11	Glass envelopes for electric lamps or the like.	TUR.
665.11	70.10	Carboys, bottles, jars, pots, etc. of glass	CHN, ETI, IND, PRT, SPN, TAZ, TUR, UAR, YUG.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VI—BASIC MANUFACTURES—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
665.2	70.13	Glassware used for table, kitchen, toilet or office purposes, etc.	CHN, IND, PER, SPN, TAL, TAZ, TUR UAR, YUG.
665.81	70.17	Laboratory, hygienic and pharmaceutical glassware.	TUR.
665.82	ex 70.19	Imitation pearls	KRR, SPN, TUR.
666.4	ex 69.11	Tableware of porcelain	CHD, CHN, PRT, TUR, VIR.
666.5	69.12	Household ware of other ceramic materials	CHD, CHN, TUR, VIR.
666.6	69.13	Statuettes and other ornaments, and articles of personal adornment, articles of furniture.	CHD, CHN, SPN, TUR, VIR.
667.4	71.03	Synthetic or reconstructed precious or semiprecious stones.	BRZ.
671.1, 671.2	ex 73.01	Spiegeleisen, pig iron, cast iron	BRZ, CHL, IND, MWI, NGA, RHD, ZMB.
671.4, 671.5	73.02	Ferroalloys	BRZ, CHL, IND, TUR.
672.1, 672.31	73.06	Puddled bars and pilings, ingots, etc., of iron or steel.	BRZ, CHN, IND, SPN, UAR, YUG.
672.51	73.07	Blooms, billets, etc., of iron or steel	BRZ, CHL, IND, SPN, UAR, YUG.
673.11, 673.21	ex 73.10	Bars and rods of iron or steel	BRZ, CHL, KRR, MEX, UGA.
673.41	73.11A	Angles, shapes, and sections, sheet, piling of iron or steel.	IND, KRR, MEX, UGA.
674	----------	Sheets and plates of iron or steel	BRZ, CHL, GRC, KRR, TUR.
674.14	ex 73.09	Universal plates of common iron and steel	BRZ.
676.1, 676.2	73.16	Railway and tramway track construction material.	CHL, UAR.
677.02	ex 73.15Y	High resistance galvanized steel wire. Sheets of silicon steel.	ARG, BRZ, CHL.
678.1	73.17	Tubes and pipes, of cast iron	BRZ, TUR, UAR, YUG.
678.2	73.18B	Tubes and pipes and blanks therefor of iron or steel.	ARG, BRZ, ISR, MEX, TUR, UAR, YUG.
678.3	73.18C		
678.4	73.19	High-pressure hydroelectric conduits of steel.	IND.
678.5	73.20	Tube and pipe fittings of iron or steel	BRZ, IND, MEX, TUR.
679.1, 679.2, 679.3	ex 73.40	Cast iron and steel castings in the rough state, forgings, balls for use in mineral grinding and crushing mills. Wrought iron articles.	CHL, MEX, MLT, UAR, UGA.
682.11	74.01C	Unwrought copper	CHL, COS, KRR, NEP, PER, TUR.
682.12	74.01D		
682.13	ex 74.02	Yellow metal alloys, excluding brass	IND.
682.21	74.03	Wrought bars, rods, wire, etc., of copper	CHL, IND, MEX, PER, TUR, YUG.
682.22	74.04	Wrought plates, sheets, and strip of copper	CHL, IND, KRR, MEX, TUR, YUG.
682.23	74.05	Copper foil	IND, YUG.
682.24	74.06	Tubes and pipe fittings of copper	CHL, YUG.
682.25	74.07	Tubes and pipes and blanks therefor, hollow bars of copper.	CHL, IND, TUR, YUG.
683.1	74.01C	Nickel	COS, DR.
683.22	ex 75.03	Wrought plates and sheets of nickel	IND.
683.23	75.04	Tubes and pipes of nickel	TUR.
684.1	ex 76.01B	Unwrought aluminum	CHA, IND, JAM.
684.21	76.02	Wrought bars, rods, angles, shapes, and sections of aluminum.	TUR, YUG.
684.22	76.03	Wrought plates, sheets, and strip of aluminium.	ISR, YUG.
684.23	76.04	Aluminium foil	ISR, YUG.
684.25	76.06	Tubes and pipes, etc. of aluminium	ISR, TUR, UGA, YUG.
684.26	76.07	Tube and pipe fittings of aluminium	ISR.
685.1	ex 78.01B	Unwrought lead	PER, YUG.
685.21	78.02	Lead bars, sections and wire	PER, YUG.
685.22	78.03	Lead plates, sheets, and strip	PER, YUG.
685.24	78.05	Lead tubes and pipes and fittings	PER, TUR, YUG.
686.1	ex 79.01B	Unwrought zinc	PER, TUN.
686.21	ex 79.02	Zinc rods, angles, and profiles	PER, YUG.
686.22	ex 79.03B	Zinc plates, sheets, and strips; zinc powder	PER, YUG.
686.23	79.04	Tubes and pipes of zinc	TUR.
687	80	Tin and articles thereof	GUA, IND, TUR.
687.1	80.01B	Unwrought tin	MLS, NGA, TAL.
688, 689	----------	Manganese, antimony, bismuth, cadmium, cobalt, chromium, uranium.	CUB, IND, PER, UAR.
691.1	73.21	Structural parts of iron or steel	MEX.
691.2	ex 76.08	Doors and windows of aluminum	DR, GUA, ISR.
692.11	73.22	Reservoir tanks, vats, and similar containers of iron or steel.	GHL, GUA, MEX. TUR.
692.13	76.09	Reservoirs, tanks, vats, and similar containers of aluminum.	TUR.
692.21	73.23	Transport containers of iron or steel	MEX.
692.31	ex 73.23	Steel cylinders for liquid gas	CHL, MEX.
693.11	ex 73.25	Steel cables	CHL, MEX.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VI—BASIC MANUFACTURES—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
693.12	74.10	Stranded wire, cables, cordage, ropes, etc. of copper wire.	CHL.
693.2	73.26	Barbed iron wire, zinc coated of from 2.1 to 3.5 millimeter cross section.	ARG, PRT, TUR.
694.11	ex 73.31	Nails, except for horseshoe	GUA, NGA, TAL, UGA, YUG.
694.12	ex 74.14	Copper nails and the like	CHL.
694.21	ex 73.32	Bolts and nuts, screws, rivets of iron or steel.	CHL, COS, IND, NGA, YUG.
694.22	74.15	Bolts and nuts, screws, washers, etc. of copper.	CHL, COS, NGA, TUR.
695.1	82.01	Handtools (spades, picks, etc.)	CHL, SPN, UGA.
695.21	82.02	Saws and saw blades	MEX, PER, SPN, TUR.
695.22	82.03	Handtools (pliers, spanners, files, etc.)	IND, MEX, SPN.
695.23	82.04	Handtools (grinding wheels, blow lamps, etc.).	IND, MEX, SPN.
695.24	82.05	Interchangeable tools	IND, ISR, TUR.
695.25	82.06	Knives and cutting blades for machines or mechanical appliances.	ISR.
695.26	82.07	Tool tips and plates, sticks, and the like	ISR.
696.01	82.09	Knives with cutting blades	NEP, PAK.
696.03	82.11	Razors and razor blades	IND, MEX, NEP, PAK.
696.04	82.12	Scissors and blades	NEP, PAK, SPN, TUR.
696.05	82.13	Other articles of cutlery	NEP, PAK, SPN.
696.06	82.14	Table and kitchen knives, spoons and forks.	IND, PAK, TUR.
697.11	73.36	Stoves, ranges, cookers, etc., of iron or steel.	GUA, NEP, TUR, UAR.
697.21	73.38A	Domestic articles and parts thereof of iron or steel.	COS, GUA, MEX, TUR, UAR.
697.22	ex 74.18	Household utensils of brass	IND, TUR.
697.23	ex 76.15	Kitchen utensils of aluminum	CEY, GRC, GUA, MEX, PRT, UGA.
697.91	ex 73.39	Iron and steel wool	TUR.
697.92	83.06	Statuettes and other indoor ornaments of base metal.	IND, SPM.
698.11	ex 83.01	Locks and padlocks	SPN, TUR.
698.12	ex 83.02	Latches, bolts	SPN, TUR.
698.2	83.03	Safes and strongboxes	MEX.
698.3	ex 73.29	Chain and parts thereof	TUR.
698.61	73.35	Springs and leaves for springs	GUA, MEX, TUR.
698.82	83.08	Flexible tubing and piping of base metal	TUR.
698.84	ex 83.11	Bells and gongs (brass and bronze ware as artware).	IND.
698.87	ex 83.15	Electrodes for welding	GUA, TUR.
698.92	ex 74.19	Castings and forgings, fancy materials of brass and other brass manufactures.	IND, KRR, YUG.
698.94	ex 76.16	Castings and forgings of aluminium	KRR, YUG.
698.96	ex 78.06	Lead castings and forgings	YUG.
		SEC. VII—MACHINERY AND TRANSPORT EQUIPMENT	
711.1	84.01	Steam and other vapor generating boilers	BRZ, MEX, PER, TUR.
711.2	84.02	Steam condensers	MEX.
711.5	ex 84.06B	Internal combustion engines, diesel engines, for motorcycles.	ARG, BRZ, IND, PAK.
712.1	ex 84.24	Steelplates for ploughs and harrows	CHL, MEX, TUR.
712.2	ex 84.25	Cotton ginning machinery	TUR.
714.1	ex 84.51	Typewriters	BRZ, TUR.
714.2	ex 84.52	Calculating machines	BRZ, TUR.
715.1	84.45	Machine tools for working metal or metalic carbides.	ARG, BRZ, CHL, IND, ISR, PAK, SPN, YUG.
715.21	84.43	Metal foundry machinery and equipment	YUG.
715.22	84.44	Rolling mills and rolls therefor	YUG.
715.23	ex 84.50	Hardening, casting, and soldering ovens and machines.	YUG.
717.11	84.36	Machinery for extracting manmade textiles	TUR.
717.13	ex 84.38	Auxiliary machinery, parts and accessories for textile machinery.	IND.
717.3	ex 84.41	Sewing machines, furniture designed for sewing machines.	BRZ, GRC, IND, TUR, UAR.
718.11	84.31	Machinery for making or finishing wood-pulp, paper, and paperboard.	BRZ.
718.29	ex 84.35	Printing machinery	MEX.
718.39	84.30	Machinery for food or drink industries	BRZ, TUR.
718.51	ex 84.56	Shields for grinding machinery and parts of manganese steel.	BRZ, CHL, TUR.
719.11	84.03	Gas generators	MEX.
719.12	84.12	Air-conditioning machines	UAR.
719.15	84.15A	Refrigerating equipment	MEX.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VII—MACHINERY AND TRANSPORT EQUIPMENT—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
719.19	84.17A	Apparatus for treating materials with heat or cold.	MEX.
719.21	ex 84.10	Pumps for liquids	BRZ, IND, MEX.
719.22	ex 84.11	Compressor parts and accessories	BRZ.
719.23	84.18B	Centrifuges; filtering and purifying machinery.	MEX, TUR.
719.31	ex 84.22	Hoists	ARG, MEX.
719.41	82.08	Coffee mills, juice extractors, mincers, etc.	CHL, TUR.
719.51	84.46	Machine tools for working stone, ceramics, etc.	ARG, IND, PAK.
719.52	84.47	Machine tools for working wood, corks, etc.	ARG, BRZ, IND, PAK, TUR.
719.53	ex 84.49	Pneumatic tools (hammers)	IND.
719.54	ex 84.48	Interchangeable tools	ISR.
719.62	ex 84.19	Bottling machinery; machinery for washing, filling, sealing, or labeling.	ARG, MEX.
719.64	ex 84.21	Spraying appliances	ISR, MEX, TUR.
719.7	84.62	Ball, roller, or needle roller bearings	BRZ.
719.8	84.59B	Machinery and mechanical appliances not elsewhere specified, machines for plastic processing industries, asphalt mixers and spreaders, presses, parts and accessories.	ARG, BRZ, CHL, GRC, MEX, TUR.
719.91	84.60	Moulding boxes for metal foundry	MEX.
719.92	84.61	Taps, cocks, valves, etc	BRZ, MEX, TUR, UAR, YUG.
719.93	ex 84.63	Plain shaft bearings, pillowblocks of steel, bronze and/or other metals.	CHL.
719.99	84.65	Machinery parts	CHL.
722.1	85.01	Electric generators, motors, convertors, transformers, etc.	CHL, IND, TUR, YUG.
722.2	85.19	Electrical apparatus for making and breaking electrical circuits.	BRZ, MEX, TUR, YUG.
723.1	85.23	Insulated electric wire, cable bars, strip, and the like.	CHL, GRC, IND, MLT, PRT, TUR, YUG.
723.21	85.25	Insulators	ARG, GUA, TUR.
723.22	ex 85.26	Insulating materials for electrical equipment.	MEX.
723.23	85.27	Electrical conduit tubing and joints therefor.	TUR.
724.2	ex 85.15B	Radio receivers	BRZ, CHL, KRR, TUR, UAR.
724.91	ex 85.13	Complete telephonic systems and parts thereof.	ARG.
724.92	ex 85.14	Loudspeakers	ARG.
724.99	ex 85.15C	Other telecommunications equipment	MEX.
725.01	89.15C	Domestic refrigerators	BRZ, CHL, MEX, TUR.
725.02	ex 84.40B	Domestic washing machines	ARG, CHL, TUR.
725.03	85.06	Electromechanical domestic appliances	BRZ, CHL, COS, IND, MEX, TUR.
725.04	85.07	Shavers and hair clippers	CHL, MEX.
725.05	85.12	Electric space heating equipment	MEX.
729.11	85.03	Primary cells and primary batteries	CEY, GUA, IND, MEX, PER, TAL, TUR, UAR.
729.12	85.04	Electric accumulators	CHL, PER, PRT, TUR.
729.2	ex 85.20	Electric lamps	CHL, GUA, MEX, TUR, UAR.
729.3	ex 85.21	Receiving valves and tubes, crystal diodes and triodes (transistor).	BRZ, CHL, MEX, TUR.
729.41	85.08	Electrical equipment for vehicles	CHL, GUA, MEX.
729.42	85.09		
729.52	90.28	Electrical measuring and controlling apparatus.	MEX.
729.6	85.05	Electromechanical handtools	CHN.
729.92	85.11	Industrial electric furnaces and ovens	ARG, GRC.
729.95	ex 85.18	Condensers	BRZ, MEX, YUG.
729.96	85.24	Carbon brushers and electrodes	MEX, TUR.
729.98	85.28	Electrical parts of machinery and apparatus, not elsewhere specified.	CHL, GRC.
729.99	85.22B	Electrical goods and apparatus, not elsewhere specified, galvanizing aggregates.	CHL, GUA TUR YUG.
731.62	ex 86.07	Complete goods wagons for railways	BRZ, CHL, MEX.
731.7	ex 86.09	Parts for railway wagons, shoes, axles, wheel centers, bogies, couplings, etc.	CHL.
732.1	ex 87.02A	Passenger automobiles	BRZ, GRC, MLT.
732.7	87.04B	Chassis fitted with engines, for motor vehicles.	GRC, TUR.
732.89	87.06	Parts and accessories of motor vehicles	BRZ, CHL, GRC, KRR, PER, TUR.
732.91	ex 87.09	Motorcycles	ARG, YUG.
733.11	87.10	Cycles	CHL, CHN, GUA, IND, NGA, PRT, SPN, UAR, UGA.
733.12	ex 87.12B	Parts of bicycles	BRZ, CHL, GUA, IND, NGA.
735.3	ex 89.01B	Canoes, skiffs, and other boats, including motorboats for sport. Fishing boats up to 240 tons (hulls of fishing boats).	BRZ, CHL, PER.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VIII—MISCELLANEOUS MANUFACTURED ARTICLES

