381

THE FUTURE OF U.S. FOREIGN TRADE POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETIETH CONGRESS

FIRST SESSION

JULY 11, 12, 13, 18, 19, AND 20, 1967

Volume I

Printed for the use of the Joint Economic Committee

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	JACOB K. JAVITS, New York
	JACK MILLER, Iowa

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CONGRESS OF THE UNITED STATES, JOINT ECONOMIC COMMITTEE

REPRESENTATIVE HALE BOGGS ANNOUNCES STUDY OF U.S. FOREIGN TRADE POLICY

JUNE 19, 1967

Representative Hale Boggs (D-La.), Chairman of the Subcommittee on Foreign Economic Policy and the House Majority Whip, today announced that his subcommittee would undertake a broad reassessment of U.S. foreign trade policy.

The subcommittee will begin its study by holding a series of hearings in July. The lead witness at the hearing of Tuesday, July 11th, will be Ambassador William H. Roth, the President's Special Representative for Trade Negotiations. Testimony of congressional delegates to the Kennedy Round negotiations will be heard Wednesday, July 12th. On Thursday, July 13th, distinguished foreign observers have been invited to give their views on the position of the United States in the trading world of the future; the Honorable Kenneth Younger, Director of the Royal Institute of International Affairs, London, and Dr. Aurelio Peccei, Executive Manager of Olivetti, Milan, will testify then. At a final hearing, on Thursday, July 20th, there will be a summing up; on that occasion the witnesses will be David Rockefeller, President of the Chase Manhattan Bank, and George Ball, formerly Under Secretary of State.

The subcommittee intends also to publish a number of study papers to serve as background for the hearings and to canvass a wide range of opinion on significant issues of trade relations and trade policy.

In announcing the subcommittee's plans, Congressman Boggs stated, "This is an appropriate time for taking stock of our position on trade policy. It is apparent that, after the details of the Kennedy Round are worked out, the negotiations will have achieved a greater scope of concessions than any previous round. We shall make an early review of these bargains.

"But the intention of the subcommttee is to look both at the events of the past five years and to try to anticipate the problems of the future. In so doing, we expect to achieve a worthwhile congressional appraisal of future U.S. trade policy.

"Certainly, there is important unfinished business to attend to. Trade relations with the less developed countries have had less serious attention during the Kennedy Round than that subject deserves; and nontariff barriers of various types are of increasing significance as tariff barriers are lowered—to mention only two broad issues.

"But we can look forward with confidence to the recognition that world trade and interdependence between countries are growing apace. As Americans, we can welcome this, for the vast and prosperous 'free trade' market that we have developed within our own borders points the way to success in international markets also."

The members of the subcommittee are Representative Hale Boggs as Chairman, and Senators Sparkman, Fulbright, Talmadge, Symington, Ribicoff, Javits, and Miller; and Representatives Reuss, Moorhead, Widnall, Rumsfeld, and Brock.

Representative Boggs stated that the names of witnesses and the dates of other hearings would be announced in a later release.

REPRESENTATIVE HALE BOGGS ANNOUNCES SCHEDULE OF HEARINGS ON FOREIGN TRADE

JULY 7, 1967

Representative Hale Boggs (D-La.), Chairman of the Subcommittee on Foreign Economic Policy and the House Majority Whip, today issued the schedule of hearings to be held before his Subcommittee on the Future of U.S. Foreign Trade Policy. An earlier announcement of the hearings was made on Monday, June 19.

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

Program of Hearings on the Future of U.S. Foreign Trade Policy

JULY 11, 12, 13, 18, 19, AND 20, 1967

Tuesday, July 11, 10:00 a.m.—Room 1202 New Senate Office Building.
Ambassador William Roth, President's Special Representative for Trade Negotiations.

Wednesday, July 12, 10:00 a.m.—Room AE–1 The Capitol.
Anthony Solomon, Assistant Secretary of State for Economic Affairs.
Lawrence McQuade, Acting Assistant Secretary for Domestic and International Business, Department of Commerce.
Congressional Delegates to the Kennedy Round.

Thursday, July 13, 10:00 a.m.—Room 1202 New Senate Office Building.
Kenneth Younger, Director, Royal Institute of International Affairs, London.
Aurelio Peccei, Vice-Chairman of Olivetti, Member of the Steering Committee of Fiat-Turin, and President of Italconsult, Rome.

Tuesday, July 18, 10:00 a.m.—Room 1202 New Senate Office Building.
S. M. McAshan, Jr., President, Anderson, Clayton & Co., Houston, Tex.
Carl J. Gilbert, Chairman of the Executive Committee, The Gillette Co., Boston, Mass.
Henry W. Balgooyen, President, American & Foreign Power Co., New York, N.Y.
N. R. Danielian, President, International Economic Policy Association.

Wednesday, July 19, 10:00 a.m.—Room 1202 New Senate Office Building.
William Diebold, Jr., Council on Foreign Relations.
Professor Robert E. Baldwin, University of Wisconsin.
Professor Richard N. Cooper, Yale University.
John Pincus, The Rand Corporation.
Professor Lawrence W. Witt, Michigan State University.

Thursday, July 20, 10:00 a.m.—Room 1202 New Senate Office Building.
David Rockefeller, President, Chase Manhattan Bank.
George W. Ball, former Under Secretary of State.

THE FUTURE OF U.S. FOREIGN TRADE POLICY

TUESDAY, JULY 11, 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, Reuss, and Widnall; and Senators Symington, 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.

The Subcommittee on Foreign Economic Policy of the Joint Economic Committee today begins a series of six public hearings on "The Future of U.S. Foreign Trade Policy."

The recent conclusion of the Kennedy Round negotiations—the sixth round of the GATT trade negotiations—provides an opportunity for taking stock of our position on trade policy. It is fitting that the reassessment be undertaken by this subcommittee, which was set up in the 87th Congress, just over 6 years ago ". . . to conduct studies and hold hearings on such subjects as trade, trade agreements, international investments, U.S. imports and exports, and U.S. foreign aid." It was this subcommittee, you will recall, whose first major work was the review of trade policy that preceded the enactment of the Trade Expansion Act of 1962.

Now, a few days after the expiration of the special powers granted to the President of the United States by that act, we welcome as the lead witness in these hearings the President's Special Representative for Trade Negotiations, Ambassador William M. Roth.

In the long and arduous debates of Geneva, in crisis after crisis down to the final hours of negotiation, Ambassador Roth has acquitted himself well. His talents of persistence and patience, and even on occasion his temper, have been applied to further the interests of the United States in a liberal trading world.

In expressing our appreciation to Ambassador Roth for helping to bring the Kennedy Round negotiations to a successful conclusion, I find a suitable occasion to pay tribute to his predecessor, the late Governor Herter, who did so much to focus our attention on the need for expanding and liberalizing world trade. The public service of Governor Herter in many different offices makes us mindful that the life of the Republic gains its strength from the dutiful efforts of men like him.

The end of the Kennedy Round is a suitable occasion for a reevaluation. These hearings are certainly timely. They are also necessary. We must make a prompt beginning of a review of our thinking on issues of foreign trade. It is a matter of great importance how the Congress will form its ideas on trade policy. And we hope and expect that this initial set of hearings will lay the groundwork.

Let me repeat a statement in 1961 by George Ball who was then Under Secretary of State. In an address to the National Trade Convention, he said:

> I have been aware of a measure of agreement rarely found in these esoteric circles—agreement on the fact that we are coming to the close of a familiar era in our world trading relations and entering another that is not familiar at all.
>
> Some see this new phase as filled with opportunity and challenge. Some, on the other hand, are apprehensive. But few question the proposition that pervasive change will be the dominant characteristic of the years that lie ahead.

That, it seems to me, is still our situation.

So, in meeting this situation, we look back with the intention of guiding our aims in the future. Our purposes on this subcommittee should be—

to examine the past, not to find errors, but to take stock and learn our lessons well;

to try to foresee the changes that are imminent and to direct our efforts accordingly;

to persuade the United States to dispense with policies that are anachronistic, or which cater to outmoded demands, and to reinforce our efforts to achieve significant and necessary advances in the international commerce of nations, and of the United States in particular;

to deal plainly with the special interests of our own country in agriculture and industry, while always remembering the primary importance of the general public interest;

to give our negotiators the basis for firm and flexible bargaining with our trading partners in other countries and through agencies such as GATT; and, finally,

to keep constantly in mind the interdependence of the trading world and the need to maintain its growth and prosperity, which represents for us all the best protection.

We are very happy to have so many of the members of the subcommittee here with us this morning.

I want to thank the members of the staff who have worked very hard in putting together these subcommittee hearings, including the papers that have been prepared and edited which are available to the members of the subcommittee as well as others.

Mr. Ambassador, we are very happy to have you here this morning. I am reminded, however, that Senator Javits has a statement that he would like to present at this time. We will now hear from Senator Javits.

STATEMENT OF HON. JACOB K. JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Mr. Chairman, I had the privilege of visiting Geneva, and so I have some concept of the extraordinary work that has been done in this particular area by Ambassador Blumenthal and Ambassador Roth. I ask unanimous consent to include in the record a list of the personnel who worked on these various negotiations as a part of the U.S. delegation. It is a fairly extensive list, Mr. Chairman. But too often Americans who render such extraordinary service and such arduous service as was rendered here go absolutely unnoticed and unknown, and I think that is wrong. And with the Chair's permission I would like to include those names in the record, and express my feeling of respect and appreciation for the extraordinarily gifted service which was shown in this case which is so critically important to the security and prosperity of our Nation.

Chairman BOGGS. Without objection, the names will be included.

Senator JAVITS. I thank my colleague.

(The list referred to follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS,
July 12, 1967.

KENNEDY ROUND PARTICIPANTS: WASHINGTON

OFFICE OF THE SPECIAL REPRESENTATIVE
- Ambassador William Roth
- Philip Berlin
- Theodore Gates
- Irwin Hedges
- Walter Hollis
- Selma Kallis
- Louis Krauthoff
- Harald Malmgren
- Bernard Norwood
- Morton Pomeranz
- Albert Powers
- Mary Jane Wignot
- Leonard Wilson
- John Rehm

DEPARTMENT OF STATE
- Anthony Solomon
- Joseph Greenwald
- Deane Hinton

DEPARTMENT OF COMMERCE
- Secretary Trowbridge
- Robert McNeill
- Allen Garland

DEPARTMENT OF LABOR
- George Weaver
- Harry Weiss

DEPARTMENT OF AGRICULTURE
- John Schnittker
- Raymond Ioanes
- Howard Worthington

DEPARTMENT OF TREASURY
- Winthrop Knowlton
- James Hendrick

DEPARTMENT OF INTERIOR
- Harry Shooshan

TARIFF COMMISSION
- Paul Kaplowitz, former chairman

KENNEDY ROUND DELEGATION: GENEVA

	Government agency
Ambassador W. Michael Blumenthal	STR (State).

OFFICERS

Adams, Leason B	Tariff Commission.
Arundale, Joseph	Interior.
Barton, Bernard	Tariff.
Birkhead, James W	Agriculture.
Brewster, Helen	State.
Brosnan, Anne	STR (Commerce).
Cruit, Anthony N	Agriculture.
Drew, Joseph C	Commerce.
Eads, Mabel	Commerce.
Fellman, David	Commerce.
Fernandez, Kenneth	Commerce.
Hamerschlag, Robert	STR (Commerce).
Hart, William T	Tariff.
Hirabayashi, Martin	STR (State).
Howe, Jeanne	Commerce.
Jones, Dallas	STR (State).
Karpoff, Edward	Agriculture.
Kelly, William B	Commerce.
Kilgore, Lowell P	Commerce.
Kirk, Northrop	STR (State).
Law, Dana	Tariff.
Lee, Roland	Tariff.
Lewis, James H	STR (State).
Lord, Winston	STR (State).
MacHatton, John	Tariff.
Martin, Edward E	Tariff.
Montgomery, Frederick	Commerce.
Musrey, Alfred G	Tariff.
Nelson, Donald M., Jr	Tariff.
Pappano, Albert E	STR (State).
Pinkney, Anne	STR (State).
Preeg, Ernest H	State.
Pritchard, Norris T	Agriculture.
Riegert, Thomas	STR (State).
Sacchet, Edward	STR (State).
Sanders, Walter L	Tariff.
Simons, Thomas W., Jr	STR (State).
Starkey, James	Agriculture.
Steward, John W	Agriculture.
Sunderland, Lawrence B	Tariff.
Thoreson, Mrs. Musedorah	State.
Thuroczy, Nicholas M	Agriculture.
Travis, Herman	Labor.
Twaddell, James	STR (State).
Vaughan, Hal	USIS.
Vernon, Mrs. Gloria	Labor.
Wiggins, Guy	STR (State).
Wolff, Ernest	Tariff.
Worthington, Courtenay	STR (State).
Worthington, Howard L	Agriculture.
Zaglits, Oscar	State.

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Rockymore, Jean.
Samora, Barbara.
Sharpless, Mattie.
Slaughter, Evelyn P.
Sondheimer, Bernice.
Velarde, Margaret.
Williams, Jesse.
York, Mrs. Ethel.

Senator JAVITS. I have a very brief statement.

The hearings which are about to start are of the greatest national importance as they can set the tone of congressional and national mood toward the results of the Kennedy Round and toward future trade legislation. Our chairman, Representative Hale Boggs, is to be congratulated for the excellent care with which these hearings have been prepared and for the outstanding witnesses who are to appear before us.

It would be the greatest folly to interpret the relative quiet with which Congress and U.S. industry have thus far reacted to the results of the Kennedy Round as an indication that these results will be readily accepted. We are about to face a major congressional battle on the agreement reached in Geneva on chemicals and the American selling price. The Senate Finance Committee is considering "legislative oversight" hearings involving the Trade Expansion Act and other trade legislation. I would be surprised if the agreement on an international antidumping code would be accepted by all. This happens to be something which is of very particular interest to me, as I have urged such a uniform code, and have introduced a resolution to bring it about.

Unless forces favoring trade liberalization are ready to go into battle in defense of the principle of trade liberalization on every one of these issues, much that has been gained over the past 4 years as a result of the heroic service of the team led by Ambassadors Roth and Blumenthal—and one cannot, Mr. Chairman, speak of this matter without the highest tribute to our former colleague in the House, Christian Herter, with whom both Congressman Boggs and I, and Congressman Widnall, served in the House—much of the gain which has been established could be lost. And, let's not kid ourselves—unless we have the full support of the President the chances of resisting self-interest and protectionist forces will be small.

There have been news reports that the White House is preparing new interim trade legislation and that a bill will be sent to the House by the end of the month. Such legislation is essential to show the President's determination that this country will continue on the path we have followed since the end of World War II.

And I hope that Ambassador Roth is prepared to give us some concept of the President's proposal either at this or some subsequent hearing.

There are several key elements that in my judgment should be contained in any interim trade legislation proposed by the President—and I emphasize the word "interim," as I will explain in a minute.

