

provoke action on the part of the contracting parties. For example, in the case of the meat import quota legislation of 1964 no complaint arose in the GATT, presumably because the prescribed quotas did not have the effect of reducing imports. It is only if the import quota has the effect of impairing the value of a tariff concession—if the trade flows involved were affected—that there would be a basis for a material grievance.

Since what is contemplated is the negotiation of agreements under which the total level of textile imports would not be rolled back, and, under which some growth in imports would be allowed, the U.S. Government would have a strong basis, both in GATT law and practice, to defend against any action by the contracting parties calling for compensation and retaliation. The only argument that could be advanced to the contrary would be that the existence of the quotas prevented sales of textiles to the United States from growing as much as they might otherwise grow. It would be very difficult to quantify such a concept. Moreover, one is reminded of what President Truman once observed in vetoing a Tariff Commission escape clause recommendation, to the effect that injury does not exist when one has failed to achieve what one never had.

Subsidies paid by foreign governments on sales of textiles to the United States are creating conditions of unfair competition and market disruption.

The Italian Government, for example, rebates to wool textile exporters the integrated rate of the general turnover tax. In addition, of course, Italian exports including all textiles, receive a rebate of the transactions tax in the amount of 6 percent of the export value together with a refund of certain manufacturing taxes.

Italy and the other member states of the European Economic Community have agreed to adopt a value-added tax system by 1970. Preliminary appraisals indicate that, for the EEC as a whole, the new system will further increase their export rebates on textile sales to the United States. While this is not a violation of GATT rules, it is certainly an unfair trade situation.

Taiwan has surpassed Italy in imaginative export subsidization. Cotton textile exports receive rebates of import duties, defense surtax, harbor dues, and commodity taxes.

In Mexico, the government provides subsidies, sales tax rebates, and special finance facilities for textile exporters. Brazil not only exempts exports from the Federal consumption tax but also from certain State and consignment taxes while allowing the exporter to retain up to 100 percent of foreign exchange proceeds for his import requirements.

The Japanese Government provides many special forms of export insurance, including investment, price, loan, and overseas advertising risks. Further, exporters are permitted to reserve up to 5 percent of their export proceeds for foreign market development. This is a tax deductible expense even if not spent. This, too, applies if the exporter is also the manufacturer except that in this case 1.5 percent of export contracts' income may be placed in reserve to be written off 5 years after their establishment. Similar aids and benefits accrue to small or medium enterprise under the Small and Medium Enterprise Reserve for Foreign Market Development. MITI (Ministry for International Trade and Industry) authorizes firms in this category to effect a tax