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
812.1	ex 73.37	Central heating boilers, radiators, and parts thereof.	TUR.
812.2	69.10	Ceramic sanitary fittings	BRZ, GUA, TUR.
812.3	73.38B	Sanitary equipment of cast iron	COS, GUA, TUR, UAR.
812.41	ex 70.14	Lighting apparatus and their parts and fittings.	SPN.
812.42	83.07	Lamps and lighting fittings of base metal	IND, SPN, TUR.
821.01	94.01	Chairs and other seats	BRZ, CHL, CHN, COS, DR, GHA, IND, NIC, SPN, TAL, TAZ, TUR, UAR, UGA, VIR, YUG.
821.02	94.02	Medical furniture	CHN, COS, IND, TAL, TAZ, TUR, UAR, UGA.
821.03	94.04	Mattress supports	IND, MLT, NGA, PRT.
821.09	94.03	Other furniture and parts thereof	BRZ, CHL, CHN, CUB, DR, GHA, IND, MEX, MLT, NIC, PRT, SPN, TAL, TAZ, TUR, UAR, UGA, VIR, YUG.
831.0	42.02	Travel goods, handbags, wallets, etc	ARG, CEY, DR, GUA, IND, JAM, MEX, MLT, NGA, NIC, NIR, PRT, TUR, UGA, URU.
841.11	61.01	Men's and boys' outer garments	ARG, CEY, CHD, CHL, COS, CYP, IND, ISR, JAM, KRR, MAG, MEX, MLT, PRT, TT, TUR, UAR, YUG.
841.12	61.02	Women's, girls', and infants' garments	ARG, CHD, CHL, COS, CYP, IND, ISR, JAM, KRR, MAG, MEX, MLT, PRT, TT, UAR, YUG.
841.13	61.03	Men's and boys' undergarments	CEY, CHD, CHL, COS, IND, JAM, KRR, MAG, MLT, PRT, TT, UAR, YUG.
841.14	61.04	Women's, girls', and infants' undergarments.	CHD, CHL, COS, IND, JAM, KRR, MAG, PRT, TT, YUG.
841.21	61.05	Handerkchiefs	CHL, IND, PRT.
841.22	61.06	Shawls, scarves, mufflers, mantillas, veils, and the like.	CHL, IND, PRT, UAR.
841.24	ex 61.08	Trimmings for women's and girls' garments.	CHL, PRT.
841.25	ex 61.09	Foundation garments of cotton or other material.	JAM, PRT, TT.
841.26	ex 61.10	Gloves and socks of wool	KRR, PRT, TUR, UAR.
841.29	61.11	Made-up accessories for articles of apparel	CHL, PRT, TUR.
841.3	42.03	Articles of apparel and clothing accessories of leather.	ARG, DR, IND, KSR, JAM, MLT, NGA, NIC, TUR.
841.41	60.02	Gloves, mittens and mitts	ARG, CYP.
841.42	60.03	Stockings, understockings, socks, etc	ARG, CHL, CYP, ISR, MLT.
841.43	60.04	Undergarments	ARG, CEY, CYP, JAM, TT.
841.44	60.05	Outer garments and other articles	ARG, CYP, ISR, JAM, MLT, TT, TUR, YUG.
841.45	60.06	Unspecified knitted articles	COS, ISR.
841.51	ex 65.03	Hats of beaver, rabbit, hare and other fine hair.	BRZ.
841.52	65.04	Hats and other headgear, plaited or made from plaited or other strips of any material.	DR, JAM, NIC, TT.
841.53	ex 65.05	Caps, uniform	MLT.
841.6	40.13	Rubber articles	COS, GUA, PER, UAR.
842.01	43.03	Articles of furskins	ARG, CHD, SPN.
842.02	43.04	Articles fur and articles thereof	CHD.
851.01	64.01	Footwear with outer soles and uppers of rubber or artificial plastic material.	BRZ, CEY, CHL, CYP, GHA, GRC, GUA, IDN, IND, JAM, KRR, MEX, NGA, NIC, PRT, SPN, TUR, UGA,
851.02	64.02	Footwear with outer soles of leather and rubber, etc.	ARG, BRZ, CEY, CHL, COS, CYP, GHA, GRC, GUA, IDN, IND, JAM, KRR, MAG, MEX, MLT, NGA, NIC, PAK, PRT, SPN TUR, UAR, UGA, URU, YUG.
851.03	ex 64.03	Footwear with outer soles of wood	GUA, MEX, YUG.
851.04	64.04	Footwear with soles of other materials	MEX.
861.21	ex 90.03	Spectacles frames and mountings	IND, PAK, SPN, TUR.
861.22	ex 90.04	Spectacles	MEX, SPN.
861.71	ex 90.17B	Surgical instruments	BRZ, PAK.
861.81	ex 90.26B	Meters for water and gas	CHL, MEX, SPN, TUR.
861.93	ex 90.16	Drawing and measuring instruments, etc	IND, MEX, NIC, TUR.
861.97	90.24	Measuring instruments for flow, depth, pressure, etc.	MEX.
862.3	37.08	Chemical products used in photography	MEX.
862.43	37.03	Sensitized paper	BRZ.
863.01	37.05	Cinematograph film, exposed and developed.	BRZ, TUR.
863.09	37.07		
891.11	92.11	Gramaphones, record players, etc	ARG, CHL, COS.
891.12	ex 92.13	Other accessories and parts of equipment in item 92.11.	CHL.
891.2	ex 92.12	Phonographic records	CUB, GUA, JAM, MEX, TT, TUR.

LIST OF MANUFACTURED AND SEMIMANUFACTURED ARTICLES OF EXPORT INTEREST TO DEVELOPING COUNTRIES—Continued

SEC. VIII—MISCELLANEOUS MANUFACTURED ARTICLES—Continued

[See key to abbreviations at end of table]

SITC	BTN	Products	Notifying countries
891.42	92.02	Other string musical instruments (guitars, mandolins, etc.).	CHL, MEX, PAK, SPN.
891.43	92.09	Musical instruments	MEX, PAK.
891.83	92.05	Musical instruments	MEX, PAK, TUR.
891.84	92.06		
891.89	92.08		
892.11	49.01	Printed books, booklets, etc	CUB, DR.
892.2	ex 49.02	Periodicals and magazines	DR, MEX.
893.0	ex 39.07	Plastic articles, polythene bags, and covers.	CYP, MEX, MLT, PER, PRT, TUR, UAR.
894.1	87.13	Baby carriages and invalid carriages	SPN.
894.21	ex 97.01	Wheeled toys without spring mechanism	IND.
894.22	97.02	Dolls	GUA, IND, SPN.
894.23	97.03	Other toys	CHN, COS, GUA, TAL, TUR.
894.24	ex 97.04	Playing cards	SPN.
894.31	ex 93.04	Sporting or hunting guns	SPN, TUR.
894.33	93.06A	Parts of arms	SPN.
894.42	97.06	Sports goods	GUA, JAM, PAK, TAL, YUG.
895.21	ex 98.03	Ballpoint pens and stylograph pencils	CHL, MEX, TUR.
895.23	ex 98.05	Pencils	CHL, UAR.
895.94	ex 98.08	Typewriter ribbons	TUR.
896.04	99.04	Stamps of philatelic interest	CUB.
897.11	71.12	Articles of jewelry and parts thereof of precious metal or rolled precious metal.	BRZ, IND, PER, TAL.
897.12	71.13	Goldsmiths' and silversmiths' wares	MEX.
897.14	ex 71.15	Articles of precious, semiprecious rate stones.	BRZ.
897.2	71.16	Imitation jewelery	IND, MLT.
899.11	95.01	Worked tortoise shell and articles of tortoise shell.	CHN, CUB, DR, TAL, VIR.
899.13	95.03	Worked ivory and articles of ivory	CHN, IND, NGA, TAL.
899.15	ex 95.05	Horns, fancy carved articles, excluding artware.	CHN, CUB, IND, TAL.
899.17	ex 95.07	Worked amber and other finished articles of amber.	CHN, DR, TAL.
	95	Various handicrafts	CUB, GHA, PHL, TAL, UAR, UGA.
899.21	ex 46.01	Plaits, plaiting materials	NIC.
899.22	46.03	Basketwork, wickerwork, and other articles of plaiting materials.	IND, JAM, NIC, PRT, SPN, TT, VIR, YUG.
899.23	96.01	Brooms and brushes, merely bound together.	CHL, UGA, YUG.
899.24	ex 96.02	Other brooms and brushes	CHL, TUR.
899.25	96.03	Prepared knots and tufts for broom or brush making.	CHL.
899.31	ex 34.06	Candles	MLT, PRT.
899.32	36.06	Matches	GHA, GUA, IND, MLT, NGA, PRT, UAR.
899.35	ex 98.11	Smoking pipes and parts thereof	MLT, SPN, TUR.
899.41	66.01	Umbrellas and sunshades	CEY, IND, NGA, TAL.
899.52	ex 98.01	Buttons and studs	GUA, JAM, TUR.
899.53	98.02	Slide fasteners and parts thereof	TUR.
899.93	ex 67.02	Flowers of ornamental plastic materials	CHN, KRR, SPN, TAL.
899.96	ex 67.05	Fans, nonmechanical, and parts thereof	SPN.
951.05	93.02	Revolvers and pistols	SPN.