First, the American selling price (ASP) system should be repealed, if the package deal on chemicals proves on close examination as beneficial to the United States as present information indicates. The elimination of ASP on the part of the United States would bring with it a substantial reduction of European tariffs on chemicals we export to them and also the reduction of several nontariff barriers discriminating against American cars, tobacco, and canned fruit.

Second, the adjustment assistance provisions of the Trade Expansion Act of 1962 should be liberalized along the lines of the adjustment assistance provisions of the United States-Canada auto agreement but with the U.S. Tariff Commission retaining its factfinding powers as at present.

Third, the President should be given powers to undertake negotiations on nontariff barriers. With tariffs becoming increasingly a less important factor in international trade, nontariff barriers must now be dealt with.

And I think the testimony will show the material reduction, the overall percentage of total trade subject to tariffs which has now been affected by the Kennedy Round.

Fourth, the President should be authorized to put forward a significant trade proposal for the developing countries, particularly one calling for trade preferences, even if this would mean a modification of the most-favored-nation principle. These preferences should be conditioned on similar action by other industrialized nations and should be extended for manufactured and semimanufactured products. The United States should be ready with positive offers by the time UNCTAD meets next February, rather than to be put into the position of having to react and to reject plans offered by other nations.

It is quite clear that there will be a period of 1 or 2 years before Congress will enact major new trade legislation. It is essential that this time period be utilized fully to assess the impact of the Kennedy Round on the U.S. economy and on international trade patterns and to develop specific new proposals. I am pleased that witnesses coming through before us will begin this process and will give us their best judgment on the essential elements of new trade legislation, both of an interim kind such as I have described, and of a definitive kind.

In my judgment, the power to negotiate further trade agreements should again be delegated to the President based on stated criteria and should not revert to Congress. Congress is not equipped to handle tariff negotiations as history and experience have shown.

I also hope that witnesses will comment on the proposal I advocated during consideration of the Trade Expansion Act of 1962; namely, to give the President power, subject to congressional veto of the agreement reached, to reduce reciprocally tariffs and other trade barriers by any amount. The success of the flexible approach embodied in the Trade Expansion Act encourages me to think that we should pursue it in the future. And the problems which I find abroad, particularly as they affect Britain, make it essential in my judgment for the President to be able to negotiate a free trade area, for example, in the Atlantic, but subject to the congressional veto which may be required in order to protect fully participation by the Congress in any such eventuality.

Mr. Chairman, I thank you for your patience. I think the Chair knows that I have been very heavily involved in these matters for many years, and hence felt sure that at the opening of such a hearing as this that I would make this declaration.

Chairman BOGGS. I thank the Senator from New York. He has indeed been very closely associated with the action taken by Congress in the past on all of these subjects.

And I appreciate your statement, Senator. It is a very complimentary statement.

Do any other members of the subcommittee have statements?

Representative WIDNALL. Mr. Chairman, I would just like to congratulate Dr. Roth and his colleagues for the work that has been done over the years. It is an arduous task, and it seems to have been culminated very successfully. And I think in the next 2 or 3 years that the emphasis that Senator Javits has placed on keeping an eye on it is something that should be kept in mind.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Widnall. Senator Miller?

Senator MILLER. Thank you very much, Mr. Chairman. I would like to join with my colleagues in thanking the chairman for arranging these hearings, and welcoming Ambassador Roth before the subcommittee.

As a member of the subcommittee I am naturally interested in all aspects of the GATT negotiations and the Kennedy Round in particular.

But I am also a representative of a great agricultural State quite concerned with what has happened from the standpoint of agricultural products and more particularly the access to the Common Market countries for our grain. I have heard all kinds of statements, ranging from a statement which appeared in the press attributed to Mr. Schnittker praising the results, to cries of "sellout" of American agriculture from some rather knowledgeable members of the agricultural industry.

It was pointed out that the United States gave up trying to get guaranteed access to the market of the European Economic Community because the Community's final order had "no value." I am going to be interested in knowing what this was, and what caused the evaluation that it had no value.

I went on to point out that the United Sates received a reasonable assurance that the total grain exports to the Common Market will be maintained, because production there may grow no faster than consumption, and because the Community will now have to export more grain on a new agreement between more countries.

I am naturally interested in the basis for that evaluation, and especially that production there may grow no faster than consumption.

It seems to me that this is a very fine opportunity for Ambassador Roth and his staff to set the record straight, so that if indeed there has been a favorable result from the standpoint of American agriculture we know about it. And if there is false optimism, we will know it.

So I welcome the opportunity to participate in these hearings. And I again thank the chairman for arranging for them.

Chairman BOGGS. Thank you, Senator.

Mr. Ambassador, again we welcome you.

Before you begin your statement, would you be good enough to introduce your associates?

Mr. ROTH. This is John Rehm, General Counsel of my office; Bernard Norwood, chairman of the Trade Staff Committee; and Mr. Raymond Ioanes, the Department of Agriculture.

Chairman BOGGS. Thank you. You may go right ahead with your statement.

STATEMENT OF HON. WILLIAM M. ROTH, PRESIDENT'S SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS (WITH THE RANK OF AMBASSADOR); ACCOMPANIED BY JOHN REHM, GENERAL COUNSEL; BERNARD NORWOOD, CHAIRMAN OF THE TRADE STAFF COMMITTEE; AND RAYMOND IOANES, U.S. DEPARTMENT OF AGRICULTURE

Mr. ROTH. First, Mr. Chairman, thank you very much for your good words about the negotiations and those of your colleagues. I am particularly grateful that Senator Javits put in the record the names of the members of the negotiating delegation, because a negotiation such as this is a team effort. And this was a team that worked closely and well together, and was very instrumental in putting together the final package.

Mr. Chairman, it is a great honor to be the opening witness before this subcommittee. This series of hearings reassessing U.S. foreign trade policy comes at a most appropriate moment.

The President has ordered a major review of our trade policy. The deliberations of this subcommittee, and the testimony and papers presented before it, will be of enormous benefit to us in preparing for and undertaking the study for the President.

In trying to decide the aspects of the Kennedy Round and the future on which I could most productively concentrate this morning, Mr. Chairman, I have concluded that an extended review of the Kennedy Round and its results would not, perhaps, be in order.

A great deal has already been written and said on the Kennedy Round's conclusion, and until the President's report to the Congress is completed we will not have a definitive analysis of the agreement. I would propose for your consideration, therefore, insertion in the record of our initial report on the agreement. It is a fairly detailed account of what happened. I would then focus my remarks on the immediate future, to include, first, the issues that we face as a result of the Kennedy Round and, second, the question of what we envision as the means of meeting the President's request for a major administration review of trade policy.

May I ask permission to insert the comments on the Kennedy Round in the record, Mr. Chairman?

Chairman BOGGS. Without objection, they may be included.

(The comments referred to follow:)

OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Washington, D.C.

THE KENNEDY ROUND AGREEMENT

By direction of the President, W. Michael Blumenthal, Deputy Special Representative for Trade Negotiations, signed multilateral agreements negotiated in the Sixth Round of Trade Negotiations in Geneva, Switzerland, on June 30, 1967.

The signing ceremony concluded the most comprehensive assault on barriers to international trade that has ever taken place. The negotiations were known as the Kennedy Round in recognition of the late President's leadership in inaugurating the effort.

The important elements of the Kennedy Round package are:

Tariff cuts of 50 precent on a very broad range of industrial goods, and cuts in the 30 to 50 percent range on many more.

Agricultural concessions to which the United States attaches great value because they create new trading opportunities for our farmers and because they support our contention that international negotiation on trade in farm products can accomplish something.

A world grains arrangement guaranteeing higher minimum trading prices and establishing a program under which other nations will share with us in the vital but burdensome task of supplying food aid to the undernourished people in the less-developed countries.

Nontariff barrier liberalization including a very significant accord on antidumping procedures as well as European NTB modifications in the ASP package.

Useful if limited progress on the complex and sensitive problems in the steel, aluminum, pulp and paper, and textile sectors including a three-year extension of the Long Term Cotton Textile Arrangement.

An agreement on the treatment of chemical products that deals with the American Selling Price (ASP) issue in a manner that provides major chemical traders with mutually advantageous concessions in the main Kennedy Round agreement and a separate and balanced package that makes additional concessions available to the United States if it abandons the American Selling Price system.

Significant assistance to the less-developed countries through permitting their participation in the negotiations without requiring reciprocal contributions from them; through special concessions on products of particular interest to them; and through the food aid provisions of the grains arrangement.

United States participation was made possible through authority granted the President by the Congress through the Trade Expansion Act of 1962. The late Christian A. Herter directed U.S. participation as the Special Representative for Trade Negotiations until his death in late 1966. He was succeeded by William M. Roth, who continues to serve as Special Representative.

The agreements signed June 30 comprised:

1. A Final Act, which authenticates the texts of the agreements described in paragraphs 2–5 below, and which expresses the intention of all the signatories to take appropriate steps, subject to their constitutional procedures, to put these agreements into effect.

2. The Geneva (1967) Protocol to the General Agreement on Tariffs and Trade (GATT) which embodies most of the tariff and other concessions exchanged in the negotiations.

3. An agreement relating primarily to chemicals, which provides for the elimination of the American Selling Price (ASP) system.

4. A memorandum of agreement on basic elements for a World Grains Arrangement.

5. An agreement on implementation of Article VI of the GATT, in the form of a code of antidumping practices.

It is estimated that the agreements will apply to about $40 billion of world trade. In industry, the U.S. and the other countries have agreed on cuts averaging about 35 percent. In agriculture, the average cut is less but the United States has obtained important concessions covering a substantial volume of trade.

United States tariff reductions will not enter into force until proclaimed by the President of the United States. It is expected that their effective date will be January 1, 1968. In accordance with the requirements of the Trade Expansion Act, most United States duty reductions will be made in five equal annual stages.

In overall trade terms and taking both industry and agriculture, the tariff cuts made by the U.S. are in balance with those of the other industrialized countries. In terms of 1966 trade the United States is giving tariff cuts on about $7½ to $8 billion of industrial and agricultural imports and is obtaining tariff concessions on about the same amount of U.S. exports.

None of the multilateral agreements negotiated in the Kennedy Round will require Congressional action, except the agreement providing for the elimination of the ASP system with respect to chemicals. The World Grains Arrangement envisaged by the Memorandum of Agreement on grains will require consent of two-thirds of the Senate.

Industrial Negotiations

Import duties are being cut in half on a broad range of industrial products in international trade. Cuts in the 35 to 50 percent range are being made on many more products. Categories of products on which the principal negotiating countries, including the United States, have made cuts that in the aggregate average over 35 percent include machinery, both electrical and nonelectrical; photographic equipment and supplies: automobile and other transport equipment; optical, scientific and professional instruments and equipment; paper and paper products; books and other printed material; fabricated metal products; and lumber and wood products including furniture.

Steel Sector.—Negotiations on steel were conducted against a background of tariff rates where U.S. duties are generally lower than those of other participants. These negotiations, held bilaterally and multilaterally, resulted in closer harmonization of tariffs among the major steel producing countries. Virtually all the peaks in these countries' tariffs were eliminated so that almost all rates will be no higher than 15 percent and most will be well below 10 percent.

Except for United States rates, most steel tariffs have not heretofore been bound. In the final negotiating package, however, almost all rates of other countries were bound and many were reduced.

The international harmonization of steel tariffs should also reduce the tendency for exports to be deflected to the United States market in instances where United States tariffs were much lower than those of other countries. Although the United States is primarily an importer rather than an exporter of steel mill products, lower tariffs abroad will also provide opportunities for United States exporters.

The European Coal and Steel Community (ECSC) adopted a unified tariff and agreed to reduce rates to an arithmetical average of 5.7 percent. The European Economic Community (EEC) agreed to reduce rates within its jurisdiction correspondingly so that a tariff relationship would be maintained between more highly fabricated EEC steel items and primary and less fabricated ECSC items. The ECSC/EEC concessions are a 23 percent reduction from existing rates (a 10 percent reduction from the pre-February 1964 rates on 1964 imports from the United States).

The United Kingdom is reducing most of its rates by 20 percent. Japan is reducing its rates by 50 percent except for a few alloy steel items. Sweden is binding its rates at existing low levels. Austria is harmonizing its tariffs with the ECSC/EEC at a somewhat higher level.

The United States reductions average 7 percent on 1964 imports. It is generally harmonizing its tariffs with the ECSC/EEC where they have been above those rates. United States rates higher than ECSC/EEC rates are to be reduced to ECSC/EEC levels, but no cuts are to be made where rates are now below ECSC/ECC concession levels. United States concessions take account of differences between the United States f.o.b. and ECSC/EEC c.i.f. customs valuation systems so that, nominally, United States rates would be somewhat higher than ECSC/EEC rates. Also, the differential in the United States tariff between ordinary and alloy steel is being reduced by 50 percent but is not being eliminated as complete harmonization would have required.

Aluminum Sector.—The Community offer consisted of a binding of a 130,000 ton annual quota at 5 percent. The EEC had previously bound in the GATT a 9 percent rate of duty on ingot aluminum. Some imports were allowed entry annually under a tariff quota at 5 percent but neither the amount of the quota nor the lower rate had been bound. The U.S. is making a 20 percent cut on ingot aluminum, of benefit primarily to Canada and Norway.

On unwrought aluminum (further advanced than ingot), tariff cuts by the United States averaged less than 30 percent. The EEC average cut was about one third, while the tariff cuts by the U.K. and Canada were larger than those of the EEC. Japan and other EFTA countries also made substantial cuts in the aluminum sector. Of special interest to U.S. aluminum exporters will be the adoption by Canada of an injury requirement in its antidumping legislation to conform to the new antidumping agreement.

Chemical Sector.—The chemical sector negotiations were centered on the American Selling Price (ASP) issue. European countries maintained from the start that any more than token reductions in their chemical tariffs were conditional on United States elimination of the ASP valuation system. Since elimination of ASP would require Congressional action, United States negotiators insisted that chemical concessions be implemented in two packages: first, a balanced settlement in the Kennedy Round; second, reciprocal concessions by other countries in return for abolition of ASP.

The pattern and volume of chemical trade is such that the outcome of negotiations in this sector inevitably played a major role in the outcome of the entire Kennedy Round. United States dutiable chemical imports from countries with a major stake in world chemical trade (EEC, United Kingdom, Japan, and Switzerland) were $325 million in 1964; these countries' dutiable chemical imports from the United States totaled nearly $900 million.

In the end, all major Kennedy Round participants made concessions in the chemical sector. Many concessions have been agreed on unconditionally, while certain other concessions are conditional on United States elimination of the American Selling Price (ASP) valuation system. The concessions on chemicals are, therefore, in two parts: first, the Kennedy Round chemical package, and second, the ASP package.

I. The Kennedy Round Package

Unconditional obligations undertaken in the Kennedy Round are as follows:

1. The United States agreed to duty reductions on products accounting for nearly all (95 percent) of United States dutiable chemical imports. Tariffs will be reduced 50 percent on most items with rates above 8 percent; 20 percent on items 8 percent and below. These commitments will result in a weighted average duty reduction of 43 percent in United States chemical tariffs and $325 million of dutiable imports from the EEC, U.K., Japan, and Switzerland. The combined tariff reduction made by these four countries averages 26 percent on nearly $900 million of U.S. chemical exports, and the United States retains the ASP method of valuation for benzenoid chemicals.

2. *The European Economic Community* agreed to duty reductions on tariff items accounting for 98 percent of its dutiable chemical imports from the United States. Most duties will be reduced by 20 percent. Certain items, however, will be subject to reductions of 30 percent and 35 percent, while some others will be reduced less than 20 percent. These commitments will result in a weighted average reduction of 20 percent in EEC tariffs on $460 million of 1964 chemical imports from the United States.

3. *The United Kingdom* agreed to duty reductions on virtually all chemical imports from the United States except certain plastics. Most British plastics duties are currently 10 percent, a level considerably lower than other major trading countries. The United Kingdom has agreed to reduce tariffs at rates of 25 percent and above by 30 percent, and rates below 25 percent by 20 percent. These commitments will result in a weighted average reduction of 24 percent in United Kingdom imports of more than $100 million of chemicals from the United States.

4. *Japan* agreed to tariff reductions which on a weighted average basis amount to 44 percent on dutiable chemical imports from the United States. These imports were over $200 million in 1964.

5. *Switzerland* agreed to tariff reductions which on a weighted average basis amount to 49 percent on $45 million of chemical imports from the United States.

6. *Other participants*, notably Canada and the Scandinavian countries, agreed to reductions in their chemical tariffs as part of their Kennedy Round concessions.

II. The ASP Package

The following concessions are contingent on United States elimination of the ASP valuation system:

1. *The United States* would eliminate ASP and replace rates currently based on ASP with rates that have been proposed by the Tariff Commission to be applied on the valuation as normally calculated for other United States imports and yielding the same revenue as the previous rates. These "converted" rates would be reduced, by stages, generally by 50 percent or to an ad valorem equivalent of 20 percent, whichever is lower. The principal exceptions to this formula are dyes and sulfa drugs, duties on which would be reduced to 30 percent and 25 percent, respectively. In addition, the United States would reduce the 8 percent and below rates subject to the 20 percent cut in the Kennedy Round package by a further 30 percent and further reduce by more than 50 percent a few other items to the 20 percent level. These reductions would provide a combined weighted average cut on United States chemical tariffs in the Kennedy Round and ASP packages of about 48 percent on $325 million of imports.

2. *The European Economic Community* would reduce its chemical tariffs by an additional amount so as to achieve a combined Kennedy Round-ASP package reduction of 46 percent on $460 million of chemical imports from the United States. Virtually all EEC chemical tariffs would be at rates of 12½ percent or below. Belgium, France, and Italy would also modify road-use taxes so as to eliminate discrimination against American-made automobiles.

3. *The United Kingdom* would reduce most of its chemical tariffs according to the following formula: Items at present dutiable at 25 percent and above would be reduced to a level of 12½ percent, for a 62 percent combined Kennedy Round and ASP package reduction. Tariff items with duties of less than 33 percent would generally be reduced by the amount necessary to achieve a combined reduction of 50 percent in the two packages. U.K. plastics tariffs which would be above the reduced EEC rate on the same item would be cut to that level and bound. The combined weighted average reduction in the level of British chemical tariffs on United States trade would be approximately 47 percent on $170 million of imports from the U.S. After these reductions virtually all British chemical tariffs would be at rates of 12½ percent or below. The United Kingdom would also reduce by 25 percent its margin of preference on imports of tobacco.

4. *Switzerland* would eliminate limitations on imports of canned fruit preserved with corn syrup.

Textile Sector.—Most importing countries reduced tariffs on cotton, man-made, and wool textiles less than their average reduction in other industrial products as a whole. The United States agreed to tariff reductions which, on a weighted trade basis, average approximately 14 percent for the three fibers. Cotton textiles were reduced 21 percent; man-made textiles, 15 percent; and wool textiles, 2 percent.

Negotiations on cotton textiles involved three elements: the extension of the Long-Term Cotton Textiles Arrangement (LTA); more liberal access to import markets protected by the LTA; and tariff reductions. The principal concessions by exporting countries of interest to importing countries was the extension of the LTA in its present form until September 30, 1970. In return, importing countries agreed to enlarged quotas under LTA provisions and to tariff reductions.

Within the context of the LTA, the United States negotiated bilateral agreements with its main supplying countries. These agreements typically provided for a 5 percent annual increase in LTA quotas, a one-time bonus for LTA extension, and certain other administrative improvements.

The United States agreed to cotton textile tariff reductions that amounted to a weighted average reduction of 21 percent. Reductions on apparel items averaged 17 percent; fabrics tariffs were reduced 24 percent; and yarn, 28 percent.

The EEC reduced cotton textile tariffs by about 20 percent. It also reached bilateral understandings with major suppliers providing for improved access to the EEC market. Noting that it already accorded liberal access for imports from Hong Kong, India, and other Commonwealth sources, the United Kingdom made token cotten textile tariff reductions toward other suppliers.

The United States agreed to a weighted average tariff reduction of 15 percent on imports of man-made fiber textiles, including fibers. Man-made fiber apparel duties were reduced by an average of approximately 6 percent, fabrics by 18 percent, yarn by 37 percent. Other countries made significant reductions on these textiles.

The United States agreed to tariff reductions on very few wool textiles. The weighted average duty reduction on wool fabric was about 1 percent; on wool apparel about 2 percent. On total wool textile imports the average duty reduction was 2 percent. Other countries made considerably greater reductions on wool textiles.

Paper, Pulp, and Lumber.—Multilateral sector negotiations were planned for paper and pulp, largely in an effort to get the EEC to make meaningful tariff reductions of interest to the Nordic countries and Canada as well as the U.S. Although some multilateral discussions were held, negotiations were essentially bilateral. A long series of discussions resulted in EEC cuts of 50 percent on pulp and about 25 percent on paper. Canada and the EFTA countries also made significant concessions on paper products exported by the U.S. In return, the United States made comparable concessions.

Nontariff Barriers

Antidumping Code.—A major accomplishment in the field of nontariff barriers was the negotiation of an antidumping code. In addition to the United States, the major participants in this negotiation were the United Kingdom, the European Economic Community, Japan, Canada, and the Scandinavian countries.

Negotiation of the antidumping code centered on the consideration of international standards. Although United States legislation is consistent with the GATT, foreign complaints were directed against United States procedures. These concerned, particularly, the frequent withholding of appraisement during antidumping investigations and the length of time taken in investigations. (Withholding of appraisement postpones the final determination of customs duties until an antidumping investigation is completed. However, imports may be released under bond from Customs' custody after appraisement is withheld.)

The antidumping code supplements the provisions of Article VI of the GATT with rules and procedures to be followed in antidumping actions. United States legislation and administrative regulations contain detailed provisions relating to the determination of sales at less than fair value and injury, but most countries' procedures lack such specificity.

The principal advantages of the antidumping code to the United States will be the adoption by other countries of fair and open procedures along the lines of present United States practices. The code will provide both an opportunity and a basis for United States exporters to defend their interests in foreign antidumping actions. In particular, the new common antidumping regulations that are being developed by the European Economic Community will conform with the code.

Of special benefit to the United States will be the adoption by Canada of an injury requirement in its antidumping legislation. The lack of such a requirement has impeded United States exports for many years.

Because the antidumping code is consistent with existing United States law, no legislative changes are required. However, the Treasury Department will revise its regulations to conform with the code. The principal change in present procedures will concern limiting the time period during which appraisement is withheld to a maximum of 90 days in most cases. Both foreign exporters and domestic importers and producers favor a reduction of the time taken in antidumping cases. Also, investigations will not be initiated unless there is evidence of injury.

Other Nontariff Barriers.—In addition to the negotiation of an antidumping code, described above, the principal nontariff accomplishment is the agreement to take action on the nontariff barriers included in the conditional chemical package, that is, the elimination for certain chemicals of the American Selling Price system of valuation by the United States, the elimination of the discriminatory aspects of automobile road-use taxes in France, Italy, and Belgium, and the modification by Switzerland of regulations on canned fruit, as well as a reduction by the United Kingdom in the margin of preference on unmanufactured tobacco.

There were also a few other nontariff achievements as a result of bilateral discussions. In the negotiations Austria agreed to eliminate the discriminatory effect of automobile road-use taxes on larger engined U.S. automobiles. Canada eliminated a restriction prohibiting imports of fresh fruits and vegetables in three-quarter bushel baskets. Canada also ceased applying the Canadian sales tax to the full value of aircraft engines repaired in the United States. The 11 percent sales tax is now applied only to the value of the repairs. In addition, Canada modified restrictive standards applying to aircraft engines repaired abroad.

Although not a subject for negotiation, quantitative restrictions were eliminated or modified by several countries. Of particular importance to the United States are the elimination of restrictions in the United Kingdom on fresh grapefruit and in Denmark and Finland on many agricultural products. Japan agreed to liberalize quota restrictions on some products.

Several developing countries specified action on various nontariff measures as part of their contributions to the negotiations. These included the introduction of certain tariff reforms, the liberalization of licensing systems and foreign exchange controls, and the elimination or reduction of prior deposit requirements and tariff surcharges.

AGRICULTURE

The United States originally set as a goal in the agricultural negotiations the same broad trade coverage and depth of tariff cut as achieved for industrial products. This did not prove negotiable, however. The European Economic Community, when the negotiations got under way, was still in the process of developing its Common Agricultural Policy. It was reluctant to make substantial cuts in the level of protection at the same time it was formulating a Common Agricultural Policy among the six members. The results of the agricultural negotiations with the Community are therefore considerably more modest than the results achieved in industry. Nevertheless, progress was made in the negotiations in reducing barriers to agricultural trade.

The United States was able to obtain significant agricultural concessions from Japan, Canada, and the U.K., the Nordic countries, and Switzerland. The EEC made tariff cuts on agricultural items of trade value to the United States of over $200 million.

No progress was made in negotiating down the trade restrictive effects of the variable levy system of the EEC. Offers made by the Community on the basis of this system were not accepted.

The agricultural negotiations were divided into so-called commodity groups and non-group or tariff items. The commodity groups included meats, dairy products, and grains. Of the commodity groups only grains yielded positive results.

Grains.—A new grains arrangement was negotiated that establishes a minimum price for U.S. #2 hard red winter ordinary wheat f.o.b. Gulf ports at $1.73 per bushel. This represents an increase of about 21.5 cents per bushel over the equivalent minimum price for U.S. hard red winter ordinary under the present International Wheat Agreement. There will be a comparable increase in the minimum price of other grades and qualities of wheat under the new arrangements.

Market prices are currently above the minimum prices of the new arrangement but the new minimum prices should establish an effective floor under U.S. wheat exports for the three years of the arrangement. Adequate provision is made for adjusting differentials for various grades and qualities of wheat as required if trading prices should fall to the minimum. There is nothing in the arrangement that will prevent U.S. wheat from being priced competitvely, as required.

Participating countries have agreed to contribute 4½ million tons of cereals to a multilateral food aid program. The U.S. share of this program will be 42 percent of the total, or slightly less than 2 million tons. Importing countries as a whole will contribute about 2 million tons of the total. The grains arrangement thus represents further progress toward one of the United States' key objectives of foreign aid, the multilateral sharing of the food burden.

Meat and Dairy Products.—During most of the Kennedy Round, the countries principally involved in world trade in fresh, chilled, and frozen beef and veal, and in butter, cheese and dry milk, sought to negotiate general international arrangements for these products. The purpose of these negotiations was to provide for acceptable conditions of access to world markets in furtherance of a significant development and expansion of world trade in agricultural products, consistent with the principle agreed by the GATT Ministers at the outset of the negotiations. Although these negotiations continued until late in the Kennedy Round, it was not possible to work out an acceptable multilateral arrangement. Countries then shifted to bilateral negotiations, through which they were able in some cases to negotiate improved access to important markets.

The U.S. made no offers on fresh, chilled, or frozen beef or veal. The duty on canned ham was bound but no reduction made. No offers were made on any products subject to section 22 quotas, including butter, dry milk and certain types of cheese. On certain non-quota cheese, cuts averaging 13 percent were made.

Agricultural Tariff Items.—The United States achieved a wide range of concessions from its principal negotiating partners which should improve the export opportunities for such products as soybeans, tallow, tobacco, poultry, and horticultural products, including citrus and canned fruit.

In particular, the United States and Canada negotiated a balance of agricultural concessions covering a substantial range of products.

The Developing Countries

The United States negotiated with the developing countries on the basis of the plan adopted by the Trade Negotiations Committee. One of the objectives of the negotiations, that of reducing barriers to exports of developing countries to the maximum extent possible, was taken into account in the plan. The plan also took into account the Ministerial Decisions to the effect that developed countries could not expect to receive full reciprocity from the developing countries in trade negotiations and that the contributions of developing countries should be considered in the light of the development, trade and financial needs of those countries.

Accordingly, the United States made concessions of benefit to developing countries, including non-participants, which cover over $900 million of their exports. Included in these concessions will be the complete elimination of the duty on more than $325 million of imports from these countries. Moreover, the elimination of duties on $45 million of these products do not need to be staged over a four-year period and thus meet one of the more important desiderata of the developing countries. Since many of the concessions on tropical products were negotiated in the context of joint action by industrialized countries, the total benefits which developing countries will receive were further increased.

Ten developing countries made concessions benefiting the United States, and these concessions will be appended to the Protocols as the schedules of these countries in the General Agreement.

Mr. Roth. And then I would like, Mr. Chairman, to say just a few words on the Kennedy Round.

I think it is true that so far there has been a good reaction from industry and from labor on the Kennedy Round to the extent that they know what was achieved. It has now been fully made public what the cuts in our tariffs have been. And there has been made public in a more general way what we have received from other countries. Until, however, we have made the complete analysis the whole picture will not be seen.

But out of this I think two things have become clear and have been recognized. One, that we have a reciprocal deal and that we did not give more than we received; and, two, that we took particular care to be sure that those industries that were particularly sensitive to import competition were protected.

In our initial presentation to American businessmen last Friday before the chamber of commerce, I think the discussion indicated that there was an acceptance in large part of these facts.

Briefly, what we achieved out of the Kennedy Round was, first, as I said, a reciprocal deal, including something of benefit to agriculture. For the first time in a major trade negotiation something of benefit to agriculture was achieved.

And then, Senator Miller, I would like to have the opportunity during questioning time to comment in some detail on the problems you raise.

We also achieved a very full agreement with Canada in which tariffs were sharply cut on both sides of the border. In many areas where our tariffs were under 5 percent we in effect went into free trade. In an area of particular export interest to the United States, production machinery, the Canadians made sharp cuts, from 22½ to 15 percent in the tariffs.

We negotiated a wheat agreement—which again, Senator Miller, goes back to your question—which I think will prove to be of substantial benefit to American wheat producers. Representatives of those producers were with us in Geneva at the time of the final negotiation and worked closely with us.