Alphabetical list of country name abbreviations:

ARG—Argentina
BRZ—Brazil
CEY—Ceylon
CHD—Chad
CHL—Chile
CHN—China (Taiwan)
COS—Costa Rica
CUB—Cuba
CYP—Cyprus
DR—Dominican Republic
ETI—Ethiopia
GAB—Gabon
GHA—Ghana
GRC—Greece
GUA—Guatemala
IND—India
ISR—Israel
JAM—Jamaica
KRR—Korea, Republic of
MAG—Madagascar
MEX—Mexico
MLS—Malaysia
MLT—Malta
MTN—Mauritania
MWI—Malawi
NEP—Nepal
NGA—Nigeria
NIC—Nicaragua
NIR—Niger
PAK—Pakistan
PHL—Philippines
PRT—Portugal
PER—Peru
RHD—Rhodesia
SPN—Spain
TT—Trinidad and Tobago
TAL—Thailand
TAZ—Tanzania
TUR—Turkey
UAR—United Arab Republic
UGA—Uganda
URU—Uruguay
VIR—Viet-Nam, Republic of
YUG—Yugoslavia

ANNEX B

TARIFF RATES IN THE EEC, UNITED KINGDOM, UNITED STATES, AND JAPAN IN RESPECT OF THE SELECTED MANUFACTURED AND SEMI MANUFACTURED PRODUCTS OF EXPORT INTEREST TO THE DEVELOPING COUNTRIES

SITC No.	BTN No.	Products	Tariff rates				
			EEC	United Kingdom		United States	Japan
				MFN	BPT		
012	02.06	Meat, dried, salted or smoked, in containers or not	16–25	10; 20; free	Free	2.4–15	15; 25.
013.3	16.03	Meat extracts and meat juices	Free; 9; 24	10; 20	do	1.0	30.
013.4	16.01	Sausages, whether or not in airtight containers	21; 24	20	do	2–15	25.
013.8	16.02	Other prepared or preserved meat whether or not in airtight containers.	20–26	Free; 5–20	do	2.5–20	20; 25.
ex 032.01	ex 16.04	Canned fish	16–30	5–30	do	0.7–35	20.
ex 032.02	ex 16.05	Canned shrimps	20	7.5–30	do	Free–23.7	15; 20.
048.3	19.03	Macaroni and spaghetti	30	10	do	6.1–6.6	50Y/kg.
ex 048.42	ex 19.08	Biscuits	30–35	10	do	6.5	35; 40.
052.01	ex 08.01	Tropical fruit, dried	12–20	5–10	do	7.5–30	20.
ex 053.2	ex 20.04	Fruit, fruit peel preserved by sugar	Free; 25	3–22	do	8–37	35.
053.2	20.05	Jams, marmalades, fruit jellies, fruit purees and pastes	30	10	do	6.5–17.5	25; 40.
ex 053.5	ex 20.07	Fruit juices, unfermented	19–50	Free–18	do	2–15; 60.5	17–35.
053.62	20.03	Fruit preserved by freezing, containing added sugar	26	9; 15	do	6–35	35.
ex 053.9	ex 20.06	Fruit prepared or preserved; not elsewhere specified (including canned fruit).	Free–25	Free–25	Free	Free–59.9	20–55.
ex 055.1	ex 07.04	Dehydrated onions	20	10; 15	do	35	15.
ex 055.45	ex 19.04	Tapioca	26; 29	5	do	Free	25.
055.51	20.01	Vegetables and fruit prepared and preserved by vinegar or acetic acid.	22; free	10	do	8–35	25–35.
055.52	20.22	Vegetables otherwise prepared or preserved	18–24	10; 15	do	Free; 5.3–25	20–35.
062.01	17.04	Sugar confectionery	21–27	4s. 9d./hundredweight plus 10 percent.	do	10; 14	35.

SECTION I—BEVERAGES AND TOBACCO							
071.3	ex 21.02A	Soluble coffee	24	5.4	4	2	25.
		Instant tea	24	10	Free	Free	27.5.
072.2	18.05	Cocoa powder	27	2	do	7.3	90.
072.31	18.03	Cocoa paste	25	1	do	2.6	20.
072.32	18.04	Cocoa butter	20	0.5	do	6.25	10.
112.12	22.05	Wine	9–40 [1] UA/hl	14s. to £2 per gallon	12s to £1 per gallon [2]	12–50	400–650.
112.13	22.06	Vermouths and other wines flavoured with armomatic extracts.	16–19 [1] UA/hl			8–40	Y/1. 180 Y/1.
112.3	22.03	Beer	30	£8 7s. 2d., per 36 gallons	£7 7s.2 per 36 gallons	11	35.
122.1	24.02A	Cigars	80	£4 6s. 3d. per lb	£4 3s. 3½d per lb	58	200.
122.2	ex 24.02B	Cigarrettes	180	£4 2s. 10½d. per lb	£4 6d per lb	64	355.
122.3	ex 24.020	Tobacco manufactured	180	£4 1s. 10½d	£3 19s. 7½d. per pound	14	355.
SECTION II—WOOD AND WOOL SEMIMANUFACTURES							
243.21	ex 44.05A	Sawn lengthwise, conifer	10 [3]	Free–12	Free	Free; 1.8	Free; 5; 10; 20.
243.31	44.05B	Sawn lengthwise, nonconifer	Free; 13	Free	do	Free; 2.5	Free.
244.02	45.02	Natural cork in blocks, plates, etc	12	10	do	13	5.
251	47.01	Wood pulp	Free; [4] 6	Free	do	Free	5.
262.7	53.05A	Wool and other animal hairs carded and combed	3	10	do	10; 19; 31	Free; 5.

See footnotes at end of table, p. 379.

ANNEX B—CONTINUED

TARIFF RATES IN THE EEC, UNITED KINGDOM, UNITED STATES, AND JAPAN IN RESPECT OF THE SELECTED MANUFACTURED AND SEMIMANUFACTURED PRODUCTS OF EXPORT INTEREST TO THE DEVELOPING COUNTRIES—CONTINUED

SECTION V—CHEMICALS

SITC No.	BTN No.	Products	Tariff rates				
			EEC	United Kingdom		United States	Japan
				MFN	BPT		
ex 512.26	ex 15.11	Glycerine	2–8	1	Free	3	5; 20.
512.85	29.35	Heterocyclic compounds	10–25	10; 33⅓	do	Free–50	5–25.
ex 513.21	ex 28.01A	Chlorine	14	10	do	10.5	10.
ex 513.22	ex 28.01B	Bromine	15	Free	do	46.5	10.
513.23	28.02	Sulphur sublimed	8	Free; 33⅓	do	Free	10.
ex 513.33	ex 28.08	Sulphuric acid	4	10; 33⅓	do	do	10.
ex 513.62	ex 28.17A	Caustic soda	14	10	do	2	20.
ex 513.65	ex 28.20A	Alumina	11	10; 16; 33⅓	do	Free	15.
532.4	32.01	Tanning extracts of vegetable origin	Free; 9; 10	Free; 10	do	Free–7.5	Free.
ex 533.32	ex 32.09	Varnishes and lacquers	15	7.5; 12.5	do	8.5; 10; 16	20.
541.3	29.44	Antibiotics	9–21	25	do	3; 10.5; 28	15.
541.63	30.02	Bacterial products, vaccines	14; 15; 17	10	do	Free; 10.5	Free.
541.7	30.03	Medicaments	12–34	Free; 10	do	Free–34	15; 17; 20; 25.
ex 551.1	ex 33.01	Essential oils	Free–12	Free–25	Free; 13s. 4d. per ounce	Free–25	Free–20.
554.1	34.01	Soaps	15	10–25	Free	8–28	20–30.
ex 561.29	ex 31.03D	Superphosphate	6	14	do	Free	Free.
561.3	ex 31.04D	Potassic fertilizers	Free; 3	Free	do	do	Do.
ex 581.2	ex 39.02	Polyethylene (from natural gas)	20; 23	10	do	17–40	20; 30.
		Polypropylene (from natural gas)	23	10	do	4; 12.5–20	57Y/100kg.
599.51	11.08	Starches and inulin	Levy	Free–10	do	15.3–20	25.
ex 599.53	ex 35.01	Casein	2–14	10	do	Free	Free; 10.
599.63	ex 38.07	Spirits of turpentine, etc	3	10	do	5	10.
		SECTION VI—BASIC MANUFACTURES					
611.3	41.02A	Calf leather	9	20	Free	8.5; 10; 12.5	20.
611.91	41.03	Sheep and lamb skins, leather	Free; 6; 10	10; 15	do	8; 10	15; 20.
611.92	41.04	Goat and kid skins leather	Free; 6; 10	10; 15	do	10	15; 20.
611.99	41.05	Other kinds of leather	8; 9	10; 12; 15	do	10; 12.5	15–25.
612.9	42.05	Articles of leather	14	20	do	6–14	25.
621.01	40.05	Plates, sheets and strip of unvulcanized rubber	8	10	do	Free–12.5	15.

621.03	40.07	Thread and cord of rubber	10; 12	16	do	30	15.
621.04	40.08	Plates and strip of rubber	12–18	10; 7½; 20	do	12.5	15; 20.
621.05	40.09	Piping and tubing of rubber	14	10	do	8.5	15.
629.1	40.11	Rubber tires and tubes for vehicles	15–18	20; 25	Free; 16	8.5; 10; 30	15–30.
629.3	40.12	Hygienic and pharmaceutical articles	20	20	Free	8; 12.5	15.
629.4	40.10	Conveyor and elevator belts	12	10; 20; 33⅓	Free; 16⅔; 27⅞	12.5; 16	15.
ex 629.98	ex 40.14	Articles of sponge rubber and foam rubber	12–16	15; 20; 24	Free; 20	12.5–25	20.
631.1	44.14	Veneer	8	10	Free	8; 10; 16.7	Free; 15; 20.
ex 631.21	ex 44.15	Plywood	14–15	10; 20	do	15; 17; 20; 40	20.
632.4	44.23	Builders' woodwork	14	15	do	1.5–45	15.
632.72	44.24	Household utensils of wood	15	17.5; 20	do	14–17.5 51.2	20.
632.73	44.27	Domestic articles of wood	18	15; 17.5; 20	do	9.8–27	20; 30; 40.
633.01	45.03	Articles of natural cork	20	Free; 20	do	14–36	10.
633.02	45.04	Agglomerated cork and articles thereof	20	10; 20	do	13–36	20; 25.
641.1	48.01A	Newsprint	Free; 7 [4]	Free	do	Free	7.5; 10.
641.21	48.01B	Printing and writing paper	16	16⅔	do	2.5–14	10.
651.2	ex 53.06 53.07	Woollen yarn not put up for retail sale	5; 10	7.5; 10	do	27.6; 32	10.
651.3	ex 55.05A	Cotton yarn and thread not put up for retail sale	8	7.5	do	6.9–20	5; 7.5.
ex 651.51	ex 54.03	Flax yarn not put up for retail sale	6; 10; 16	7.5; 10	do	12–30	20.
ex 651.71	ex 51.01B	Rayon yarn, not put up for retail sale	5; 15	16÷7½d. per pound of manmade fibers and silk.	5/6 of full rate	2.5–42	15.
ex 651.73	ex 51.03B	Rayon yarn, put up for retail sale	18			2.5; 42	15; 25.
651.92	ex 57.06	Yarn of jute (not containing manmade fibers)	10	10; 15	Free	13.5–26	20.
ex 651.93	ex 57.07	Yarn of other vegetable fibers	Free; 10	10; 15	do	Free; 20	7.5
652.1	55.07	Woven fabrics of cotton (not containing manmade fibers)	14–16; 19	17.5	do	7.75–33	10–25.
652.2	55.08 55.09 58.04A						
653.11	50.09	Woven fabrics of silk or of waste silk	14–17	22½÷2s, 3d, per pound.	5/6 of full rate	17–30	20; 25.
653.12	50.10	Woven fabrics of noil silk	17			17–35	20; 25.
ex 653.21	ex 53.11	Woolen fabrics	13–18	17.5	Free	19–111	20.
ex 653.31	ex 54.05	Flaxfabrics	20	17.5	do	6.5–40	30; 35.
ex 653.4	ex 57.10	Woven fabrics of jute	23	20	do	13.5; 27.5	25.
ex 653.61	ex 51.04B	Woven fabrics of rayon	16	17.5 + 6½d. per pound of manmade fibers and silk.	5/6 of full rate	25–65	15.
ex 654.01	ex 58.05	Ribbons of cotton (not containing silk or manmade fibers	16; 17, 21	17.5–20	Free	5–42.5	20; 25.
ex 654.04	ex 58.08	Tulle, lace, embroidery of cotton (not containing silk or manmade fibers.	15–23	25	do	19–60	15–35.
ex 654.05	ex 58.09						
ex 654.06	ex 58.10						
ex 655.61	ex 59.04	Twines, ropes, etc. of coir	13	10	do	Free; 20	10.