Finally, a first major breakthrough in the area of nontariff barriers—we negotiated an international code on dumping. And, Mr. Chairman, I would like to read two paragraphs from what I said to the chamber of commerce the other day on this subject, because it is a critical one:

> A major acomplishment was the negotiation of the antidumping code, committing other countries to fair and open procedures along the lines of the present United States procedures. The new common antidumping regulations that are being developed by the European Community will conform with the code. Of special interest to the United States will be the adoption by Canada of an injury requirement in its antidumping legislation. The lack of such a requirement has impeded American exports for many years.
>
> For our part, we have agreed to certain useful refinements of the concepts we presently use in our antidumping investigations, once preliminary measures are taken against allegedly dumped imports. I would emphasize, contrary to what you may have read in the newspapers lately, that all our obligations in this agreement are consistent with existing law, and in particular that we have not agreed to the simultaneous consideration of price discrimination and injury.

And finally, before leaving the Kennedy Round, let me say that I think many of us who worked in this have felt that one of the great advantages of a successful Kennedy Round was that we averted something quite terrible—that is, a failure. If there had been a failure, I feel—and I think all of us who worked in this felt—that it would have set back the growth of a liberal world trade policy many years. And therefore we are grateful that it was, in the final analysis, possible to put such an agreement together.

Having said this, I would then focus my remarks on the immediate future, to include, first, the issues that we face as a result of the Kennedy Round and, second, the question of what we envision as the means of meeting the President's request for a major administration review of trade policy.

If this approach is agreeable to you, Mr. Chairman, I will proceed to the discussion of our immediate post-Kennedy Round problems.

Chairman BOGGS. Go right ahead.

Mr. ROTH. These problems are essentially three:

1. The negotiating authority of the Trade Expansion Act of 1962 has expired, leaving the United States without an important means of conducting its normal international trade relations.

2. The criteria for making available the adjustment assistance provided for the Trade Expansion Act appear to be so stated as to make such assistance more difficult to obtain than we had originally expected.

3. In order to bring into effect a valuable package of concessions worked out during the Kennedy Round, Congress is to be asked to agree to the abandonment of the American selling price system of customs evaluation.

NEED FOR NEGOTIATING AUTHORITY

In regard to negotiating authority, we do not contemplate any further major initiative in trade liberalization in the immediate future. With the Kennedy Round just over, we believe that the present need is for review and reflection in preparation for any renewed effort to stimulate and expand international commerce. A major review of trade policy will be undertaken for the President.

Nevertheless, some minimal negotiating authority is needed during this period.

May I take an example. Under section 351 of the Trade Expansion Act—the so-called escape-clause provision—the President has authority to increase a duty or to impose a quota if he determines that such action is necessary to prevent or to remedy serious injury to a domestic industry that is caused by increased imports that in turn have resulted from tariff concession.

Under the established international rule, we would be obliged to see that some further adjustment was made to compensate the supplying countries for their loss through this emergency action of the tariff concession. The preferred method would be to lower one or more tariffs on other goods imported into the United States. If we were not able to make such compensatory tariff concessions, we would have to face the retaliatory withdrawal by the supplying countries of tariff concessions which they have granted on goods which we export to them.

In order to be in a position to make compensatory tariff concessions in connection with the escape-clause actions which we may have to take, we should have authority under the TEA to negotiate compensatory tariff settlements.

Let me take one more example. There may be times in the future when we may wish to revise upward one or more tariff concessions. This has been necessary in the past when legislation has been enacted to change tariff classifications, with the effect of increasing duties. Although these cases may be rare, they do pose the problem of negotiating a settlement with the other countries. Just as in the example I cited above, there are two basic alternative adjustments that may be made: to lower one or more of our duties on other products in compensation to the other countries, or to face retaliatory tariff increases against our exports. Our preference is obviously to negotiate for compensatory tariff reductions. This again makes desirable the existence of some negotiating authority.

The GATT rules have brought a large measure of order into international trading relations. The cost of the obligations they place upon the United States are far outweighed by the benefits we derive, as the world's biggest trader.

It is in order to maintain our GATT obligations, and to be able to act with initiative and flexibility within the GATT framework, that we need some negotiating authority. It need not be very substantial. It has been suggested, although no final decision has yet been taken, that the Trade Expansion Act negotiating authority simply be extended for 3 years, giving us the use of that part of it that was not exhausted in the Kennedy Round.

Adjustment Assistance Modification

Turning to the adjustment assistance question, we find ourselves dealing with the probability that the Congress, in writing the provisions of the Trade Expansion Act, intended far more readily available recourse to adjustment assistance than has proved possible.

These provisions were designed to authorize quick and substantial assistance to any worker or firm injured as a result of increased imports caused by tariff concessions. The underlying concept was that rather than restrict imports it was far preferable to help firms and workers meet problems created by import competition through improved productivity.

Unfortunately, however, the adjustment assistance provisions have not had the expected beneficial effect because in practice the present test of eligibility to apply for the assistance has proved too strict. In fact, in no case brought under the act have any firms or workers been able to prove eligibility.

The present test of eligibility requires (1) that tariff concessions be shown to be the major cause of increased imports, and (2) that such increased imports be shown to be the major cause of injury to the petitioner.

In the complex environment of our modern economy, a great variety of factors affect the productive capacity and competitiveness of American producers, making it virtually impossible to single out increased imports as the major cause of injury. In fact, it has usually been impossible to prove that tariff concessions were the major cause of increased imports.

Under these circumstances, it is apparent that action must be taken to make the intended assistance a reality. We now have under consideration several formulations that might meet the requirements of the situation. No final decisions have yet been taken, but it is the intention of the administration to propose congressional action to modify the present provisions of the act.

The new test of eligibility would insure that adjustment assistance would be available only in those cases of injury which are the result of tariff concessions. The specific kinds and levels of benefits would remain unchanged.

Also unchanged—and this is important, I believe—would be the provisions for relief for entire industries—as distinguished from individual workers and firms—which suffer serious injury through tariff concessions. The so-called escape clause makes possible the imposition of quotas and increased tariffs. However, this is a drastic form of relief and one which costs other industries either tariff protection at home or export opportunities abroad, as I have suggested in my earlier discussion of GATT provisions for compensation and retaliation in the event of increased tariffs. We believe that the standards for escape-clause relief should be retained in their present form.

After this rather summary discussion of the first two of the three post-Kennedy Round problems, I would like to go into more detail on the question of the American selling price system (ASP) which, as Senator Javits has indicated, is one of the most controversial we face, and, as I have said, will be a matter for congressional consideration.

The ASP Issue

ASP, as it applies to chemicals, is often referred to by critics abroad as the symbol of nontariff barriers. I should like to confine my comments to only three aspects of ASP—why it apears to us to be an undesirable impediment to trade, what the effects of its removal will probably be, and, finally, how we appraise the balance of what we gave and received in this area in the recent trade negotiations.

In 1922 the Congress determined that our then infant chemical industry, specifically that part of it which manufactures products derived from coal tars, required extraordinary protection. The Congress was apparently reluctant to raise the statutory duties to the levels it deemed necessary to provide adequate protection under the circumstances then existing. Instead, the Congress provided that any imported coal tar product, now referred to as benzenoid, which is competitive with a similar domestic product should be valued on the basis of the latter's American wholesale price. This statute has remained in effect for 45 years, although the American chemical industry has grown rapidly since then and is today one of the largest and strongest not only in this country but in the world, and even though coal tars are now less frequently involved, the major raw materials now being byproducts of our petroleum industry, itself the largest and probably most efficient in the world.

This system has long been criticized by other countries, and for various reasons. Some of them can be summarized as follows:

1. It provides extraordinary protection, both in comparison to the duties which now apply to other U.S. industries and in comparison with duties in effect abroad. The statutory rates for benzenoids alone are already higher than those applying to most other products entering the United States and higher than those typical of other nations' tariff schedules. When further applied to American wholesale prices, these rates produce effective rates often many times higher than the apparent duty. Some are actually above 100 percent and the peak, as recently determined by a Tariff Commission study, is 172 percent.

2. The system is inconsistent with the customs practices of all our trading partners for nonagricultural goods. Moreover, it would be in violation of the standards of customs valuation laid down by the General Agreement on Tariffs and Trade. But for the fact that its use in this country antedates our adherence to the GATT and was made permissible under a "grandfather" clause.

3. Under the ASP system a domestic manufacturers has unique and unfair advantages. Within the limits of the effectiveness of competitive forces in the U.S. market, a manufacturer can adjust the level of his tariff protection against his foreign competitor by the wholesale price he sets for his product. Moreover, if he is not actually making a product "like or similar" to one currently imported, he can decide to produce or merely to "offer to sell" a "like or similar" product and thereby he triggers an increase, usually substantial, in the tariff wall that imports must surmount.

4. The foreign exporter of a product potentially subject to ASP, consequently, cannot know at the time he signs a contract and ships the product whether it will be subject to ASP nor what the ASP will be until it has passed through our customs. This uncertainty as to the amount of duty is a burden on trade with no counterpart in the vast bulk of other international commerce in industrial goods.

The normal method of valuation, I might add, which applies to virtually all other U.S. imports as well as to imports into all other countries is export value, that is, the wholesale price of the product as offered in arm's-length transactions in the country of origin. For the reasons I have cited and the fact that this particular system deviates so sharply from the common practice, other countries consider it an unjustified anomaly in our trade policy. From the very beginning of the negotiations they made it a major issue, even though we made it crystal clear that we had no authority to change it under the authority of the Trade Expansion Act.

Because of the validity of those complaints and because our national stake in world trade in chemicals is so large—we export some $2.7 billion in chemicals and our net export surplus is no less than $1.8 billion—so that we have much to gain from liberalization of barriers throughout the world in this industry—we undertook a series of intensive studies of this issue over a 2-year period. And now I come to my second point, what the effects of the removal of ASP and its conversion to the normal basis of valuation would be.

Effects on Chemical Industry

I recognize that there are those who would have the Congress and the public believe that the economic effects on this industry would, and I quote, be "disastrous." So serious a charge properly merits a painstaking examination. I am sure when the Congress examines the legislation which the President will be submitting that a vital and objective review of all the facts will be made. We shall at the appropriate time provide all of the reasons we have found that lead us to conclude that no disaster lies ahead. I can understand the self-interest of those who have benefited for 45 years from an extraordinary system of tariff adjustment and from the very high level of protection it creates in perpetuating that system. Nevertheless, the national interest and the posture of our trade policy throughout the world requires a full evaluation of all pertinent considerations.

Very briefly, what our studies found was a remarkable record of growth and a well below average problem with imports. And, I might add that the studies were based on evidence submitted by the industry in four separate public hearings, two of which dealt entirely with the ASP issue, as well as on extensive consultations with firms in the industry.

Let me cite but a few figures, both for all of the chemical industry and for that portion protected specially by ASP. It is not always meaningful, I should note, to attempt to concentrate only on the benzenoid portion of the chemical industry. Useful data are not always available for benzenoid activities only. Perhaps more important, we found that some of the major chemical companies—large, integrated, and diversified firms—also dominate the benzenoid sector, though their benzenoid production and sales are often but a small fraction of their total corporate activity. In such cases it is not reasonable to examine only the small fraction and overlook either the largest area of their activity or the close interrelationships between the parts.

We found that in 1964, the base year for data for our negotiations, the chemical industry sold products worth $36 billion of which $3 billion were protected by ASP. ASP imports, in turn, were $50 million, of which only about half were deemed by the Customs Bureau to compete with American-made chemicals. This works out to an import "penetration" less than 1 percent of our domestic market for competitive products, far below the national average for all manufacturers.

We found further that not only has the chemical industry generally been one of our fastest growing industries, as is well known, but also that its benzenoid segment has a growth record—overall from 7 percent to 8 percent per year—that is impressive indeed. I probably need not detail our export record in chemicals. The average increase has been no less than 10 percent per year. We have not only the significant export surplus I noted earlier, but a surplus with each of our major trading partners—with Japan, with Canada, the EEC, and the United Kingdom.

Our chemical exports, further, have grown even faster than average into those foreign markets where the local firms have an advantage over our producers by virtue of customs unions or free trading areas, such as the EEC and the EFTA nations. Our share of the EEC import market, for example, is equal to that of Germany, our strongest competitor and one with favored tariff treatment in selling into the other EEC member states.

The picture for benzenoids alone, though the figures are less complete, is much the same. Our exports in 1964 probably exceeded $300 million. We exported at least six times as much as we imported or better than a tenth of production. We exported more than we imported, substantially more in most cases, in each of the major benzenoid product groups—in intermediates, in dyes, in pigments, to name the presumedly more sensitive ones, and clearly more in those groups where our competitive strength is seldom called into question—in plastics, in pesticides, plasticizers, and surface active agents.

We also found great concentration of production and sales in the hands of a few large firms. While small firms, often specializing in a few products or special services, are found in many benzenoid product lines, we also found, for example, that five integrated and diversified companies account for two-thirds of total U.S. production of benzenoid intermediates. Imports of all intermediates, by the way, were less than 2 percent of sales in 1964, and exports were well in excess of $100 million.

Much has been and undoubtedly will also be heard about our dye industry, which is also protected by ASP. We found that four firms make more than half of all sales in our domestic market and 10 have three-quarters of the total, that sales have experienced an average growth of 8 percent per year, and that imports of competitive dyes were again less than 2 percent in 1964.

Another area of which much has been said is the pigment sector of this industry. Here we found that a single large firm has 25 percent of all sales; another four bring the share up to 60 percent of the market. Again, the growth rate has been well above the national average. Imports were almost all deemed not competitive with U.S. pigments and barely accounted for 1 percent of total consumption.

These are but a few of our specific findings. In reaching our conclusions both on conversion of the ASP system and on the rate reductions that we negotiated in the Kennedy Round or those we shall be submitting to the Congress, we applied the same standards as we observed in determining the reductions we could offer on all other products of American agriculture and industry. We examined carefully all available evidence on the individual companies and their workers, the prospects for future growth, the ability to adjust to increased competition, and the potential for benefiting from new opportunities to expand exports. We reached a judgment on whether tariff reduction would cause serious injury and whether the industry has the competitive strength to adjust to such concessions, taking into account the adjustment provisions of the Trade Expansion Act. In the end we found that most parts of the benzenoid industry would not be seriously injured by elimination of ASP and reduction by 50 percent in the equivalent duties computed on the normal basis of valuation. For others, we found that elimination of ASP would have no adverse effect, but that reduction of duties by 50 percent would. In such cases, we have proposed lesser tariff reductions.

I cannot leave this subject without taking note of the criticism which has been made of the manner in which we achieved a satisfactory negotiation of the ASP issue. We insisted, you may recall, that any negotiation would have to be separate and distinct from the chemical negotiations in the Kennedy Round, so that the Congress would have a full and free opportunity to judge the issue on its merits and to determine, as well, whether reciprocity would be obtained in return for abolishing the system. We also insisted that a satisfactory balance of concessions in chemicals be achieved within the Kennedy Round in keeping with the purposes of the Trade Expansion Act. as well as to prevent "overloading" the separate ASP package and thereby impair the free deliberation of its merits by the Congress.

These results were not easily achieved. Until virtually the last week our negotiating partners refused to spin off, so to speak, what they considered to be a major negotiating objective or to pay additional coin in return for its elimination. In the end, however, we were able to achieve a separate ASP package. as well as a balanced deal within the chemical sector in the Kennedy Round.

Balance of Benefits

This brings me to my third point. A proper appraisal of the benefits gained and given in a trade negotiation necessarily involves a composite judgment based on the nature and volume of the trade subject to concessions, an evaluation of the potentials thereby created for future trade expansion, and on the depth of the concessions made. Combining all these factors, the United States negotiated a balanced exchange with each major participant within the Kennedy Round while retaining ASP and, should the Congress approve legislation eliminating ASP, we shall obtain further valuable concessions both to the chemical and other industries. Together, the two packages commit the major nations to make the same average overall percentage reductions in chemical tariffs and to eliminate significant nontariff barriers against the trade of their partners.

In each of the two packages, the concessions received by the United States cover a substantially larger volume of our exports than the volume of imports on which concessions were granted. Taking into account both trade covered by concessions and the depth of the concessions, the United States thus stands to benefit on balance in each package. This positive balance also holds in our bilateral trade with each major participant. Our chemical industry, in short, stands to derive substantial benefits.

We should derive substantial benefits not only on balance but, critically, in the areas where it most counts. Foreign tariffs on our most rapidly growing export products will be drastically reduced, while the exceptions to a 50-percent concessions by others should not adversely affect our future trade to any significant degree.

If ASP is eliminated, our negotiations will result in tariffs abroad being uniformly reduced to extremely low levels, thereby providing very considerable opportunities for our chemical industry. With very few exceptions, there will be no rate in the United Kingdom or in the EEC above 12.5 percent. Tariffs on plastics, for example, will almost all be 10 percent or less in the rapidly growing EEC and United Kingdom markets if ASP is eliminated. In 1964 we exported nearly $150 million of plastics to these two markets alone. Another of our burgeoning overseas markets is in organic chemicals, other than plastics. The United Kingdom here will bring its many 33⅓-percent rates down to 12.5 percent. Some $50 million of U.S. exports of organics go to the United Kingdom alone. The EEC, in turn, will be cutting by nearly 50 percent on an even larger volume of our exports.

Most Japanese duties will be below 15 percent, as will Canadian rates. By comparison, U.S. tariffs in certain key benzenoid sectors will still be 20 percent, while sulfa drugs will be 25 percent and dyes and pigments will be dutiable at 30 percent, substantially above comparable rates in other countries.

We are confident that rates such as these will provide a sufficient level of tariff protection for the U.S. benzenoid industry, a strong and efficient industry with a demonstrated record of international competitive ability. On the other hand, the concessions we have gained should permit it, in turn, and the rest of the chemical industry as well to continue to expand significantly their already substantial export surpluses.

LOOKING FORWARD

Now I would like to turn briefly to the far more distant future.

There are many ways the United States could move on from the Kennedy Round. We could simply seek another general round of tariff reductions. We could pursue specialized negotiations on certain products, or with certain countries. We could concentrate on some, or on all, nontariff barriers. There is a very wide range of alternatives.

The President has asked, as I said, for a major study of U.S. trade policy to determine which courses of action would be desirable in the coming years. This study will give us all a chance to catch our breath and to give close scrutiny to the likely effects of the Kennedy Round, while evaluating what remains to be done. It is my hope that Members of Congress will take an active interest in this study.

The range of issues which will require careful thought, and on which we shall be seeking your advice, is wide.

Many of these issues relate to the special trade problems of the developing countries. These countries are acutely conscious of the need for expanding their exports, and have been pressing in recent years for a new, general kind of discriminatory treatment. As you know, what they want is preferential access for all developing countries into all major industrialized countries. Such a step would, the developing countries claim, give them reasonable opportunity to export, while putting all of the developing countries on an equal basis. These countries have pressed their desire for preferences very hard, and many developed countries now appear to be willing to provide such preferred access. The President indicated at Punta del Este that he was willing to consider whether a common effort among the developed countries was desirable and feasible. Exploratory discussions along these lines are now underway in the OECD.

Meanwhile, proliferation of special trading arrangements between developed and developing countries continues. These arrangements tend to harm many countries while favoring only a few, and thus threaten to offset many of the good effects of most-favored-nation tariff reductions such as those most recently achieved. Proliferation of discrimination, if carried further, could hurt, most of all, the developing countries themselves, with a chosen few receiving modest benefits from certain highly industrialized countries, and many others being left as orphans. Somehow, we feel, a way must very soon be found to halt this trend.

Looking at trade more generally, tariffs will in the future be much lower, and in a number of cases remain only at nuisance levels. And as I said, in the case of Canada, we have actually gone to free trade in many areas. And this raises a fundamental question of approach. Should future trade negotiations adopt the same across-the-board basis as the Kennedy Round, or should they be focused upon particular commodities, as Eric Wyndham-White, the Director General of GATT, has suggested.

In the agricultural field, tariffs are becoming even less important relatively to other impediments or artificial stimulations to trade. We must try to see if the United States can obtain significant liberalization of agricultural trade for our exporters, because we are quite aware that in the Kennedy Round we made a start, but only a start. But at the same time we shall have to ascertain what present U.S. protection we might have to give up to buy such liberalization. In trade, as you know, nothing is free. A major effort may be needed to limit the use of export subsidies, especially in countries where high price supports are in operation.

One of the most difficult, complex, and far-reaching areas with which our future trade policy must deal is that of nontariff trade barriers. The obstacles to the unimpeded, nondiscriminatory flow of goods other than tariffs take many forms. Moreover, they have very deep roots in the fiscal, social, and economic policies of each nation and by that token can be only slowly and painfully removed through international negotiations. Their impact on trade and their distorting effects on international competition are often not readily apparent, which makes them all the more arduous to negotiate and eradicate.

A difficult question, therefore, that we will face is what of our own NTB's we shall be prepared to give up in exchange for the dropping of other nations' barriers.

As part of our study, we will attempt to compile a complete index and analysis of all nontariff barriers, both foreign and domestic. In this effort, we will be seeking the cooperation of business and of agriculture. We are pleased to find that the national chamber of commerce has recognized the inadequacy of data in this field and is working on its own compilation.

It may well prove useful to us in this project, as well as in other aspects of our study, to hold public hearings.

There is need again for careful thought about what can and should be done toward improving American export performance. In particular, we must see whether American exporters are disadvantaged in any way in comparison with foreign exporters working under the benefit of their government's export programs or tax systems. We need to consider whether new U.S. export incentives are feasible and consistent with orderly development of world trade. At the same time we should consider what actions may be necessary to control the unjustified use of export incentives by other countries.

Export incentives are only one aspect of export performance. A good deal more thought is needed concerning the relationship between exports and foreign investment by American firms. We shall also need to know more about the extent to which tariffs will act as an incentive to invest abroad to get behind tariff walls despite the Kennedy Round reductions. The trade flows within major international firms, many of which have lost their national identities, is another area about which we need to know much more. The worldwide flow of technology, investment, and trade within some industries may very well provide appropriate conditions for free trade in the products of those industries.

The many interrelationships between trade and investment in economic growth and development today have another crucial bearing upon our trade policies. As the importance of the truly international corporation grows and the two-way flow of trade, capital, and technology accelerates, what is done in one field or in one geographic area inevitably affects our policies and our performances in others. If, for example, we would have other countries welcome our subsidiaries and our steadily growing direct investments, and if our investors abroad are to expect continued equal and reasonable treatment, then we must see to it that the legitimate economic interests of other countries are also taken into account in the determination of our own policies here at home. An industry with as large and promising a stake in foreign markets as the chemical industry, for instance, should be aware of the intensity of the grievances abroad over the tariff barriers we have erected against the chemical products of other countries.

Domestic Adjustments

We must give further thought to means by which our domestic economic adjustments to increased trade are facilitated. It is clear that improved adjustment assistance provisions are needed to ease the plight of those adversely affected by increased imports resulting from concessions which are of more general benefit. There has been a tendency in the past to turn to protectionism when economic dislocations threatened to occur. Ad hoc measures to protect certain products may continue to be needed from time to time if emergencies come about. On the whole, however, if international trade is to be further expanded, the beneficiaries of this trade, including the United States, must strenuously resist adoption of special protectionist devices. At home we shall have to give much thought to finding the desirable balance-of-trade promoting, and protective devices designed to ease the process of economic dislocation. And finally, we should have another look at existing restrictive programs to see whether they can be adapted to the 1970's, or whether they should be gradually phased out.

In these remarks, Mr. Chairman, I have touched upon some of the problems which need to be studied in coming months. There are many more which need to be studied because, as you know, trade policy is extremely complex. In order to grasp this wide range of issues we are planning to establish a number of task forces within the executive branch, which will include consultants from universities and from industry. We intend to maintain close ties with various industry, labor, and agricultural groups around the country. Most important, we welcome your active interest in all aspects of the trade policy investigation.

Our intention is to consult Members of Congress as we proceed with the study for the President, as we did in the Kennedy Round. New steps, as Senator Javits suggested, inevitably require legislation, making it a matter of paramount importance that the views of the Congress be fully considered in the formative stages of recommendations. In this way, we can plan new steps toward increased world trade and prosperity, with the knowledge that our policies and our actions represent the best interests of the Nation as a whole.

The Kennedy Round was only a step in the march toward freer world trade. And the goal of world economic benefits must be pushed vigorously.

Thank you very much.

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

For the purposes of the record I ask unanimous consent that the statement by Mr. Schnittker, Under Secretary of Agriculture be included in the record.

Without objection, it is so ordered.

(The statement follows:)

STATEMENT OF JOHN A. SCHNITTKER, UNDER SECRETARY OF AGRICULTURE

Mr. SCHNITTKER. Mr. Chairman, I am pleased to have the opportunity to report to you on agriculture in the Kennedy Round because I have a very definite personal interest in this trade negotiation and in agricultural trade policy issues, and in Kennedy Round problems. As you know, during the final weeks of negotiation I headed our agricultural contingent in Geneva. This has been interesting and rewarding work. It is work, I might add, which is vital to the improvement of farm income in the United States. Exports of farm products constitute a large and growing part of our sales. This year they will reach a new record of $6.8 billion or more. We think a total of $8 billion by 1970 is a probability, and we see $10 billion by 1980 as a distinct possibility.

Many factors enter into export expansion, but the one vital factor is access to world markets. The Kennedy Round has given us better access to our foreign agricultural markets. Concessions won at Geneva will mean substantially larger sales for many of our farm product exports.

We gained considerably in fruits and vegetables, oilseeds, tobacco, variety meats, tallow, and a number of other products. The concessions granted by others covered over $900 million in their imports from the United States in 1964. On products accounting for over $700 million—where we have an important export interest—duties were cut. These cuts averaged over 40 percent.

The Kennedy Round has also given us a new grains arrangement which will provide additional price insurance to U.S. wheat producers. This arrangement contains, also, significant food aid provisions, completely unprecedented in any multilateral accord of which I am aware. Apart from their intrinsic humanitarian worth, and this in itself is adequate justification for them, these provisions should open new commercial outlets for wheat and to some extent, feed grains.

U.S. duties on some products also came down and imports can be expected to increase moderately. Duties covering around $500 million were cut by an average 39 percent. The existing duty or duty-free status of an additional $290 million was bound against upward change. Many of these concessions relate to tropical products which we do not produce. They were granted for the benefit of the developing nations. Bargaining is never completely without pain, however; some of our producers will be exposed to increased competition, and some to sharper competition than others. To my knowledge, though, no producer will be exposed to serious economic injury.

To be able to report this much success is a pleasure. But I would be less than frank if I did not hasten to say that I also have a sharp feeling of disappointment. In this negotiation we were unable to improve our position with respect to the EEC variable levy system. That system, which insulates home producers from the effects of outside competition regardless of the difference in efficiency, is perhaps the greatest unsolved problem in international agricultural trade today.

Now let's look at some of the specifics:

Grains

The bargain struck in grains has been discussed to a considerable extent in recent days so I will review only the highlights, the most important of which is that the grains arrangement is good for American agriculture in spite of the fact that we didn't get the guaranteed access we sought.

Pricing provisions will raise the world price floor from the current level by 23 cents a bushel. The "reference wheat" is No. 2 Hard Winter wheat, ordinary protein, gulf location. This increase gives U.S. wheat farmers additional price insurance. The current $1.50 minimum under the existing International Wheat Agreement relates to about $1.15 a bushel at the farm, whereas the new minimum of $1.73 relates to $1.38 at the farm. Obviously we have helped our farmers.

Food aid provisions of the agreement call for the industrialized countries to provide the less-developed countries 4.5 million metric tons a year. Helping the less-developed countries was one of the objectives of the Kennedy Round. I have mentioned that we reduced and eliminated duties on many of the products which they have to sell—this was a major contribution by the United States. The food aid provisions of the grains arrangement are another major contribution. Hopefully this program will form the nucleus of a larger and truly multilateral attack on hunger in the world. Moreover, because importing industrialized countries will furnish 1.9 million tons of the 4.5 millon ton program as wheat or feed grains, our farmers should enjoy some expansion of their foreign commercial trade.

Let me point out in this connection that we set a new all-time record for commercial exports of wheat and wheat products in the marketing year that ended June 30, 1967. In that year we sold for dollars some 430 million bushels—94 million more than last year.

Our total wheat exports for the year are expected to be in the neighborhood of 735 to 740 million bushels—just about equal to our target. A decrease in Public Law 480 has been balanced by the increase in commercial sales.

All this is evidence to me that we are moving in the right direction. We prefer to sell for dollars whenever we can. The developing countries would prefer to buy their grain for dollars whenever they can. The sharp expansion of dollar sales shows that we can move—that we are moving—toward sounder trade patterns, greater self-help on the part of the developing nations, and increased sharing by other countries.

To my mind, the extent to which we expand food exports for dollars is one measure of our success in helping the developing countries meet their food problem. Conversely, an expanding need for Public Law 480 food, other than needs growing out of emergencies, should be cause for concern.

A negotiating conference to work out an International Grains Arrangement will be held in Rome on July 12. The new pact is expected to replace the existing International Wheat Agreement, substantive features of which will expire July 31, 1967.

Oilseed and related products

We did well on oilseeds. Japan cut the duty on soybeans by 54 percent, and on safflower seed by 50 percent. These are significant cuts. Japan's soybean trade had a value of $154 million in 1964 and safflower seed $22 million.

The United Kingdom completely eliminated its Commonwealth preference on soybeans. Our exports in 1964 were worth over $19 million.

Concessions we gave other countries in this category had an aggregate value of around $41 million. We are not major importers of oilseeds or oilseed products.

Livestock and meat products

We got many useful concessions on the products we export in this sector. The EEC cut its duty on variety meats from 20 to 13 percent ad valorem, eliminated its low duty on inedible tallow and cut the duty on edible tallow. Our sales of variety meats to the EEC amounted to $31 million in 1964, our sales of tallow to $36 million. Japan reduced its duty on tallow from 4 to 2.5 percent. Our sales here amounted to $35 million. Altogether these concessions amounted to a trade of $140 million. The United Kingdom cut its duty on variety meats from 20 percent to 10 percent ad valorem. These are some of the major reductions.