See footnotes at end of table, p. 379.

ANNEX B—CONTINUED

TARIFF RATES IN THE EEC, UNITED KINGDOM, UNITED STATES, AND JAPAN IN RESPECT OF THE SELECTED MANUFACTURED AND SEMIMANUFACTURED PRODUCTS OF EXPORT INTEREST TO THE DEVELOPING COUNTRIES

SECTION VI—BASIC MANUFACTURERS—Continued

SITC No.	BTN No.	Products	Tariff rates				
			EEC	United Kingdom		United States	Japan
				MFN	BPT		
ex 655.62	ex 59.05	Nets and netting made of twines, etc	14; 19	20	Free	22.5	10.
ex 655.63	ex 59.06	Other articles made from twine, etc	18	20	do	13.5; 48	10.
ex 656.1	62.03	Sacks and bags of textile meterials	10-23	17.5-33⅓	Free 20; 27	7-51	Free; 23.
656.61	ex 62.01	Blankets, etc. (not containing manmade or silk fibers)	19	20	Free	15-45	20.
656.62							
656.69							
ex 656.91	ex 62.02	Bed linen, table linen (not containing manmade or silk fibers).	22	17.5; 20; 25	do	8-50	20; 30.
657.5	ex 58.01	Carpets and rugs (not containing manmade or silk fibers)	24; 23	20	do	7-48.1	30.
657.6	ex 58.02						
661.2	25.23	Cement	8	5; 10	do	2-5	10.
662.32	69.02	Refractory bricks, etc	10	10	do	9.8; 25	10.
663.81	68.13	Manufactures of asbestos other than friction materials	10-16	10; 15; 20	do	8-20	15.
ex 664.11	ex 70.01	Glass in the mass	7	10	do	15; 21	10.
664.12	70.02	Enamel glass in the mass, rods or tubes	8	20	do	34	10.
664.13	70.03	Glass, unworked in balls, rods or tubes	8	10-33⅓	do	14-35	10; 20.
664.3	70.05	Drawn or blown glass, unworked in rectangles	10	15	do	Free-19	10; 15; 20.
664.4	70.06	Cast, rolled, drawn or blown glass in rectangles surface ground or polished.	10	15	do	3-23.5	25.
664.5	70.04	Cast or rolled glass, unworked in rectangles	10	15	do	8.5-13	15; 20.
664.91	70.07	Cast, rolled or blown glass cut otherwise than into rectangles, bent, etc.	16	15; 16	do	15; 22	25.
665.11	70.10	Carboys, bottles, jars and flasks, etc	19	20-25	do	6; 10; 32	15.
665.2	70.13	Glass tableware and other articles of glass for household, hotel, and restaurant use.	24	20-25	do	22; 5-50	10-20.
666.4	69.11	Porcelain or china household ware.	27 (13.6-28) U.C. 100 kg.	25	do	25-64.4	15.
671.2	73.01B	Pig iron	3-7	Free, 10	do	0.3; 11	10.
671.4	ex 73.02A	Ferromanganese	2.4; 8	Free-10	do	7-8	20.

ex 671.5	ex 73.02B	Ferrochrome	Free; 8	Free	do	4; 8, 5	10.
672.1	73.06A	Puddled bars and piling blocks lumps	3–7 [6]	Free; 10	do	3.2; 12.2	12.5.
672.31	73.06B	Ingots	3–7	do	do	8.5; 10.5	12.5.
673.11	73.10A	Wire rod of iron or steel	6; 7 ;10	Free	do	5.4; 6.8	15.
682.1	ex 74.01	Copper unwrought	Free	do	do	6–14	Free; 10: 16.
674.11	73.13A	Plates and sheets of iron or steel	5; 6; 9	10	do	8; 19.6	15.
682.21	74.03	Copper bars, wire, etc	10	10	do	7.2–31.7	20; 25.
678.2	73.18B	Tubes and pipes of iron or steel	12	17.5	do	4.2–18.5	15.
682.22	74.04	Wrought plates, sheets and strips of copper	10	15	do	7–28	20; 25.
682.23	74.05	Copper foil	10	16	do	7.3–21	20; 25.
682.25	74.07	Tubes and pipes of copper	10	20	do	6–24	20; 25.
683.1	ex 75.01C	Nickel unwrought	Free	Free; 10	do	2; 3	Free.[4] 200Y 100 kgs.
684.1	ex 76.01B	Aluminium unwrought	9	Free	do	5–8	15.
684.25	ex 76.6	Tubes and pipes of aluminum	19	12.5	do	19	25.
685.1	ex 78.01B	Lead unwrought	8	1	do	0.4; 11	10; 12; 20.
686.1	ex 79.01B	Zinc unwrought	Free [4]	33⅓; 1.8	do	6; 19	Free–12Y/100 kgs.
687.1	ex 80.01B	Tin unwrought	Free	Free	do	Free	5; Free.
689.41	81.01	Tungsten	6–10	25	do	21–40	10; 20.
696.01	82.09	Knives with cutting blades	17	18; 25	do	18–62	18; 40.
696.02	82.10	Knife blades	17	18	do	21; 50	18; 20..
ex 696.03	ex 82.11	Razors and ra·or blades	10–14	16+ls. 3d. gross	do	8, 5–80	20.
696.04	‡2.12	Scissors and blades	14	20	do	49; 71; 99	18.
696.05	82. 13	Other	13	12.5–20	do	20–37	20–40.
697.21	73.38A	Domestic utensils of iron or steel	15	15	do	17	15.

SECTION VII—MACHINERY AND TRANSPORT EQUIPMENT

ex 711.5	ex 84.06B	Diesel engines (under 50 hp.)	13.18	16; 22; 24	Free; 14⅔; 16	10	15; 25; 30.
715.1	84.45	For working metals	3–10	10; 25	Free	12; 15; 20	10–25.
ex 717.3	ex 84.41	Sewing machines domestic	12	15	do	Free; 7.5	15.
719.51	84.46	For working minerals	8; 10	15; 17.5	do	10	15.
719.52	84.47	For working wood plastics etc.	11	15; 17.5	do	10; 11.5	15.
ex 719.62	ex 84.19	Bottling machines	10	14	do	11.5	15.
ex 719.8	ex 84.59B	Machines for the plastics processing industry	10; 11; 14	14	do	11.5	15.
ex 722.1	ex 85.01	Electric motors	10; 11	17.5	do	10.5; 12.5; 50	15; 20.
724.2	ex 85.15B	Radio receivers	13	17.5; 20; 24	Free; 16	12.5; 13.75	18; 35.
725.02	ex 84.40B	Washing machines	10; 15	12; 14	Free	14; 16	15.
725.03	ex 85.06	Electric fans	15	17.5	do	14	15.
ex 733.11	ex 87.10	Bicycles, not motorized	17	20	do	11.25–30	20.

See footnotes at end of table, p. 379.

ANNEX B—CONTINUED

TARIFF RATES IN THE EEC, UNITED KINGDOM, UNITED STATES, AND JAPAN IN RESPECT OF THE SELECTED MANUFACTURED AND SEMIMANUFACTURED PRODUCTS OF EXPORT INTEREST TO THE DEVELOPING COUNTRIES—CONTINUED

SECTION VIII—MISCELLANEOUS MANUFACTURED GOODS

SITC No.	BTN No.	Products	Tariff rates				
			EEC	United Kingdom		United States	Japan
				MFN	BPT		
812.3	73.38B	Sanitary equipment of iron or steel	17	25	Free	8; 9.6; 17	15.
ex 821.01	ex 94.01	Steel furniture	14; 17; 16	15; 20	do	10.5–35	20; 25; 30.
ex 821.02	ex 94.02						
ex 821.03	ex 94.04						
ex 821.09	ex 94.03						
ex 831.0	ex 42.02	Luggage, handbags, purses	15; 17	15; 20	do	8.5–50	20–40.
ex 841.11	ex 61.01	Outergarments	18; 20	17.5–25	do	10–42.5	21; 25; 30; 40.
ex 841.12	ex 61.02						
ex 841.13	ex 61.03	Undergarments	18; 24	20; 25	do	10–42.5	20; 30.
ex 841.14	ex 61.04						
ex 841.43	ex 60.04	Undergarments, knitted or crocheted	21	20; 25	do	17.5–50	20; 30.
ex 841.44	ex 60.05	Outergarments, knitted or crocheted	16; 21	20–25	do	12–54.8	25; 30.
ex 851.01	ex 64.01	Footwear with soles and uppers of rubber	20	30	do	12.5–37.5	20.
ex 851.02	ex 64.02	Footwear with soles of leather	16–20	15–30	Free; 20	5–25	20–30.

861.93	ex 90.16	Drawing and measuring instruments	12; 16	25; 33⅓	Free	11.25–50	15.
891.42	92.02	String musical instruments	21	25	16⅔	17; 34	15.
891.43	92.09	Musical instrument strings	14	25; 33⅓	16⅔; 33⅓	15; 10	15.
891.83	92.05	Wind musical instruments	14	25	16⅔	15–30	15.
893.0	ex 39.07	Articles of artificial plastic materials	22	20	Free	17–42	30.
894.22	97.02	Dolls	17; 20	25	Free; 20	35	20.
894.23	97.03	Toys, not elsewhere specified	24	25	Free; 20	16–44	20.
897.11	71.12	Jewelry of precious metal	9;12	20; 25	Free	15–55	35; 40; 50.
897.14	71.15	Articles incorporating pearls or semi and precious stones	Free; 9–18	Free; 10–30	do	15–55	10; 35; 40.
897.2	71.16	Imitation jewelry	18	25	do	15–55	25; 40.
899.11	95.01	Worked tortoise shell and articles thereof	9; 16	30	do	10–20	20; 40.
899.13	95.03	Worked ivory and articles thereof	9; 17	25; 30	do	10–25	20; 40.
899.15	95.05	Worked horn, coral, etc. and articles thereof	7–16	Free; 16; 30	do	5–25.5	20; 40.
899.22	46.03	Basketwork, etc. of plaiting materials	18	5–30	do	8.5–40 3.4; 23.4.	15; 50.
899.32	36.06	Matches	14	14s. 5d. per 7,200 matches.	14s. 5d. per 7,200 matches.		25.
899.41	66.01	Umbrellas	16	20	Free	20	20.

Notes:
[1] Plus 1.60 UC/hl for additional each degree in excess of 22.
[2] Additional duties are levied for products exceeding certain gravity or certain degree of proof spirit.
[3] Temporary total suspended.
[4] Within tariff quota.
[5] Hydrocarbon duty should be added.
[6] Wholly or partly ECSC rates of duty.

Source: Tariff schedules of EEC, United Kingdom, United States of America, Japan. GATT document COM.TD/7 "Data on commercial policy measures applied by industrialized GATT countries on products notified by less-developed countries as being of special export interest to them"

THE QUESTION OF THE GRANTING AND EXTENSION OF PREFERENCES IN FAVOUR OF DEVELOPING COUNTRIES

A System of Preferences for Exports of Manufactures and Semimanufactures From Developing to Developed Countries

REPORT BY THE UNCTAD [1] SECRETARIAT

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[1] United Nations Conference on Trade and Development, Trade and Development Board, Committee on Manufactures, group on preferences, second session, Geneva, July 4 1967, item 3 of the provisional agenda.

Part One

GENERAL CONSIDERATIONS

A. Introduction

1. At the first United Nations Conference on Trade and Development the need to expand and diversify exports of manufactures and semi-manufactures from developing countries was recognized without dissent (recommendation A.III.4). To fulfill this need, various forms of action were recommended to developed and developing countries. One form of action, however, i.e. the granting of preferences on a general and non-reciprocal basis, while supported by all developing countries, did not meet with the approval of all developed countries (recommendation A.III.5; see also General Principle Eight). It was, therefore, referred to the continuing machinery emerging from the Conference. Since then a number of proposals and studies have been made and discussed in various organs of UNCTAD. Studies have also been made by other interested bodies in response to the recommendations of the Conference. Presently, it would seem that there is growing support for the principle of granting preferences to developing countries. However, equal progress has not been achieved with respect to the specific content of the system to be established. The present paper is intended to study in somewhat greater detail than hitherto the various elements and technicalities of a preferenial system.

2. In defining the specific content of a scheme it is necessary, however, not to lose sight of the basic aims of a preferential system, nor to ignore the doubts that have been raised regarding the principle itself or certain of its features. In the first part of this paper, therefore, the arguments in support of a preferential system will be briefly recapitulated, as well as some of the doubts that have been expressed during previous discussions of the issue. In the second part, the concrete elements of a preferential system will be broadly outlined, and the main problems that arise with respect to each of them will be cited. The basic alternatives of general preferential systems will be sketched. The third part contains the detailed examination of the various elements, and ends with a summary of the conclusions regarding each.

B. The General Case for Better Access

3. It is important to distinguish at the outset between the case for improved access in general and that for preferences in particular. The arguments for improved access in general are largely accepted by all countries, including those which may be skeptical about preferential access. It is well recognized that the export earnings of developing countries are expanding at rates far below their development needs. The law elasticities of demand, the decreasing raw material content of industrial products resulting from technological progress, and growing production of both natural and synthetic materials in the developed countries, have severely limited the potentialities of expansion of many primary exports. Manufactured products, in contrast, are largely free from such limitations. Accordingly, the establishment of better conditions of access for manufactures and semi-manufactures should serve to alleviate one of the bottlenecks in the process of economic development. Apart from the slow growth of export earnings, the severe fluctuations in the prices of many primary commodities introduce an element of uncertain and instability as to export proceeds which militates against orderly planning. Therefore, an increase in the relative share of industrial products in the total exports of developing countries would help to provide a greater degree of stability in their external earnings.

4. Under the present conditions of access, developing countries tend to adopt inward-looking industrialization policies. In many cases, in particular at early stages of development, such policies may be difficult to avoid. However, beyond the stage of simple consumer goods which may be sustained by the home market, import-substitution policies tend to become progressively more costly. The removal of trade barriers facing developing countries would help to promote an export-oriented outlook of the industrialization efforts.

5. One of the basic characteristics of tariff regimes in the developed countries is the escalation of rates from the lower to the higher stages of processing. Thus, duties on crude materials may be nil, but they tend to rise on simply-processed forms, and become high on finished products. Such a pattern has the

effect of inhibiting the location of industries at the site of raw materials.[1] Under conditions of free access it is to be expected that it would be profitable for a larger proportion of future investments in processing industries to be made in developing countries close to the source of raw materials with a view to exporting the goods concerned towards the developed countries.

6. The elimination of barriers to imports from developing countries would redound to the advantage, not only of developing countries, but also of developed countries. The increased earnings from industrial exports would enhance the import capacity of developing countries and thereby promote exports by developed countries. Equally important is the more rational allocation of resources that would ensue. At present, labour is kept in relatively less competitive industries through the edifice of protection. At the same time the high level of demand in a number of developed countries has created a condition of labour shortage limiting, in some cases, the growth potential of the economy. This has been aggravated in some countries by the depletion of the traditional reservoir of labour which the agricultural sector constituted for industry. Increased imports from developing countries would therefore mitigate the labour shortage, reduce the inflationary pressure and promote a better pattern of resource allocation. Labour would be utilized in a more rational manner in more advanced fields of manufacturing where the rise in wages could be better sustained by a corresponding growth of productivity. Instead of using imported labour to maintain or even expand the traditional less competitive industries, the developed countries would import goods.

C. The Case for Preferences

7. Broadly speaking, the above advantages will be greater the lower the trade barriers facing developing countries. It is not to be excluded that at some time the aim of universally free trade will be achieved. Obviously, however, this is not something that could reasonably be counted upon in the near future. In the meantime the trade in manufactures and semi-manufactures will have to contend with barriers which, even after the conclusion of the Kennedy Round, remain, to developing countries in any event, considerable. At any rate it is uncertain whether the Kennedy Round would in the near future be followed by another of comparable coverage and intent. Furthermore, negotiations on a most-favored-nation basis are not likely to take sufficient account of the specific interests of developing countries. The fact that these are at best marginal suppliers in the vast majority of cases tends to impair seriously their bargaining position.

8. Yet, developing countries' trade problems are so urgent that in order to improve access for their industrial exports they should not have to depend on whether or not it will be possible to undertake a new round of negotiations on an m.f.n. basis. It may be argued that developing countries should not have to wait for agreement among developed countries before attention is paid to their trade problems, and difficulties that might exist for further expanding trade among developed countries should not impede progress for the developing countries. Therefore it may appear justified to consecrate the next step in world trade to the liberalization of the imports from developing countries.

9. The case for preferences rests on more than the limitations inherent in tariff reductions on an m.f.n. basis. Paradoxically, preferences would be a means for enabling the developing countries to come closer to real equality of treatment. The traditional m.f.n. principle is designed to establish equality of treatment among the various sellers to a particular market, but it does not ensure equality of treatment in several respects that are of considerable importance to developing countries. First, unless the m.f.n. tariff is zero, there is no equality of treatment with the domestic producers, nor with the producers inside the recently established regional groupings in the developed world. Secondly, the m.f.n. principle does not take account of the fact that there are in the world inequalities in economic structure and levels of development; to treat equally countries that are economically unequal constitutes equality of treatment only from a formal point of view but amounts actually to inequality of treatment. Third, partly as a result of negotiations conducted on the basis of reciprocity and of the m.f.n. clause, typical manufactured and semi-manufactured export products of developing countries are frequently subject to higher nominal and, in most cases still higher, effective duties than typical imports from developed countries. Preferential reduc-

[1] This subject has been treated in some detail in two papers prepared for the Committee on Manufactures (TD/B/C.2/25 and TD/B/C.2/36).

tions on imports from developing countries bring them closer to achieving equality of treatment with producers inside the national or multi-national markets, take into account the fact that they are at a lower level of development, and correct a situation where they have in actual fact disadvantages in comparison with imports from developed countries.

10. The establishment of a preferential system for all developing countries could prevent the proliferation of mutually exclusive preferential systems limited to some developed and some developing countries. The choice at present is not between maintaining m.f.n. treatment and establishing a general preferential system for all developing countries; it is rather a choice between a general system of preferences on the one hand and mutually exclusive preferential systems on the other. If no such general system could be established, it would be difficult to avoid a situation in which these developing countries which now do not enjoy preferences anywhere, would be granted preferences in at least some of the developed countries.

11. Preferences for the developing countries would be a means for correcting the increasingly disadvantageous situation of the developing countries' exports resulting from the formation of ever-increasing regional groupings among developed countries. Among the countries outside these groupings, the developing countries tend to be most vulnerable to such differential treatment since their cost structures and flexibility of production may be less able to absorb the new competitive disadvantages created by the discriminatory tariff margin in favour of the developed partners inside the regional groupings. As a result of such groupings and other preferential arrangements, almost two-fifths of the total imports of manufactured and semi-manufactured products of the developed countries from non-socialist countries are already on a preferential basis, but mainly from other developed countries. If additional developed countries enter EEC, as they have announced their intention of doing or if alternative free-trade arrangements are concluded between countries nonmembers of EEC, then more than half of the developed countries' manufactured and semi-manufactured imports would flow outside the m.f.n. system. In such a situation, it is difficult to assert that countries outside of these groupings are enjoying "most-favoured-nation" treatment. The formal application of the m.f.n. clause to developing countries means, in the conditions of today, granting what is in effect least-favoured-nation treatment.

D. The Doubts Concerning Preferences

12. Doubts have, however, been expressed regarding preferences. It has been stated that after the conclusion of the Kennedy Round, the remaining duties will be so low as not to constitute real obstacles for imports from developing countries.

Preferential margins that could be granted would be trivial and at any rate not sufficient to stimulate the developing countries' industrial exports. However contrary to the initial intentions, the Kennedy Round has in many cases not resulted in 50 per cent reductions of the existing tariffs. More important, the effective tariffs, even after the Kennedy Round, are still very high precisely on those goods which developing countries export and could expand in the immediate future. That tariff margins remaining after the Kennedy Round are still substantial in the eyes of developed countries is shown also by the continued interest of such countries in entering or becoming associated with the EEC.

13. It has been said that developing countries would not be able to stand competition in the highly competitive markets of the developed world, even if they enjoy equality of treatment with domestic producers of the latter. No doubt, for a certain number of goods, requiring considerable technological know-how, developing countries could not compete even if they were granted equality of treatment. On the other hand, there are several examples of developing countries successfully exporting manufactures and semi-manufactures to the developed world in spite of the fact that they have to overcome tariff barriers in these countries. If these barriers were removed such exports could probably be stepped up. Moreover, if firms in developed countries know that they can count on importing freely from developing countries, they would in all likelihood in many cases give serious consideration to establishing in developing countries some manufacturing processes which could be carried out there with cost advantages.

14. It is argued that developing countries should first concentrate on what they themselves could do for promoting their exports before insisting on what

developed countries could do for them. Accordingly, for example, it is suggested that developing countries will not be able to export, even if they are granted preferences, unless they eliminate internal obstacles to export and adopt sound export policies. Equally, it is said that they would not succeed in penetrating the highly competitive markets of the developed world as long as they feel the need to protect their industries by extremely high trade barriers against products of other developing countries. There is no doubt an important element of truth in these considerations. Benefits of the preferential system would only accrue to those developing countries that take the necessary national action that would make increased industrial exports possible. It is also true that for products which developing countries want to export to the developed world, they must be able to face a certain degree of competition in their own markets. Developing countries would indeed be well advised to pay greater attention to each other's markets because they could sell products there which might have difficulties in penetrating into developed countries' markets.[1] Action in these respects could be taken simultaneously with the introduction of the preferential systems. Moreover, the Trade and Development Board at its fifth session in August/September this year will examine what kind of action programmes developing countries could adopt to further their mutual trade.

15. Preferences are said to create a vested interest on the part of the developing countries against further reductions on m.f.n. basis. These countries might, after the establishment of a preferential system, favour the maintenance of non-preferential import duties in developed countries at the highest possible level. That such a risk exists as indicated by the fact that it has been especially difficult to reduce duties on items on which some developing countries enjoyed special preferences. It would, however, be short-sighted to try, in connexion with the setting-up of a general preferential system, to prevent the developed countries from further reducing the barriers on each other's trade. This might have advantages from the viewpoint of some short-term interests of the developing countries. But the freeing of world trade has been a powerful factor of growth in the developed world, and the retardation of this rate of growth would in turn ultimately have negative effects on the developing countries themselves. Such consequences are, however, not necessarily inherent in a system of preferences. It could be specifically provided that there would be no need to maintain preferential margins in favour of developing countries and that countries granting preferences would be able at any time to extend the duty reductions or eliminations on an m.f.n. basis. When conceived in this way, a preferential system for developing countries would be a step towards the liberalization of world trade as a whole in the sense that first priority would be given to reducing barriers on the imports from those countries that are most in need.

16. It is sometimes argued that only a few developing countries would benefit from the establishment of a preferential system. Inasmuch as only a dozen countries at present account for about 75 per cent of the developing countries' total industrial exports, it cannot be denied that these developing countries will, at the outset of the preferential system, probably enjoy greater immediate benefits. But these industrially more advanced developing countries are, at least in some cases, those where *per capita* income is particularly low or other development problems present themselves with particular acuteness. Moreover, with respect to other measures discussed in UNCTAD (related to primary commodities, financing, regional integration, etc.), less-advanced developing countries can often be expected to gain greater benefits than more-advanced ones, and it is clear that not every developing country can expect to obtain an equal advantage from every policy measure recommended by UNCTAD. This being said, it is possible and necessary to provide, in connexion with the establishment of a preferential sys-

[1] Why trade among developing countries cannot be a subtitute for increased industrial exports to the developed world has been explained in document TD/B/85, Chapter V, paragraphs 5 to 11. These reasons can be briefly stated as follows: first, developing countries experiencing balance of payments difficulties or depending on customs revenue for their national budgets, have greater difficulties in successfully negotiating trade liberalization among themselves than developed countries have. Secondly, even if such agreements are negotiated, the deficiencies of the infrastructural links between developing countries still give a greater advantage to imports from developed countries. Thirdly, it cannot be generally asserted that the markets of other developing countries are less competitive; for indeed, the large international firms of developed countries are very often also present in the markets of other developing countries. Lastly, the purchasing power of other developing countries is often so low that it cannot absorb the output of certain types of industry. To attain sufficient economies of scale, they also need access to the markets of developed countries.

tem, for special measures and mechanisms to ensure more effective participation by the less-advanced among the developing countries in the benefits of the system (see Part Three, Section E below).