On our side, we reduced the duty on fresh pork—and Canada did likewise. This is one of the items where we and the Canadians maintain the same duty. Trade in fresh chilled and frozen pork moves back and forth across our border. Our import duty on lamb was cut in half—from 3.5 cents per pound to 1.7 cents per pound and our duty on canned beef was also cut. Lamb imports over the past 5 years have been stable. They amount to only 2 percent of U.S. production.

We did not reduce U.S. duties on fresh chilled and frozen beef, veal, and mutton, on cooked beef, on feeder cattle, or on wools finer than 44's. These products accounted for about $370 million in U.S. imports in 1964—by far the bulk of our dutiable imports in this livestock sector. No cuts were made in the duties on canned pork, although the current rate of duty—3 cents a pound—was bound at that level.

Fruits, vegetables, edible nuts, and wines

On fruits and vegetables, we negotiated the most meaningful bargains with the United Kingdom and the other EFTA countries. The United Kingdom made significant concessions on fresh vegetables, fresh fruits, canned fruit—notably peaches and fruit cocktail, raisins, almonds, and pecans. The Scandinavian countries made attractive tariff cuts on fresh, canned, and dried fruit.

Canada, our principal market for fresh vegetables, accounted for nearly three-fourths of the concessions we got in that category, as well as making significant cuts on numerous other products. On a number of products—such as fresh apples—we were able to negotiate the elimination of duties by both ourselves and Canada. This continues a long and mutually beneficial process of eliminating restrictions where the trade between ourselves is largely a two-way affair. The EEC made a few cuts on fresh grapefruit and canned grapefruit juice, cut duties slightly on canned fruit cocktail and grapefruit sections. We were sharply disappointed, however, in that we were unable to resolve either the sugar added duty problem or the fresh fruit reference price problem with the EEC. Both of these remain to be dealt with.

We gave concessions covering less than one-fourth of our competitive imports of fruits and vegetables. Among the U.S. cuts of most interest to U.S. producers were those on canned tomato paste and sauce where the duty was cut by 20 percent and on canned whole tomatoes where the cut reached 30 percent. We reduced the duties slightly on champagne and vermouth, but not on the major still wines.

Tobacco

On tobacco our major negotiation was with the EEC. The EEC agreed to scale down from 28 to 23 percent the ad valorem duty on unmanufactured tobacco and to set the maximum charge at 15 cents a pound instead of 17.2. This will help. Even though U.S. tobacco will have to pay the maximum, it will pay less than it did formerly, which means we'll be on more even terms with our competitors. In return, we cut our duty on oriental cigarette leaf by 10 percent, for the benefit of Greece and Turkey—EEC affiliates. We did not cut duties on cigar tobaccos nor on cigarettes.

When the United Kingdom cuts its Commonwealth preference of 21.5 cents to 17.2 cents, as proposed, our leaf will be more competitive in the British market. The United Kingdom proposal is tied to our removal of the American selling price system of valuation.

Austria, Denmark, and Sweden granted duty-free bindings on tobacco, and Finland cut its duties 50 percent.

We were disappointed in not obtaining tobacco concessions from Australia, which has erected very high trade barriers around its tobacco industry.

Dairy and poultry products

We also hoped for more than we got in the dairy and poultry area. Our biggest disappointment was the continued failure of the EEC countries to give us market access for fresh frozen poultry and to agree to meaningful limits on EEC chicken export subsidies. We did get a 19-percent reduction on canned poultry from the EEC, but exports to that area are small when compared to the market for the frozen product we had up to 1963. This remains a problem for us.

Japan reduced the duty on whole turkeys from 20 to 15 percent.

Our principal concessions in the dairy area were tariff cuts on Swiss and Roquefort, and certain Italian cheeses. These types do not come under the section 22 quota system.

Those are the highlights of the concessions exchanged. I would characterize the net result of the Kennedy Round as "modest liberalization." It will improve our access to markets.

LOOKING AHEAD

American agriculture came to the Kennedy Round in a spirit of expectation. We sought a general lowering of agricultural trade barriers which would give efficient farmers, ours and in other countries, a greater opportunity to sell competitively in the world's expanding markets. We looked on the Kennedy Round as a means of helping world trade in general and our own export drive in particular.

To some extent, our expectations were realized. Considering the problems encountered, we emerged with far better results than we thought possible during some of the darkest days when negotiations almost broke off.

But while the negotiation has given us modest trade liberalization, it also has made us aware of the problems we still face in bringing more order to world agricultural trade. To me, this is the really significant result at Geneva.

The Kennedy Round has shown beyond doubt that we cannot buy—with reductions in duties—removal of the major barriers standing in the way of a substantial and orderly trade in farm products.

The Kennedy Round has also shown that a massive, multilateral trade negotiation involving all countries and all products is not an appropriate way to get at the root of agricultural trade problems. It provides too much opportunity for avoiding the real business at hand.

The Kennedy Round ended up being primarily a tariff negotiation. Tariffs remain an important means of protecting producers in many parts of the world. But in agriculture, particularly, other barriers are numeous and complex. Negotiators met with only limited success in removing or lowering them and, on the really hard-core products, had no success at all.

Overall, the problem of liberalizing trade stems from the almost general disparity in income between farm and nonfarm people. As a rule of thumb, around the world a farmer gets only about one-half as much income for his labor and investment as the nonfarm sectors of the respective countries enjoy. That disparity poses an obligation on every government to protect the incomes of its farmers and still make sure that all the people have enough food and fiber and other products of agriculture. It is an obligation that has called forth price and income programs in every country in the world. These take many different forms.

The European Economic Community for most products attempts to keep domestic agricultural prices high through a variable levy system. The EEC sets the prices, and the variable levies remove the effect of outside competition, because they always are high enough to offset any competitive advantage the outside product might have. This is truly a formidable barrier to trade. The variable levy on grains, for example, is about 100 percent ad valorem.

The United Kingdom favors the deficiency payment support system. Here internal consumer prices are allowed to seek their own level. But producer returns are kept at Government-set levels through producer payments which make up the difference between these levels and what they receive in the marketplace. The impact of this system on exporters is more obscure, but severe nevertheless. High producer prices increase domestic self-sufficiency, and the effort of an exporter to hold his sales in that market leads to artificially low and unremunerative prices.

We have our support programs in the United States also, as you know. In some cases—in cotton and wool—the program is a combination of deficiency payments and tariffs or quotas. In dairy, it is a combination of a support price and quotas and tariffs. In grains, we use a certificate program. Our system is different from most, however, in that we use, in many cases, production controls to prevent our programs from leading to ever-increasing excess output.

Government support programs often lead not only to import control, but also to export assistance. The EEC has export subsidies. Denmark uses a two-price system in which prices for products marketed at home are held at one level, while exports are marketed well below that. Other countries use marketing boards that have great flexibility in price practices. These practices are widespread.

Let me share with you a concrete illustration of the kind of problem I have been talking about. Just the other day we had to make the very difficult decision to recommend sharp restrictions on imports of dairy products into the United States. This was not a pleasant decision, as a country which exports as much as we do must be prepared to import as well. But the trade was not a healthy one. Under the EEC system of high dairy support prices protected by variable levies, production has increased to the point that heavy surpluses of butter and cheese are a glut on the EEC market. Under such circumstances, the EEC export subsidy counterpart of the variable levy operates almost automatically to move these surpluses out of the EEC irrespective of their impact on the trade of more efficient suppliers or on the economies of importers. They move to wherever they can find entry at whatever price they can command.

EEC butter, therefore, being produced at a price of 60 to 65 cents per pound was being sold in the United States for around 22 cents per pound. It was entering the United States as a butterfat-sugar mixture in circumvention of existing U.S. import controls on butter, and in quantities which were interfering with the operation of our own support program. This was a situation which caused major difficulties for us and for all our traditional trading partners. We could not allow it to continue. The butter came to the United States because it could not go elsewhere. Some years ago, the United Kingdom, faced with almost the same problem, instituted quotas to protect her suppliers—New Zealand, Australia, and Denmark. Japan imposes tight quantitative restrictions, as does Canada and others.

You will recall that not too many years ago the United States also had burdensome surpluses of dairy products. We didn't dump ours indiscriminately into the international market. We stored them, used them at home in school lunch programs and to feed our needy. We moved them abroad only when the demand was such that they did not disturb the international market. It is a pity that other major producers have not practiced similar restraint. Their practices will make it difficult for all of us in the years to come. I might say, parenthetically, that we in Agriculture are determined to prevent export subsidization from undercutting our producers, either in our own country or in their foreign markets.

Even if countries were agreed, therefore, on the kind of order they wanted to put into the international trading system, the task of reshaping its numerous and complicated barriers to do this would be a formidable one. Even to catalog and understand them is difficult. To deal with them all in a comprehensive way is virtually impossible. This the Kennedy Round has made clear to us.

How can we deal with these barriers? What kind of plan can be used? What should our agricultural trade policy be? Ambassador Roth has mentioned the trade policy study which he will undertake over the next year. This will help us decide and I cannot anticipate it. I can suggest, however, that he explore carefully the following principles, which I think are essential.

The underlying objective in U.S. agricultural trade policy must continue to be of orienting agricultural trade flows on the basis of efficiency. In other words, those who can produce abundantly, inexpensively, and well should produce and should be leaders in trade.

There will be exceptions, of course. If some countries insist on producing at heavy cost simply because they are so inclined and have the money, we can't prevent them. But we can try in every way we know to show them that they are wrong and where they are wrong.

We should focus our attention on individual products or, at most, product groups, and we should seek to deal in depth with the barriers affecting these so that when we have reached an accord, we have some hope that it will stick. It doesn't help to lop off one barrier only to have another take its place because we have not gotten at the root of the trouble. And I think we should start these explorations among key countries in the very near future.

We must recognize that we have to work with and adapt the support systems which exist to the international economy we want. In the Kennedy Round, the United States supported this kind of pragmatic approach. We wanted to isolate the system in each country and see the full depth and scope of the barrier in its own setting. The EEC, however, supported a different approach. They seemed to want to introduce certain common elements into every country's system, such as international reference prices and variable levies, which characterize their system. This was clearly impossible. With patience and effort, existing systems can possibly be oriented toward freer international trade based on efficiency in production. They cannot be abruptly overturned or replaced, however, to accord with anyone's preconceived plan for market organization.

THE DEVELOPING WORLD

Let's also recognize that the Kennedy Round had more significance for the industrialized nations than it had for the developing countries.

The United States tried hard to make it a more meaningful round for the less developed countries. In agriculture we cut and in many cases eliminated duties on tropical products valued at almost $120 million—products such as Indian cashew nuts, Brazil nuts, Philippine desiccated coconut, and so on. We committed ourselves not to put duties on fresh bananas and other products now duty free amounting to about another $140 million. And we also cut duties on some temperate products—in which the developing countries had a trade interest approaching $70 million. I know of no other area of the world that did as much in this way as the United States.

The legitimate needs of the developing countries can be only partially met through this conventional trade route. President Johnson said last April, at Punta del Este:

> We are ready to explore with other industrialized countries—and with our own people—the possibility of temporary preferential tariff advantages for all developing countries in the markets of all the industrialized countries.

These are ways in which we can help the developing countries to grow—to develop their agricultural economies, for economic growth in Asia, Africa, and Latin America depends to an increasing extent upon agricultural development.

Agriculture performs several functions in promoting economic growth. It supplies the food required by urban populations, otherwise precious foreign exchange must be used for food imports. It must generate some of the raw materials for industry, earn foreign exchange, and make labor available for industrial construction and expansion. Agriculture also must provide part of the capital accumulation needed for further growth, as well as being a market for such industrial products as fertilizer, farm machinery, and a broad variety of manufactured consumers' goods. To the extent that a country's foreign agriculture promotes general economic growth, to that extent, it creates a basis for commercial trade.

U.S. help with this agricultural development goes far beyond just being a good market. We are spending hundreds of millions of dollars to finance the transfer of American farming techniques; improvement of transportation, marketing, and irrigation facilities; establishment of extension service, cooperatives, credit systems; purchases of American-made farm equipment, pesticides, and fertilizer; and research on soils and seeds.

For many years the United States has been loaning know-how through the Agency for International Development and its predecessor agencies, and through programs operated by State universities and private consulting organizations. More recently these programs have been broadened to include the Department of Agriculture, through establishment of an International Development Service, which is financed by and works closely with AID.

We have furnished over $18 billion worth of food aid since 1954. We insist now that this aid be accompanied by a major self-help effort on the part of the countries receiving it. We also are insisting these days that other countries help us carry a part of the burden, through the India aid consortium, world food program, and other multinational aid efforts.

Altogether, progress is being made in meeting the world's food problem. And progress is being made almost everywhere in the vital area of economic development.

IN CONCLUSION

American agriculture has immense influence in world affairs. This influence will grow as both populations and per capita incomes of the world's people rise and strengthen demand for the food and fiber we can produce with such efficiency.

But trade, ultimately, is the conduit through which the bounty that is ours can reach foreign consumers. Fundamental to that trade is the extent to which the world's people allow comparative advantage to function. That's why the solution of trade problems is so important. The Kennedy Round resolved only some of agriculture's trade problems. Many remain. But I think the Kennedy Round did help clarify the thinking of our own participants and of our trading partners. It gave us new insight and perspective as we try again; and we must try again and keep trying. Only as trade in food and agricultural products is allowed to flow in a relatively unrestricted manner will the world's people share, as they should, in all the good things that our modern science and technology can make available.

Chairman BOGGS. Senator Miller?

Senator MILLER. Thank you, Mr. Chairman.

Mr. Ambassador, I would like to touch on some of the agricultural matters. As I understand it, as far as grain is concerned, there was no agreement regarding the guaranteed access or reduction in tariffs on the part of the Common Market, is that correct?

Mr. ROTH. That is correct.

Senator MILLER. I understand further that we did take the position that we should have a guaranteed access, that was our original position, was it not?

Mr. ROTH. That is correct.

Senator MILLER. And may I ask, what was the percentage that we asked for?

Mr. ROTH. We in effect asked a percentage that would give us what, during the base period, was our actual access. I think that was about 25 percent.

Senator MILLER. And what was the base period?

Mr. ROTH. 1964–66.

Senator MILLER. 1964–66. During that base period we had 25 percent of their domestic market. So what was asked for? May I ask, what would that mean in tons? Do you have a figure readily available? As I recall, it was around a million tons.

Mr. ROTH. Mr. Ioanes says about 17 million, both feed grains and wheat.

Senator MILLER. 17 million. Since we didn't get that, we did obtain an agreement that the Common Market would furnish a certain amount of feed grains per year, am I correct?

Mr. ROTH. Yes, about a million tons for food aid.

Senator MILLER. A million tons.

Mr. Ambassador, are you sure that that 25 percent is of 15 million tons? I did not have the impression that it was anywhere near that amount. We are talking about the 25 percent.

Mr. ROTH. That is for total imports. Are you talking just about the United States?

Senator MILLER. I am talking about the United States access to the Common Market based on the base period 1964–66, which, as I understood it, in the case of grains amounted to 25 percent, which was the point that you were seeking.