17. It is pointed out that imports from developing countries might create unemployment in certain branches of industry in developed countries. Apart from the fact that under recent conditions of relative labour shortage in many developed countries, displaced labour could be more advantageously employed in technologically more advanced branches, the changes in industrial production that occur all the time as a result or technological developments are, in most cases, considerably greater than those which might result from imports from developing countries. Developed countries have accepted, in their regional groupings, commitments for the reduction of trade barriers which also caused fears in certain industrial sectors. On account of the gradualness of the entry into force of these commitments, and in view of maintenance of adequate over-all demand and provision for internal adjustment measures, the developed countries were perfectly able to cope with these problems. It is difficult to see why they should not be able to cope with similar problems that might result from imports from developing countries which have such a small share of world industrial exports. Considering the great size of the market in the developed countries, a manifold increase in imports from developing countries can be easily accommodated in the normal growth of the market. At any rate, provision can be made in the preferential system to take account of such problems of domestic producers (see Part Three, Section A below).

18. The establishment of a system of preferences has been said to involve particular disadvantages for those developed countries that are already partly or totally outside the large regional markets which have been formed in the developed world. In particular those countries might be hit that may not qualify as developing countries but that are on a lower level of industrial development than the bulk of the developed countries. No doubt, it can hardly be the purpose of a preferential system for developing countries that the weaker or otherwise handicapped developed countries should bear the main burden of the system. Special measures may therefore be necessary to safeguard the interests of such third-country suppliers, just as care is to be taken that domestic producers are not seriously injured by the establishment of the system. (See Part Three, Section A below.)

PART TWO

OUTLINE OF SPECIFIC ELEMENTS OF A PREFERENTIAL SYSTEM

A. THE OBJECTIVE

19. For examining the concrete features of a possible preferential system for industrial exports from developing countries, it is convenient to take as point of departure the system which the developing countries had themselves proposed at the first Conference on Trade and Development and reiterated at the May 1965 meeting of the Special Committee on Preferences. The essential features of this system are as follows: all developed countries should grant, for all manufactures and semi-manufactures toward all developing countries, duty-free preferential access to their markets without limitation on volume. The developing countries recognized, however, that the duration of the preferences should be limited in time and that it should be possible, under certain conditions, for the developed countries to exclude products from the benefits of the system and to apply safeguard clauses. On the other hand, the system should take into account the special needs of the less-advanced developing countries and provide, for those developing countries that presently enjoy preferences in developed countries, advantages at least equivalent to those which are now enjoyed so that these existing preferences can be suspended. Suitable international supervision will have to be provided for. The system summarily described is largely similar to that adopted as a working hypothesis by the Group on Preferences at its first session in August 1966 (see report on the session, TD/B/84).

B. THE QUESTION OF NEGOTIABILITY

20. A system along the lines just sketched would no doubt be the optimum solution for enhancing the developing countries' opportunities of exporting industrial products. Once there is clarity about the ideal solution, however,

there arises the much more difficult question as to what would be a negotiable or acceptable solution. This negotiability or acceptability will to a large extent depend on the manner in which the concrete features of a system take into account the concerns that have been expressed in the previous discussion on this issue (see Part One, section D above). An intimate knowledge and appreciation of each of the participating countries' negotiating problems would facilitate the finding of formulae leading to the establishment of a mutually satisfactory system.

21. When solutions are to be found to all these problems, it is unavoidable that some of the expectations which developing countries have attached to the setting up of a system of preferences will not fully materialize. There is a risk that the ways and means chosen to meet the concerns or special wishes of the participating countries would unduly weaken the effectiveness of the system itself, To avoid this consequence, it will be necessary to reconcile two equally important requirements: on the one hand, of providing for the developing countries substantially better access to the markets in the developed world and; on the other hand, of paying serious attention to the problems of negotiability and acceptability faced particularly by the governments of the developed countries.

C. The Problems Arising With Respect To Each of the Elements of a General Preferential System

22. When the system outlined in paragraph 19 above is to become the object of a concrete commitment on the part of the developed countries, the following negotiating problems are bound to arise in relation to each of its elements:

(a) With respect to the aim of granting duty-free access without limitations on volume, assurances will have to be provided to producers in the developed countries to safeguard them against a conceivable negative impact of the system on their essential interests. Various measures can be envisaged for this purpose: should an escape clause be provided for, to be applied only in case of serious injury occurring to producers of developed countries, or should the volume of admissible preferential imports or the extent of the duty reduction already at the outset be limited for all products? Would provision have to be made for the various methods to be applied to safeguard only essential interests of domestic producers or should interests of third-country suppliers of the developed countries concerned also be taken into account?

(b) With respect to the aim of including all manufactures and semi-manufactures, certain items of processed agricultural products in some countries as well as highly protected industrial products including those still under quantitative restrictions, present special problems. Ways and means should be found for including processed agricultural products even where the high trade barriers sometimes reflect the protection granted to the domestic agricultural raw material that has been used. Due account will have to be taken of how to deal with products now subject to quantitative restrictions. Provision may have to be made for enabling individual developed countries to exclude from the beginning certain items from the scope of the preferential system, while at the same time ensuring comparable participation by the various developed countries.

(c) With respect to the aim that all developed countries should grant preferences, the question arises whether the establishment of the system should be made conditional on the participation of all these countries. Furthermore, it must be considered whether all should apply essentially the same system and how account might be taken of differences in the degree of industrialization of these countries and of the special foreign trade régimes of the socialist countries of eastern Europe.

(d) With respect to the aim of granting preferences to all developing countries, the question arises as to which countries are to be regarded as developing. Special consideration will have to be given to the problem of so-called borderline countries.

(e) With respect to the special needs of the less-advanced among the developing countries, the countries concerned should be able to rely on the solutions envisaged, while at the same time the system should not become too complicated to operate for the developed countries.

(f) With respect to the duration, the solutions envisaged would have to ensure the temporary nature of the system, while at the same time enabling the late-comers to industrialization to count on preferential access for a sufficiently long period.

(g) With respect to the suspension of the existing systems, or their absorption insofar as they relate to manufactures and semi-manufactures, the problem arises as to how to appraise and secure the equivalence of the new system with the old ones. Solutions may also have to be found for the question of reverse preferences.

(h) With respect to the need for suitable international review, care will have to be taken that the institutional framework chosen for this purpose would include all participating countries and thus be of a universal nature.

23. It is the purpose of this report to show how all these special problems can find adequate solutions within the framework of a general preferential system. Accordingly, the adaptations of the ideal systems that are necessary to take into account the various considerations of negotiability would be introduced as exceptions to, or qualifications of, the general applicable across-the-board rules. In particular, the targets for tariff eliminations or reductions and the means for possible limitations of the volume would in principle be the same for all products and for all developing and developed countries. Of course, the provision of exceptions to these targets would result in introducing elements of flexibility and selectivity into a general system of preferences. This selectivity would, however, have to be exercised in conformity with certain guide-lines and uniformly applicable criteria. The extent to which such selectivity could be applied would also be limited.

24. A basic distinction must, however, be made between a general system of preferences that provides for the introduction of elements of selectivity and a selective system of preferences. In a system of the latter type, no general applicable targets for duty reductions would be set. The means for, and extent of, volume limitations would also vary from product to product and from country to country. While some general guidelines as to the margin of preference or the admissible volume might be included in such systems, their characteristic is that each developed country or group of countries would itself decide which action to take with respect to each item or each group of items. In a selective system, it might even be provided that the countries which grant the preferences could decide which would be the beneficiaries of these preferences. This would greatly facilitate the acceptance of a system of preferences by various developed countries as they could take into account, with respect to each item, the domestic and third-country suppliers' interests as well as the interests of those developing countries with which they have special links. But there would be great uncertainty as to whether the preferences to be granted would then really be substantial and of any real assistance to the exports from developing countries. Since tariff rates and/or tariff quotas applicable to the developing countries would vary from product to product, laborious item-by-item negotiations on a multitude of products may be necessary. There would be a risk that non-economic criteria would be applied in deciding on the concessions to be granted. Also, the administration of such a system would pose special problems in view of the fact that the situation may be different with respect to each product. There would be no assurance of burden-sharing among developed countries, nor would it be possible to absorb or suspend existing systems since they are general and not selective in nature. The establishment of a selective system of preferences would therefore be inconsistent with the proposal made by the developing countries and with the working hypothesis adopted by the UNCTAD Group on Preferences (TD/B/84).

25. For these reasons, the possible application of a selective system of preferences is not examined further in the present report. Also, in such a system the various problems such as the replacement of existing systems, the definition of products and countries eligible for preferences, and the treatment of the less-advanced developing countries, present themselves in a completely different light and call for substantially different solutions from those envisaged in connexion with a general preferential system. The following chapters of this report therefore concern only the technical ways and means of implementing a general system of preferences.

D. The Various Interdependent Means for Limiting the Impact of a Preferential System on the Developed Countries' Interests

26. Among the preoccupations affecting the negotiability of a system, the most important ones are likely to be, first, the effects of the preferential system upon domestic producers and, secondly, its consequences upon trade relations among developed countries, i.e., with countries to which the most-favoured-nation clause would continue to apply. The first aspect is a familiar one: in all negotiations on the reduction of trade barriers, governments are concerned with the need to avoid undue damage to their country's domestic producers. The second aspect is, however, novel and specific to the establishment of any system of preferences including preferences among members of a regional grouping. Third-country suppliers to the developed countries granting the preferences may be affected because, contrary to what happens in reductions on the traditional m.f.n. basis, the conditions of access for third countries would not improve, but might rather deteriorate. This type of preoccupation may also have to be taken into account when considering the means of improving the negotiability of the system from the developed countries' point of view. It should, however, not be forgotten that the fears of domestic producers in connexion with trade liberalization commitments have in the past in most cases not been borne out by the subsequent developments. As to the interests of third countries, no special measures were provided in their favour when certain developed countries freed trade among themselves within regional groupings. To the extent that third developed countries possess technological superiority and differenciated industrial structures as compared to developing countries, they might be in a better position to offset the new preferential advantages envisaged for the developing countries than may have been the case with respect to the similar advantages granted to developed countries within these regional groupings.

27. For dealing with these preoccupations and safeguarding what developed countries may regard as their essential interests, a variety of means enter into account:

Narrowing the product coverage;
Providing for mere duty reductions in lieu of duty abolitions;
Limiting in advance the volume of imports that would in any case be admitted at the preferential rate;
Providing for an escape clause that would permit partial or total withdrawal of preferential treatment in case of serious injury to producers in developed countries.

28. Each of the methods listed can be used for limiting unfavourable effects of the preferential system on the interests of domestic producers or third-country nonpreferential suppliers. Moreover, the more the developed countries can rely on resorting to one or other of these means, the less they are likely to need the others. Thus, if the definition of the list of semi-manufactures is very wide and includes for instance the early stages of processing of agricultural primary goods, the more the developed countries might feel that they need possibilities to limit in advance the volume and the depth of reductions. If, on the other hand, the product coverage does not include certain sensitive items, the developed countries are likely to be more relaxed about the advance limitations of volume, the depth of the reduction or the escape clauses. Finally, if the volume is limited in advance or mere duty reductions are called for, the narrowing of the product coverage becomes a safeguard instrument of lesser importance from the point of view of the developed countries. This mutual interdependence of the various possible safeguards has to be taken into account in the discussions and negotiations leading to the establishment of a preferential system. Otherwise, seemingly satisfactory solutions for the interests of the developing countries with regard to one of the techniques may be frustrated by provisions regarding another. For the developing countries to avoid losing on one score what they gain on another, the total picture must constantly be kept in mind and evaluated.

E. The Safeguard Arrangements as a Key to Distinguishing Among Various General Preferential Systems

29. Not only do the various means of safeguard depend on each other, but also the solutions to be found for the basic elements of a preferential system depend on the kind of safeguard provided for in the system. For example, the question

of the suspension of existing preferential systems, as well as that of the special arrangements for the less-advanced countries, presents itself in somewhat different terms if the volume admissible at the preferential rate is, in principle, unlimited and the tariffs are eliminated or if provision is made for volumes limited in advance or for mere tariff reduction.