Mr. ROTH. That would be about 9 million tons as the American share of the 17 million.

Senator MILLER. 9 million tons. So that our proposition originally was that we would be guaranteed an access of 9 million tons of grain shipments to the Common Market per year. And they refused to give us that. And in place of that we obtained an agreement that they would put up 1 million tons of food aid per year, is that correct?

Mr. ROTH. Plus agreement to a higher minimum price.

Senator MILLER. Yes, but I am talking now about buying.

Now, according to Mr. Schnittker, in the article I referred to from the New York Times of May 19, 1967, he said that the United States gave up trying to get guaranteed access to the market because the Community's final offer had no value. What was the Community's final offer on that access?

(The article referred to by Senator Miller follows:)

[From the New York Times, May 19, 1967]

U.S. FARM TARIFF NEGOTIATOR SAYS ACCORD WILL AID EXPORTS

WASHINGTON, May 18.—The United States won "very significant" reductions in some barriers to America's agricultural exports in the Kennedy Round of trade talks, the chief United States farm negotiator said today.

John A. Schnittker, Under Secretary of Agriculture, just back from Geneva where the negotiations took place, gave additional information on the new grains agreement that came out of the Kennedy Round. He declined to discuss other products in detail.

Mr. Schnittker gave his views at a news conference as Allan Shrivers, president of the United States Chamber of Commerce, issued a statement saying, "There is widespread approval among American businessmen of the results of the Kennedy round of trade negotiations."

Mr. Shrivers said new efforts to liberalize trade "should begin with further elimination of nontariff barriers."

Mr. Schnittker gave these estimates of the effects of the new grains agreement, affecting primarily wheat:

The export price of standard hard winter wheat at United States Gulf ports will range over the next three years from $1.80 to $1.95 a bushel. This compares with an average of $1.70 over the last three years and $1.83 now.

The increase will have the effect of raising slightly the price to United States wheat farmers, but it will not affect the price of bread to the consumer.

The United States gave up trying to get guaranteed "access" to the market of the European Economic Community because the community's final offer had "no value." However, the United States sees a "reasonable chance" that total grain exports to the Common Market (as the community is generally known) will be maintained because production there may grow no faster than consumption and because the community will now have to export more grain under the new food aid agreement for poor countries.

The net effect of the new grains agreement—including the sharing of the burden of food aid to the extent of two million tons by countries that are now importers—will be "a higher dollar value" for the United States in its wheat exports, though probably not much change in the physical volume. The high value would come both from the higher price and the probability that a larger share of United States exports would be for dollars rather than on a "concessional" basis to poor countries.

(The following letter was subsequently submitted by Mr. Roth:)

OFFICE OF THE SPECIAL REPRESENTATIVES FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, July 12, 1967.

Hon. HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: At yesterday's hearing, Senator Jack Miller asked about the value to American agriculture of the higher minimum prices in an international grain arrangement.

There is no question that the American wheat farming community believes that the new minimum price provisions are valuable. This is certainly the view of Herschel Newsom of the Grange and Tony DeChant of the Farmers Union, as well as Allen Tom of the National Wheat Growers Association and Ralph Ball of Great Plains Wheat. All of these farm group representatives were in Geneva with us at one time or the other during the negotiations, and they all concurred in the notion that the higher minimum prices will be of great benefit to American wheat producers.

The new prices of $1.73 per bushel, f.o.b. Gulf, for No. 2 Hard Winter Ordinary wheat is about 23 cents higher than the minimum in the existing International Wheat Agreement. Today, Hard Winter Ordinary at the Gulf is bringing about $1.76 per bushel, whereas a month ago, the price for this grade of wheat at the Gulf was about $1.86. Obviously, what has happened is that the weight of supplies on the market, not just the United States but in other exporting countries has put pressure on prices. In part, this is also due to smaller import demands in certain areas such as the Soviet Union.

Moreover, the same downward drift in international wheat prices has been noticeable in other classes of American wheat and, in one of them, Soft Red Winter wheat, current market prices at the Gulf are below the minimum indicator level of 1.60 per bushel proposed in the new International Grains Arrangement. Again, the basic reason is the same—increased U.S. and world supplies in relation to demand. There is therefore no question in my mind that a new international grain arrangement with prices 23 cents a bushel higher than in the current International Wheat Agreement would give us the possibility of working with other exporters to translate those higher minimums into higher returns for producers.

Sincerely yours,

WILLIAM M. ROTH,
Special Representative.

(The following item was included at the subsequent request of Senator Miller:)

TRADE BLOC SEEKS GRAIN OUTPUT RISE

MOVE WOULD SERIOUSLY CUT NEED TO IMPORT FEED CEREALS FROM UNITED STATES

(By Edwin L. Dale, Jr., Special to The New York Times)

WASHINGTON, July 12.—In a move that could cost the United States millions of dollars of badly needed exports, the European Common Market has quietly set in motion a change in its farm program to increase the production of corn and other feed grains.

This has become known here in the last few days and has caused concern, if not alarm, in both the government and the grain trade.

The move follows the completion of the Kennedy round of trade negotiations, in which the United States won major reductions in the Common Market tariff on industrial goods but relatively little trade liberalization in agriculture.

The Common Market action is a proposal by the Executive Commission in Brussels, still not formally published, to raise substantially the minimum price support levels for corn, barley and rye, without any change in the price level for wheat.

TWO-FOLD RESULT

The result, in the view of both American and European officials, would be two-fold, both elements reducing the huge present European need to import feed grains for cattle and poultry. The United States is by far the largest supplier of these grains, chiefly corn.

First, the higher price support levels would induce European farmers to grow more feed grains, thus cutting the need for imports.

Under the Common Market system of variable levies at the frontier, imports form a "residual" supply, meeting only needs not filled by domestic production.

Second, with feed grains more costly, it would become profitable for some European wheat production to be used as feed for animals rather than for human consumption. This again would cut the need for imported feed grains.

FEED GRAIN DIVERSION

Diversion of wheat for use as feed would reduce the amount available for export by the Common Market, almost all France. But this would not help the United States because French wheat is of a different quality from United States wheat and is sold to markets where United States wheat is not competitive.

Thus, if the proposal is adopted, the United States would lose feed grain exports to the Common Market and would not make up the difference in wheat exports. Total grain exports to the community are about $500-million a year, mainly feed grains.

The proposal by the Common Market commission still must be approved by the ruling Council of Ministers. It would affect the crop year beginning July 1, 1968.

SHIFT OF EMPHASIS

The Common Market commission is reliably reported to be frankly desirous of changing the "balance" of community agriculture, with more emphasis on feed grain production and less on wheat. The six member nations taken together are huge importers of feed grains, yet not exporters of wheat.

Mr. ROTH. They had developed a formula which we said would be acceptable to determine access, based upon the so-called self-sufficiency ratio, that is the ratio of production to consumption. In this base period we felt that domestic production should be around 85 to 86 percent of total consumption. Their last offer was considerably in excess of that. In other words, what they wanted was a level for imports which would give their own producers some possibility of growth. The EEC was insistent on this, and the British were insistent on it. That was one part of the problem.

The second part of the problem——

Senator MILLER. May I ask you before you leave that part of the problem, what was wrong about that from our standpoint?

Mr. ROTH. From our standpoint, in an agreement that lasted at the most for 3 years, we felt that at no time during that period would the access formula actually come into effect and that their formula allowed their own producers too much room to grow. And it wasn't worthwhile paying for this, as we felt that in the feed grain area our exports to the Community, which is more and more a meat consuming area, will grow.

Senator MILLER. But may I ask, the way it came out, haven't we given them just as much if not more room to grow?

Mr. ROTH. But we are not paying for it.

I will come back to this, but may I go on to some other aspects of this problem?

Senator MILLER. Yes.

Mr. ROTH. In order to have an access formula that really works, at a point you get almost into a rigid sharing of markets when the formula comes into effect. We found domestic resistance to this concept. We also felt that a complicated formula such as the self-sufficiency formula would be very difficult to explain. It would be very difficult in particular to explain why we paid something that wouldn't really give us what we thought we were getting. It was much simpler to get a minimum price that would set a higher base than present world wheat prices, and secondly, to get some help in food aid which would do two things: one, take part of the burden, which we have carried alone off our shoulders; and secondly, take a certain amount of wheat off the commercial market.

There is one other aspect of this. The Community and the British—but the Community in particular—said that if you want a minimum price for wheat you should also accept one for feed grain. We couldn't accept that, because the way our trade goes in feed grains we have to have price inflexibility, and because we didn't feel Congress would accept this. But we were caught in this position, saying we wanted a minimum price on wheat but not on feed grains.

So basically what we did in the final weeks was to negotiate an agreement that relates just to wheat. In feed grains, as I said, we feel that we have an expanding market. And this access formula was not that important.

Senator MILLER. On this 1 million tons of food aid, which was one of the trade offers, do I understand that this 1 million tons of food aid from the Common Market countries represents a net increase of 1 million tons of food aid over and above what they have now been supplying?

Mr. ROTH. Of course; since they have not been supplying food aid.

Senator MILLER. There has been no food aid from France or West Germany or the other Common Market countries to any developing country anywhere, Africa, the former French colonies, or any other country in the world?

Mr. ROTH. Practically none in the grains area. The most recent attempt by the United States was not quite a year ago when we tried to put together an Indian consortium. The Japanese agreed to make a contribution, but as far as I know to date we have not been successful in Europe. So this is a new step.

Senator MILLER. Now, are there any strings to this 1 million tons as to what countries will be the recipient of it? For example, is it open to France to ship its food aid to some developing country of its own choosing? How does that work out?

Mr. ROTH. Part of it still has to be worked out, by the way. The International Wheat Agreement group is starting a meeting this week in Rome to work out all the details of this.

Senator MILLER. I am sorry. I didn't hear that last sentence.

Mr. ROTH. I said that the agreement is not entirely worked out in all these phases. We still have perhaps another 3 to 4 weeks of negotiations. The negotiators meet later this week in Rome under the auspices of the International Wheat Agreement.

Mr. IOANES. There will be agreement that the aid will have to go to developing countries. And there will certainly be a procedure whereby, to the extent that the programs are operated bilaterally, as we operate our programs, reports will have to be made to the Wheat Council and a subsidiary body of that Council showing the country of destination and the terms. There will be provisions in the agreement about terms that are acceptable to make them true aid conditions rather than commercial conditions.

Senator MILLER. Do you know whether or not that will include some kind of an understanding by which countries will be the recipient? To come back to my question, will France, for example, be free to determine what country or countries its share of this food aid will go to?

Mr. IOANES. I think that each donor country will have the right—within a definition of developing countries, so that we don't get into the countries that are not developing countries—to determine the country to which its commodities will go. And for our part, this is a condition we would almost have to insist on to make sure that our commodities go to the countries that we could consider eligible under our statutes.

Senator MILLER. And then is it your thinking that because the Common Market will be putting up 1 million tons of food aid which they have not heretofore been doing that this will open up 1 million tons for our access?

Mr. IOANES. Well, certainly to the extent that areas of the world, such as the EEC, the United Kingdom, Japan, and the other exporting countries, contribute grain or cash to buy grain to go to developing countries on concessional terms, this should open up in part, I would say, commercial markets for the rest of the world. I say in part because I cannot cleanly tell you that there might not be some production increases somewhere in the world specifically designed to meet this need. But to the extent that it is taken out of the commercial stream that exists, this will open our commercial market for exporting countries, including the United States.

Senator MILLER. I am speaking now of the EEC.

Mr. IOANES. Yes, sir.

Senator MILLER. And the 1 million tons that they are going to put up. Is it the thinking that this 1 million tons that they are going to put up will open up commercial markets of 1 million tons in EEC?

Mr. IOANES. Not necessarily in the EEC, but in the EEC or third countries.

Senator MILLER. From which the EEC would buy if necessary to meet its commitment?

Mr. IOANES. No, Senator. We would assume that the million tons of grain would come from the Community's own production. But they have exported about 7 million tons of grain in recent years, at least, about 7 million tons. So they will have the option of reducing their exports by that amount, or, say, of taking it out of home consumption and importing food grains to replace their own wheat.

Mr. ROTH. I think that the net answer is "Yes," one way or another. It would remove grains from the commercial market, Senator Miller, and the thinking is that we will be able to obtain that or a good chunk of that, isn't that so?

Mr. IOANES. Correct.

Senator MILLER. Was any consideration given to the possibility that the Soviet Union might take it over?

Mr. ROTH. The question of whether the Soviet Union, which is a member of the IWA, would at a point also become a part of this agreement, remains an open question.

Chairman BOGGS. Would the Soviet Union take over the 1 million tons of commercial market that would be opened up under this agreement?

Mr. ROTH. It could compete for it, obviously, if in any particular year they were in a good export position.

Senator MILLER. I have run beyond my 10 minutes, and I apologize to the chairman. I would like to come back when it is my turn.

Chairman BOGGS. Surely.

Mr. ROTH. Could I make just one remark?

As I watched from the sidelines, it semed to me that the most complex part of the negotiations, other than the chemicals, was a two-way negotiation in grains, first among the exporters, and then between the exporters and the importers. We found it terribly important as we got to the very end to bring people other than those in Government to Geneva—Tony Dechant of the Farmers Union, Herschel Newsom of the Grange, Alan Tom of the National Wheat Growers Association, and others. What we tried to do is bring back, first, something that is simple and, second, is a great advantage to the American producer and is workable. And I hope we have done this.

Chairman BOGGS. I will call on Congressman Reuss in just a minute.

In connection with the questions of Senator Miller, what is the total amount of trade today between this country and the Kennedy Round countries?

Mr. ROTH. The total trade coverage of the Kennedy Round sections was around $4 billion all told.

Chairman Boggs. I am talking about between this country——

Mr. Roth. In the case of the United States—if you take both the imports and exports, you are covering about $7½ billion to $8 billion each way.

Chairman Boggs. What increase do you expect in a period of, let's say, 5 years or 6 years?

Mr. Roth. In world trade?

Chairman Boggs. No; in trade between the United States and the Kennedy Round countries.

Mr. Roth. I have no forecast for you, Mr. Chairman.

Chairman Boggs. Would you make it percentagewise? You have already forecast a very substantial increase of grains.

Mr. Roth. I would hesitate at this point to make any judgment, particularly until our final analysis of what came out of the Kennedy Round is complete, which will be some time ahead. As you know, also, the decreases in the tariffs will be phased over 4 years, so it is going to be a gradual process. I couldn't pick a number out of the air that would have any validity at this point.

Chairman Boggs. Just one other question. Unless Congress acts to extend some kind of authority, what basis do you have for any type of adjustment assistance today?

Mr. Roth. We fall back on the provisions in the 1962 Trade Expansion Act, which labor feels and we feel contain criteria which are too strict.

Chairman Boggs. Yes; but my question is——

Mr. Roth. The negotiating authority expires.

Chairman Boggs. But only the negotiating authority?

Mr. Roth. The rest of the act continues.

Chairman Boggs. Continues as is?

Mr. Roth. Yes. My job continues.

Chairman Boggs. What you are asking is that in any extension that we have certain modifications of the adjustment provision?