30. It would therefore appear to be a proper methodological approach first to analyse the various safeguard techniques that can be provided, starting with the escape clause and the limitations to the admissible volume and to the depth of the tariff cuts. The other elements of a preferential system would be examined subsequently, and with respect to each of them it would be shown to what extent the solution might have to differ depending on the safeguard arrangements chosen. According to this methodology one might in theory distinguish three different approaches to general preferences based on largely uniform commitments by all developed countries:

(a) A system based on the escape clause (hereafter referred to as the "escape-clause system"): the assumption is that under this system duties would be eliminated and that there would be no advance limitation of the imports admissible on a preferential basis. Developed countries could, however, resort to an escape clause if certain criteria and conditions are fulfilled. In application of the escape clause, the volume of the imports and/or the scope of the reductions could be temporarily limited when serious injury to producers in the developed countries is caused or threatened.

(b) A system based on tariff quotas expressed in terms of a percentage of consumption, production, or total imports of a particular item (hereafter referred to as the "tariff-quota system"). One assumption is the percentage would be identical for all products for which preferences have to be granted and that duties would be eliminated on an import volume corresponding to the quota. Even if there is no threat or injury to producers, the importing country could impose the m.f.n. tariff on imports exceeding this quota.

(c) A system based on a uniform duty reduction on all items for which preferences have to be granted (hereafter referred to as the "duty reduction system"). The assumption is that under this system the volume would not be limited in advance, but could be limited only if the criteria and conditions for the application of an escape clause are fulfilled with regard to a specific item.

31. Of course, a combination of the three above systems can also be imagined. For instance, it would be quite possible to combine the tariff quota system with an across-the-board tariff reduction rather than with duty-free entry. There are practical reasons why only the three systems mentioned above will be referred to in the subsequent chapters of this report: the developing countries' proposal is an escape clause system with *duty-free entry*. As to the uniform tariff-quota system, one of the main arguments for it is that it would grant duty-free entry to industrial imports from developing countries. As to the reduced duty system, the limitation of the depth of the reductions would already constitute a safeguard for developed countries so that it could in this case less easily be argued that in addition a general tariff quota would be necessary; the reduced-duty system is thus discussed on the assumption that it would be combined with an escape clause only.[1]

Part Three

ANALYSIS OF EACH OF THE ELEMENTS OF A PREFERENTIAL SYSTEM

A. Techniques of Limiting the Impact of Preferential Imports on Producers in the Developed World

(1) THE APPLICATION OF AN ESCAPE CLAUSE

(a) Its operation and advances

32. In order that reductions of trade barriers agreed upon by an importing country do not lead to serious injury to domestic producers, the country is usually enabled temporarily to suspend the obligations, provided certain conditions are met. Considerable practical experience is available with regard to the

[1] It is also possible to envisage a system that combines certain characteristic features both of the escape-clause and of the tariff-quota system, but for simplicity of exposition and analysis, the pure forms of each system are being discussed at this time.

operation of such an escape clause since it is provided for in GATT, EEC, EFTA etc., though the details differ. An escape clause could therefore be incorporated into a preferential system for developing countries' industrial exports. Accordingly, imports at preferential rates of a particular item into a developed country would in principle be unlimited, but if as a result of the preferences any product is being imported in such increased quantities as to cause serious injury to domestic or third country producers of like or directly competitive products, application of the preferential tariff could be in principle fully or partially suspended temporarily.

33. The advantages of this system is that it places no limitations on the volume of imports enjoying preferential treatment. For this very reason, it also possesses the second advantage of not appearing to offer less than the existing preferential systems between some developed and some developing countries, since these systems do not normally provide for an *ex ante* limitation of preferential imports. Thirdly, the system does not give rise to administrative complications because limitations would only be established in the presumably few cases where real injury occurs. Fourthly, in an escape-clause system it would be possible to direct the remedial action against that developing country which is causing serious injury; the limitations need not be applied to the imports of the other developing countries.

(b) The problems, and ways of dealing with them

34. The escape-clause system also gives rise, however, to some problems that may to some extent be taken care of by specific provisions.

35. The escape clause is usually resorted to unilaterally by the importing country which relies on its own judgment as to whether a sufficiently serious injury has occurred. Once the action is taken, it is as a rule difficult to induce the country concerned to reverse it soon, though the temporary character of the limitations and special review procedures may be provided for. Developing countries might therefore fear a cessation of imports at preferential rates as soon as some problems arise in the importing country; this may make it more difficult for them to plan their exports and to count on a certain volume being admitted in all circumstances on preferential terms.

(i) One of the ways for dealing with this problem would be to provide that the importing country would have to ask for prior approval by a suitable international institution before it can resort to an escape clause. Within the EEC such prior approval is provided for because it is consistent with a series of other provisions establishing close economic solidarity between the member States. In GATT, EFTA and indeed in a grouping of developing countries like LAFTA the escape clause, though subject to consultation, can however ultimately be invoked unilaterally. It may therefore be questioned whether the developed countries would be able to accept that their right to defend what they may regard as their vital national interests could only be exercised subject to the prior approval of an international body. Moreover, if recourse to the escape clause is to require prior approval, developed countries will tend to insist on a narrower product coverage and might tend to opt in favour of a tariff quota or reduced duty instead of a duty-free system. If it is recognized, however, that developed countries can unilaterally invoke temporarily the escape clause in an emergency, they should, however, submit to consultation procedures as soon as possible.

(ii) An alternative, more acceptable, means of giving a minimum guarantee to developing countries' exporters might be to provide that in the case of the application of an escape clause the importing country could not—even temporarily—suspend preferential treatment altogther, but would have to maintain it for a minimum volume to be defined. The developing country would thus be able to count on a minimum guarantee that would be admitted in all circumstances. On the other hand, the domestic producers of the developed countries would in this way be assured against contractions of the absolute volume of their production.

36. The escape clause may be regarded as involving the risk that some developed countries would apply it sooner than others even if there were no threat of a serious injury. Some developed countries may then bear a larger share than others of the burden which additional imports from developing countries might constitute. It might lead to additional pressures on the domestic market of the more liberal developed countries, inducing them to take restrictive measures in their turn.

(i) It is true that there is also some risk of abusive recourse to the escape clause with respect to concessions made on a most-favored-nation basis as in GATT; but it is probably much smaller because such concessions are granted on the basis of reciprocity: when resorting to the escape clause, the country is aware that concessions granted to it may be withdrawn in turn. This inhibiting effect is less likely to exist with respect to developing countries, which would not grant any concessions in return for the preferences they would receive.

(ii) It should however be possible to reduce any such risk to manageable proportions. In addition to the minimum guarantee as examined under paragraph 35(ii) above, special review procedures might be provided for in all cases where an escape clause is applied. Accordingly, the country might be obliged to report, after resorting to the clause, to UNCTAD on the progress made toward re-establishing preferential treatment or, as the case may be, on the reasons for not having done so. The report might also have to include a detailed account of the industrial adjustment measures the country plans to take with a view to being again able to grant preferential treatment. These reports might form the basis for a consultation and review procedure.

37. The escape clause might be regarded by third developed-country suppliers as an insufficient guarantee against trade diversion occurring to their detriment. Though it could be provided that the importing developed country can resort to the escape clause in case of serious injury to the detriment of its traditional developed-country suppliers, the third country would indeed have no certainty that the importing country would actually use this possibility. It might therefore be provided that the importing developed country would have to take suitable measures if as a result of the granting of preferences, imports from other developed countries decreased in absolute terms or have a substantially reduced share of the market. One of these measures may be to reduce the m.f.n. tariff. Institutional procedures may also have to be provided for.

38. A special problem may arise between those countries participating in a general preferential system that on the basis of existing bilateral or multi-lateral agreements between them may, under certain conditions, apply quantitative restrictions to safeguard domestic producers against serious injury. This consequence can be avoided if the partners to existing agreements agree that in case of injury they would first reimpose m.f.n. duties as a protective measure and would resort to quantitative restrictions only if after a reasonable period of time the restoration of m.f.n. treatment had not yielded adequate results. Moreover, it should not be possible to apply quantitative restrictions to the imports from the developing countries alone.

(2) THE PROVISION OF A UNIFORM TARIFF QUOTA

(a) The various forms of its operation

39. Instead of making the limitation of the volume dependent upon the occurrence of a serious injury, it is possible to conceive of a system according to which each developed country would be expected to admit duty-free only a certain predetermined volume of imports corresponding to a certain percentage of domestic consumption, production or total imports of the item concerned. The percentage chosen might be the same for all products and all importing countries. As soon as the imports from the developing countries as a whole were to reach this ceiling, the developed country could without further justification subject additional imports of this item to the m.f.n. tariff. The importing country could take this action even if no injury was caused. Of course, the reference period on which consumption, production or import figures would be based would have to be adjusted at regular intervals. Even if the tariff quota had been filled in one year, it would be possible for all developing countries to avail themselves of the tariff quota in the next year.

40. An alternative form of the tariff-quota system would be to use it to withdraw preferential treatment from those developing countries which with regard to a particular item would have shown that they are particularly competitive. To achieve this purpose, it may be provided that preferential treatment could be withdrawn from the imports of that developing country which would take up more than a certain percentage (for instance, 33 per cent) of the tariff quota. The consequence of such action would be to grant to the other developing countries, and particularly to newcomers, the opportunity of taking up the share of

the quota which had hitherto been taken up by the first-mentioned country. The withdrawal of preferential treatment could be gradual; licenses under the tariff quota would remain available to the first-mentioned country inasmuch as the other countries would not use them.

41. This system of automatic exclusion of a particular country for a particular item has the advantage of providing for a certain rotation among the countries benefiting from the quotas. At first sight, the statistical criteria used would also have the appearance of avoiding arbitrariness in excluding the really competitive countries. This is, however, not necessarily the case. It may well be that a country is excluded though it is not responsible for the fact that the particular developed country felt the need to apply the tariff quota. It is indeed quite possible that the particularly competitive imports come from a country that would take up only a small percentage of the quota. The method would also work against the main supplier developing countries because their productive capacity is such that they can probably more easily reach the percentage than smaller developing countries. Another result of the application of the quota and of the exclusion of some countries would be that with respect to many items, there would be different lists of countries benefiting from the preferential system. Since these lists might have to be adjusted whenever a tariff quota is filled and the exclusion procedure applies, this might be regarded as an administrative complication.

42. To take in to account the possible objections to the system described in paragraphs 40 and 41, a third variant may be conceived according to which it would be provided that a certain percentage of the tariff quota (for instance, 20 per cent) would every year be reserved to newcomers, i.e., non-traditional suppliers. If this reserve were unutilized, it would be carried over to the next year and become available to all developing countries. This method would be an intermediate one in the sense that non-traditional suppliers would always be able to count on an opening while traditional or important supplying countries would not risk being excluded altogether from the benefits of the preference (as may happen under paragraph 40).

43. The methods listed under paragraphs 40 and 42 would provide largely automatic statistical criteria for progressively excluding particularly competitive suppliers and/or for admitting newcomers. Another way of avoiding arbitrariness might be to have the institutional framework regularly reviewed and decide upon a case-by-case basis or upon pragmatic criteria to be evolved gradually.

(b) Its advantages

44. An appraisal of the probable results of such a system would, of course, depend on the size of the uniform quota. If the tariff quota is large, few problems would arise; if it is insufficiently large, the problems examined under sub-section (2) (c) below would be considerable. On the assumption that the size of the quota is reasonable from the point of view of the developing countries' export capacity, the following advantages can be seen in this system.

45. The tariff quota could constitute a guarantee for the developing countries that preferential imports from them could not suddenly be stopped for alleged market disruption. This would enable developing countries to plan better their exports to the various developed countries' markets.[1]

46. A uniform tariff quota for all products would make it possible to define industrial products broadly, for it would be clear that the domestic producer would only have to accept competition from developing countries for a relatively small percentage of production, consumption or total imports. Developed countries' governments would be able to argue that the domestic or third-country producers should be able to stand competition for such a very minor share of consumption, production or imports. This would certainly make it easier to deal with domestic objections to a preferential scheme.

47. There would be an appearance of burden-sharing among developed countries because each of them could count on their partners taking up a similar amount of exports from developing countries (see, however, paragraph 51 below).

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[1] Such a guarantee would, however, only exist if countries parties to existing international arrangements that permit the imposition of quantitative restrictions in case of injury to domestic producers adapt them so as to ensure that such restrictions cannot be applied before the tariff quota is reached and before the m.f.n. treatment has been again applied for some time (see paragraph 38 above).

48. The existence of pre-determined tariff quotas would allow third countries to measure exactly in advance the risks to which they would be subject. It could, indeed, be provided that the importing developed country would impose the tariff quota as soon as imports had reached the ceiling and a third developed country had asked for it being imposed.

(*c*) *Problems common to all tariff-quota systems*

49. After listing the advantages of a tariff-quota system, it may be useful to examine the problems which arise in connexion with it. Some of these problems are common to tariff-quota systems whether they are based on percentages of consumption, production or total imports, while other problems are characteristic either for a system based on a percentage of consumption or production, or for a system based on a percentage of imports. Among the common problems the following can be mentioned.

50. A system based on generalized tariff quotas would require the introduction by developed countries of statistical control and further administrative arrangements. Rules for the utilization of the quotas would have to be set up, and it would be necessary to prevent abuses. To enable the developing countries to gain the advantages of exporting at preferential rates, the importing countries would therefore have to accept some administrative complications. In actual fact these inconveniences would, however, be of rather limited scope. Indeed, in the case of most products, the export capacity of the developing countries as a whole might likely remain far below the quota even if the latter amounted to a relatively small percentage of consumption, production or total imports. Invocation of the quota need therefore not occur before imports come close to this ceiling. And even if the imports attain the amount of the quota, each importing country would be free to decide whether or not to impose the quota; the insitution of the quota could be limited to those cases where a domestic producer or a third developed country would specifically be asking for it. In determining the rules for applying the tariff quotas, the experience of the countries that presently already apply tariff quotas would be very useful.

51. A general tariff quota may be said to limit preferential imports unnecessarily, for it could be applied even in the absence of any injury. The tariff-quota system can thus be regarded as establishing a presumption that in all or most cases there is a risk of injury though in reality it is likely that in most instances no problems for the importing country would arise. Moreover, it has been pointed out that to argue in terms that imports should be limited to a certain share of the market has often been the practice of protectionist elements, and to establish the whole system of preferences on this basis might conceivably give impetus to such elements.

52. It may be argued that the burden-sharing implied in a uniform tariff quota is only apparent. Indeed, the ratio between present imports from developing countries on the one hand and consumption, production and total imports on the other hand vary widely from item to item and from country to country. For some items, present imports at m.f.n. rates into some countries may already exceed the tariff quota while in other countries such imports would still be far below the ceiling. On some items, some developed countries might have to accept additional imports and others none at all. The additional burden represented by the preferential system would, therefore, with respect to some items, fall on some countries and with respect to other items, on other countries. In reply a partial analogy may be drawn by recalling that for aid the developed countries have accepted a uniform target in terms of a percentage of the gross national product. Accordingly, a uniform percentage may be regarded as acceptable with respect to imports from developing countries, for indeed the uniform percentage of the gross national product also involves different *additional* commitments by each developed country.

53. There is the undeniable risk that if a small percentage of consumption, production or total imports is chosen as an upper limit for granting preferential entry, most products presently exported from developing countries may not enjoy the benefits of the new system. In many cases present imports from developing countries would already exceed the tariff quota so that preferences could not help promoting additional imports. It might be considered, however, that this shortcoming would not be such as to reduce intolerably the value of a preferential system for developing countries' industrial exports. It may indeed be argued that the products which have hitherto been exported constitute only a very small share of the items of the tariff nomenclature, and that this would be counter-

balanced in the long run by the fact that for all the other products countries would be able to enjoy the preferences under the tariff quotas even if the percentage appears to be small. Also, products which have already proven their full capacity of competing in the markets of developed countries, can be said to be hardly in need of preferential advantages. On the other hand, if preferences are justified not merely because the *industries* are in the infant stage, but on the basis of the infant *economy* argument, even such exports should enjoy preferences without being limited to the tariff quota.

54. The definition of the product to which the tariff quota would apply is likely to prove one of the more difficult problems. Developing countries would naturally wish to have such a broad definition as to mitigate the tariff quota restraint on certain sub-items. Importing countries on the other hand will tend to define the product so narrowly as to make the tariff quota apply precisely in relation to those sub-items which developing countries are supplying. To avoid such excessive breakdown that would frustrate the purposes of the system, it would be necessary to lay down certain guidelines combined with a review procedure.

55. Lastly, there is the problem that a system of tariff quotas would make it more difficult to absorb or suspend existing preferential systems which appear not to place any limit to imports (for further discussion see section C below).

(*d*) *Considerations specifically related to a tariff-quota system based on a percentage of consumption or production*

56. Consumption and production figures are in most cases either not available at all or not available with respect to the items as classified and identified in import statistics or tariff nomenclatures. This need be an obstacle because consumption or production figures will only be required for those relatively few items where total imports from developing countries would be substantial enough to reach the percentage expressed in terms of the usually very large consumption or production of a developed country of the item concerned. Only if a domestic producer or a third country wants it, would the tariff quota have to be calculated. At least as far as the domestic producers are concerned, it can therefore be expected that they would supply the figures necessary for defending their own interests.

57. To base the ceiling on a percentage of consumption or production, may in some cases be particularly disadvantageous to third developed-country suppliers. Indeed, when an importing developed country or group of countries possesses a large internal market and relatively high tariff, its total imports of a particular item from all countries may be smaller than the tariff quota available to the developing countries. For in these cases total imports may be very small in terms of a percentage of consumption or production of a particular item. Third developed-country suppliers would then be at a disadvantage with respect to developing countries for their total exports of that item to the developed markets concerned. The burden on third developed countries would in those cases be greater than that which domestic producers would have to bear, though from a rational economic point of view it may be argued that the latter rather than the former should be expected to adjust their pattern of production. This problem may to some extent be remedied in a system where the tariff quota is calculated in terms of a percentage of total imports.

58. On the other hand, to take consumption as the basis for calculating the ceiling is likely to have greater advantages from the point of view of developing countries than to calculate the limitation in terms of production or particularly imports. In case of production, countries that do not produce a particular item might escape the granting of preferences on a few items. In the case of imports, protectionist countries could take advantage of their generally restrictive policy for continuing to exclude imports from developing countries. Consumption, however, is considerable in all developed countries, and a percentage of consumption may in nearly all circumstances mean fairly substantial quantities. Everything will, of course, depend on the percentage chosen. Combinations might also be envisaged; for instance, one in which the tariff quota would have to amount to x per cent of domestic consumption but need not amount to more than y per cent of total imports of a particular item.

(*e*) *Considerations specifically related to a tariff-quota system based on a percentage of total imports*

59. A tariff-quota system based on a percentage of total imports would, as already mentioned, presumably be of lesser interest to developing countries. For

preferences can be of interest to developing countries particularly in those cases where they would enjoy free access to otherwise highly protected markets and where therefore the margin of perference is high. Where there are such tariffs, total imports are likely to be small, so that a tariff quota calculated on this basis would also be small. On the other hand, such a system may present some advantages for the reasons listed in the following paragraphs.

60. A tariff-quota system based on total imports may be advantageous for third developed supplier countries. To fix the upper limit in this manner would provide an assurance to the latter countries that the imports from developing countries that would be admitted on preferential terms could not exceed a certain percentage of total imports of a particular item.

61. To express the volume limitation in terms of a percentage of imports may result in some advantage for developing countries in case of further reductions on an m.f.n. basis. While such reductions would reduce the developing countries' margin of preference, they are also likely to lead to an increase in total imports. Though percentage-wise the tariff quota would remain the same, the increase in total imports would lead to an automatic increase of the volume admitted under the quota. Tariff quotas expressed as a percentage of total imports might therefore facilitate a possible increase in preferential imports without hindering further reductions on an m.f.n. basis.

62. Finally, if the percentage is expressed in terms of total imports, it is statistically much more easily ascertainable because in contrast to consumption and production figures, import statistics are available and more reliable. This would also mean that the developing countries could assess more easily the possibilities of the volume admissible under the tariff-quota system being fully taken up; they could, therefore, for instance, agree to discipline the rate of increase of their exports to obviate the formal establishment of a quota.

(3) THE EXTENT OF THE DUTY REDUCTIONS

63. A major justification for granting the developing countries duty-free entry is the existence and possible extension of large multi-national markets in the developed world. A mere duty reduction on a preferential basis would still leave developing countries at a disadvantage in relation to those of their competitors which are producing within these multi-national markets. To obtain equality of treatment with them, imports from developing countries would also have to be admitted duty-free.

64. An additional reason for abolishing duties would be that existing preferential systems provide in many cases for duty-free entry. It would be more difficult to absorb or suspend existing systems if the new preferential system only provided for preferential duty reductions (see section G below for further details).

65. The mere reduction of duties, on the other hand, would cause less concern among producers in the developed countries than would an abolition of duties. Developed countries might therefore be willing to envisage a wide product coverage of the preferential system. Also the case that may be made for general tariff quotas would be weaker than in case of general duty elimination.

66. It might be argued that mere duty reductions would make it easier to present the preferential system as an anticipation of cuts that would ultimately be extended to all countries on an m.f.n. basis. It would presumably be easier, in eventual future negotiations on an m.f.n. basis, to catch up with duty reductions than with outright duty elimination.

67. If the importing countries had only the all-or-nothing choice between eliminating duties or excluding the item from the scope of the preferential system altogether, opportunities for making more limited progress in the form of mere reductions might be lost. If one were to find a way for providing, in lieu of complete exclusion, for preferential duty reductions, it may be hoped that the developed countries would include more of the so-called competitive items within the scope of the preferential system.

68. One may try to compare whether developing countries would have a greater interest in obtaining an across-the-board duty reduction for all items with no advance limitation of the volume, or an across-the-board duty elimination, but linked to a uniform tariff quota fixed in advance. Such a comparison is difficult to make in the abstract, all the more because it will depend on the margin of the duty reduction envisaged and on the relative size of the tariff quota. One may,

however, consider that obtaining zero duty and thus equality of treatment with domestic producers in developed countries on the vast majority of items of the tariff nomenclature would ultimately—even in connexion with a uniform tariff quota—be more important than getting an across-the-board duty reduction which may remain insignificant as far as the so-called competitive items are concerned and insufficient for stimulating exports in new products.

69. The case for providing for mere tariff reductions presents itself, however, in a different light if it is to be a mere complement to a system based essentially on tariff elimination. When there are serious obstacles to complete tariff elimination for particular items, it is conceivable to envisage that tariff reductions could be regarded as an alternative, provided certain conditions are met that could be defined in advance.

70. While, on balance, tariff zero either in an escape clause or a tariff-quota system will appear to be preferable, a case can be made out for enabling the developed countries to attain this objective only gradually. The fact that the reduction process was stretched out in EEC and EFTA over a period of about ten years and in the United States Trade Expansion Act over five years, contributed considerably to the political acceptability of the respective schemes. Producers would have time to adapt themselves, and the case for excluding items from the beginning would be weakened.

B. The Products on Which Preferences Would Be Granted

(1) The objective and the problems involved in attaining it

71. According to the proposal of the developing countries and the working hypothesis of the Group on Preferences, preferences should, in principle, be extended to all manufacturers and semi-manufacturers from developing countries. The wider the product coverage of a prefesential system, the larger would be the field open for investors to choose production lines that could be located in developing countries with a view to exporting toward the developed world. To limit the preferences to those products which are presently produced in developing countries would unnecessarily narrow the scope of the system; past experience shows that various countries have in the last decade made rapid advances from a state of under-development and have started producing and exporting goods which could hardly be foreseen only a few years back. Also to grant preferences only on the presently produced items would concentrate the attention of developing countries on lines of production for which developed countries often fear market disruption and tend to want to exclude from the system in one way or another.

72. However, to include all manufactures and semi-manufactures raises some problems. Every country will indeed have some items which it regards as sensitive and which it would want to except from the preferential system. Even in the Kennedy Round where an across-the-board approach was aimed at, all major developed countries submitted a list of exceptions. Among the products whose inclusion in a preferential system is likely to be called in question, two categories deserve particular attention.

73. It would be of considerable importance to the developing countries that the definition of what are semi-manufactures and manufactures extends as far as possible into the early stage of processing of primary products and particularly of processed agricultural products. Yet, such products are in some cases highly protected partly inasmuch as these processing indutries are obliged to use domestically-produced agricultural raw materials whose high price is partially reflected in a high tariff or other protection on the processed product. In such cases to eliminate completely the duty on the finished product might mean that these domestic processing industries would—for reasons unrelated to the efficiency of their transformation process—be put at a disadvantage with respect to imported goods produced from cheap raw materials. If the processing industries were to suffer as a result of this complete duty abolition, domestic agriculture might also be affected in those cases where a significant share of the agricultural output concerned is taken up by these industries. Developed countries may, therefore, be hesitant to include in the preferential system such products close to the agricultural sector though they may often be of particular importance for the less-advanced among the developing countries.

74. When considering the various possible ways of dealing with processed agricultural products, it might therefore be taken into account that existing trade barriers on these products generally may be regarded as containing both