Mr. Roth. That is right, sir.

Chairman Boggs. That is all for now.

Mr. Reuss?

Representative Reuss. Thank you, Mr. Chairman.

I wanted to add my congratulations to Ambassador Roth and his associates for the remarkable job they have done.

We have already had some discussion of chemicals and agriculture. Those aside, Mr. Ambassador, what do you foresee as the great export opportunities for the United States that will result from tariff lowering under the Kennedy Round?

Mr. Roth. Thank you very much, Congressman Reuss.

I think the export opportunities are really very much across the board. And they vary from country to country. For instance, as I said, in the case of Canada, where production machinery and associated electrical machinery now covers $5 to $6 million in terms of our exports, they have made very substantial reductions, from 22½ percent to 15 percent. The Canadian agreement in particular is a rather unique one, because both sides made maximum efforts in very large areas. Take lumber, where from Canada unfinished raw lumber comes into this country, and from the United States finished lumber goes back to Canada. In this whole area we go to free trade. So I think in both agriculture and industry—machinery parts is another area—we will have an expansion of trade with Canada that could be fairly major.

The big disappointment—to talk about the negative as well as the positive—the biggest disappointment in terms of what we got from the European Community was their failure to make substantial cuts in the area of advancing technology, such as business machines. In steel, aluminum, and textiles, none of the countries made very substantial cuts. But in most other areas of industry, I think we have the opportunity for substantial increases in exports.

Representative REUSS. Without anticipating the detailed studies which you are now in the course of making, pick off some other bright spots. You have said electrical production machinery for Canada is down from 22½ to 15. Obviously that is all good. What are some of the other bright spots that can bring smiles to some of our American exporters?

Mr. ROTH. May I perhaps go to another question and look up some of these major areas?

Chemicals, for instance, would be one, particularly if Congress passed the American Selling Price.

Representative REUSS. Perhaps you and your associates could file at this point in the record a fuller detailed listing. I think that might be very good.

Mr. ROTH. I would be glad to.

(The list requested was subsequently filed for the record and appears beginning p. 50.)

Representative REUSS. I have one question addressed to Mr. Ioanes.

In Mr. Schnittker's statement he said, as a general principle of world agricultural trade, that those who can produce abundantly, inexpensively and well should produce and should be leaders in trade. How does that excellent precept apply to world production of sugar and particularly tropical sugar? Is that the way we are doing things in this commodity?

Mr. IOANES. It doesn't fit in exactly. The most efficient producers of sugar in the world are centered primarily in Latin America. And the United States has for some time under legislation provided, as you know, for a division of the market between home producers and importers, and has shown preference in this area. Our costs of production are higher than in most parts of the world. So to that extent there may be some clash between the principle and the acts we do.

Now, for this to really work we must take the major developed countries of the world and sell this principle. In other words, it will be impossible to sell the concept of reduced production, greater imports of a commodity like sugar, to the United States unless the other major consuming and relatively less efficient producers are also prepared to reduce their protection.

Representative REUSS. German and French beet sugar, for example, is uneconomic.

Mr. IOANES. There is no question about this. Their costs are higher than ours. And the Community is not only moving to a position of self-sufficiency in sugar beets, they are probably moving to an export position. So if this principle became one that an area like the EEC would observe, we would have to anticipate their moving in another direction, moving away from self-sufficiency.

Representative REUSS. Would you agree on the basis of this that world sugar, with particular reference to the foreign exchange needs of our Latin American friends, should be high on the agenda of immediate international discussions?

Mr. IOANES. I am a brave man. And I would say it certainly is an item that should be discussed. I would think again, Mr. Congressman, that the extent to which this would be a real possibility would depend on our ability and the rest of the world's ability to adjust programs in a number of countries, not just the United States.

Representative REUSS. So far there has not been the international discussion of sugar that there has been in wheat, has there?

Mr. IOANES. No. There was at one point a suggestion that there be discussion of sugar as there was on grain. This got dropped at the last minute, and we never really had a serious discussion.

Representative REUSS. Thank you very much.

Chairman BOGGS. Congressman Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Ambassador Roth, New Jersey ranks first in the Nation in the number of chemical plants and the workers that are currently protected under the American selling price system. On June 30, I believe it was, all 15 members of the Republican and Democratic delegations from New Jersey wrote rather strong letters to President Johnson and to you calling for release of the Report on the Economic Future of the American Benzoate Chemical Industry. To date, to the best of my knowledge, such requests have been refused by you for the 1966 full study by the Tariff Commission on dropping the American selling price. Why isn't it being released to Congress?

Mr. ROTH. Mr. Chairman, the Congressman's question was brought up in the questions by industry on Friday in the chamber of commerce. We pointed out that the Tariff Commission's report contains very confidential material from a great many firms, information that would affect their competitive position. We said, however, that we realized that some of this data would be valuable in assessing our proposed American selling price. And we are considering and have underway a letter to the chemical companies concerned asking if they would approve the release of their confidential information. If it is possible to get such approvals, then I think it is possible that we could make some of this information available.

Representative WIDNALL. Mr. Ambassador, it doesn't seem to me that we can act intelligently in connection with this matter unless we do have available to us the same type of information that you have available to you. I understand your reasons for saying that you want to protect certain people who give information to you. But I believe that those who are going to be vitally affected by this, the people in the chemical industry, are entitled to know the basis that is used for the approach that you and the other negotiators have made to other chemical industries. It seems to me quite apparent that there is a great upset within that industry, and not a general acceptance of your decisions over there. This greatly concerns the future of their industry, and they seem terribly disturbed about it.

Mr. ROTH. Mr. Congressman, I agree very much with what you said. I would like to say only that it is not a question of our policy about releasing this information until we get releases from the companies concerned, it is a matter of law. We are, however, hopeful that we can get such releases.

I would like to say that the Tariff Commission report is only one element that went into our analysis of the problem. We went back to many chemical companies and got as much new information, much of it, confidential, as we could, in order to make as objective appraisal as possible. So we are, sir, working on this.

Representative WIDNALL. In New Jersey they are particularly concerned because of the amount of unemployment within the chemical industry. And I think these figures are significant. Fifty-two percent of the dye workers are Negroes and Puerto Ricans. So the layoff of these workers would have a significant effect, because these are the workers who have the maximum difficulty in transferring to other jobs. The retraining and reemployment of the majority of these people will be difficult, because they earn about $7,500 a year in the industry at the present time. So it will be very disturbing if it isn't worked out to the satisfaction of the other chemical industry.

Are there other systems such as the ASP which you feel are major barriers to trade which should be abandoned in the near future?

Mr. ROTH. On our part, Mr. Congressman, or on the part of other countries?

Representative WIDNALL. On our part and on the part of other countries.

Mr. ROTH. The area of nontariff barriers is so complex—often you get into relatively small problems, but they have a large effect, whether it is labeling, or whether it is a policy of Government procurement.

Let me say that in the nontariff barrier area we are all sinners. In terms of the American Selling Price, which in a way is a variable levy. I pointed out to the European Economic Community that I considered the variable levy that they have around their agricultural products as not unsimilar. But more and more as we work with business, have worked with business, and will be working with business, we have to get into specific instances where nontariff barriers impede trade and gradually try to work these out. Many of them—we mentioned a few—have to do with special products. There are a few very substantial ones. One of these is dumping, and here we have achieved an agreement in the Kennedy Round. Looking to the future, a most difficult one is the question of border taxes.

Representative WIDNALL. Would border tax nullify any efforts made through the Kennedy Round?

Mr. ROTH. No, sir.

Let me state a little about this border tax issue. Under international law as expressed in the GATT it is legal to offset the domestic sales tax or an added value tax at the border by a tax on the import that equalizes the tax payment made by the domestic producer and the importer. And there is not supposed to be, although it may creep in, any protective incidence in this tax. It is based on the economic theory that an added value tax is passed on in the price, whereas a corporate tax is not.

Now, the economic theory, I gather, not being an economist, has changed in the 20 years since GATT was founded. And there is more question now whether the corporate tax is passed on more than, or less than, the added value tax. So this is something that we have to, and are beginning to, talk about, both in GATT and in the OECD.

But I think anyone would be very hard put to be able to prove that the substantial tariff cuts negotiated in the Kennedy Round will be nullified by border taxes that are presently in being.

Representative WIDNALL. The reason I raise the question, I have in front of me a statement recently made that in the Kennedy Round, West German Government tariffs will be cut by an average of 20 percent. That is about 2½ percentage points. However, West Germany will increase its border tax on imports by 5 percent, 5 percentage points, double the Kennedy Round cut. Where do we come out there?

Mr. ROTH. You have to remember that the increase in border taxes is to offset an increase in domestic added value tax. In other words, it is not supposed to be a penalty against imports. We, however, made a unilateral statement that is a part of the Kennedy Round record saying that, if our tariffs are in effect nullified by any protective incidence in the border tax, we would want to consult and take appropriate action.

May I say, because this is such a difficult area, that we have tried working with industry to have more studies made on what the effects of border taxes would be. One group of industrial concerns was going to pay for a study that the National Industrial Conference Board had made. But a lot of work has to be done to even know the nature of this problem. You can't make a sweeping statement in this area; it is too complicated.

Representative WIDNALL. But if our only recourse to being hurt is to go to a committee and make a complaint and have a hearing and go through something like an appeal to the Tariff Commission, where you end up with a decision on this thing maybe 2 or 3 years later, in the meantime we can be hurt badly. And I think we should understand fully what the advantages are that West Germany will gain through the imposition of the border tax.

Mr. ROTH. If we can prove that they gain an advantage in terms of additional protection for their market, then we will have a case. But we have to prove it. And as I said, the theory of the border tax is that it offsets on a 1-to-1 basis the internal tax that the domestic producer pays.

Representative WIDNALL. Mr. Roth, I have one more question. Do you agree with the president of the American Iron & Steel Institute, Mr. Roach, that the steel industry cannot improve its export position unless nontariff barriers are removed?

Mr. ROTH. The simple answer is "No." The more complicated one is that it would be necessary in steel, as in many other of the important industrial sectors, to continue to work to remove nontariff barriers. There are many areas, including that of Government procurement, where it is very difficult to get into other markets. And it is also difficult under our law sometimes to get into our markets. But certainly steel is not an area were nontariff barriers are critical. I don't think that the U.S. steel industry cannot expand their exports without further movement in this field.

Representative WIDNALL. Thank you, Mr. Ambassador, my time is up.

Mr. ROTH. Mr. Chairman, could I just say something about what we did on steel in the Kennedy Round, because I think it is rather important.

Chairman BOGGS. Surely. Go right ahead.

Mr. ROTH. We originally in steel had almost a total 50 percent offer across the board, with very few exceptions. But two things happened. One, economic changes in the industry came about in the last several years. But more importantly, we felt that other countries were unwilling to make full 50-percent cuts. And, therefore, we withdrew most of our steel offer, about 80 percent of it, and came out with an overall reduction of 7 percent, whereas the British made a cut of 20 percent, and the Community something like that.

But the most important thing we got, which I was most anxious to achieve, was the binding of the principal countries' steel tariffs. Before the Kennedy Round the United States was the only major country with bound tariffs on steel, that is, we couldn't change them under the GATT without paying compensation. The Community, the British, the Japanese, all had unbound tariffs, and they are now bound. In addition, all the major countries in steel have tariffs bunched together rather closely.

Chairman BOGGS. Mr. Ambassador, I have just one or two questions before we go back to Senator Miller again.

Senator Javits, who has gone, had a question he wanted me to ask.

What specific legislative measures do you leave in this Congress? I happen to be on the Legislative Committee as well.

Mr. ROTH. We hope, sir, to appear before you shortly with what will probably be a single bill with separate titles. As I said today, the first will be the extension of the Trade Expansion Act—probably by a simple change in the date for an interim period, say, for 3 years.

Chairman BOGGS. And this would continue the present negotiating authority?

Mr. ROTH. Yes. Since most of that authority was spent in the Kennedy Round, it would mean having just a residual amount. We would then establish legislative history that we don't intend any major negotiations in the next year or two. In other words, this residual authority would only be used for housekeeping purposes.

Chairman BOGGS. What in addition to that?

Mr. ROTH. Secondly, the adjustment assistance change, which would make the criteria in determining whether injury has been suffered by workers and firms more liberal.

Third, of course, a subject I talked about at some length, the elimination of American selling price.

Chairman BOGGS. What about the antidumping code?

Mr. ROTH. The antidumping codes, as I mentioned, was done within present law, requiring some changes, not very great, in our administrative practices. But we are not required to come back and ask for a change in the dumping law.

Chairman BOGGS. So that insofar as the Kennedy Round itself is concerned, the only legislation that you specifically need is the legislation dealing with ASP?

Mr. ROTH. That is right, sir.

Chairman BOGGS. But insofar as certain housekeeping aspects are concerned, you want an extension of the present negotiating authority without any addition to that? And you want certain amendments to the adjustment assistance provisions of the existing law?

Mr. ROTH. Mr. Chairman, we are also considering other minor matters. In particular, although we are not prepared to make a recommendation at this time, the separate funding of the United States contribution to GATT as a part of the bill. Although we do not have to come back to the Congress as a whole on the wheat agreement, it will be in the form of a treaty, and therefore we will come to the Senate Foreign Relations Committee.

Chairman BOGGS. What complaints have you had from business and industry other than certain segments of the chemical industry?

Mr. ROTH. We have really had surprisingly few. And I hope we are not being lulled into a euphoric restfulness. Originally there were some statements by the steel industry. But I think that when they look at this agreement in detail they will see that, at least in terms of the Kennedy Round, their concern is not justified. There was some concern, and there is some concern, I think, on the part of the textile industry, particularly the manmade part. In this section we had full cuts, with very few exceptions, on the table 2 years ago. But the industry's position changed from being a net exporter to a net importer. And we withdraw in the final 30 days of the negotiation two-thirds of our offers on manmade textiles.

Beyond that, although our own reductions have now been published, many companies, perhaps, have not studied them in depth. But we haven't heard very much concern. There was some expressed by the shoe industry. But here again in the most competitive areas we didn't make full offers.

Chairman BOGGS. I have one question that Senator Javits wanted me to ask.

Would you comment on proposals that have been made as a result of the free trade zones among the nations of the Atlantic Community of the North Atlantic area?

Mr. ROTH. Mr. Chairman, 2 years ago, as you remember, France in effect withdrew from the Community for almost a year over the controversy on the common agricultural policy, and the negotiations bogged down really seriously. We at that time within the Government looked at all possible alternatives to a multilateral trade negotiation that would bring all barriers down. But we found that anything that we could come up with, including a free trade area excluding from the Community, was very much a second best. Because of the tremendous flow of trade between EFTA and the EEC, if there were not reductions in tariffs between those two trade blocs overall world trade would be disadvantaged.

So I would say this is one reason perhaps why we do need a period of study here, not only to look at domestic trade problems, but to allow what is happening in Europe to take its course—will the United Kingdom become a member of the Community, for instance?

Until some of these things are clearer it will be very difficult to know which way to go, and what would be the value of a particular free trade area, et cetera. But I think basically we feel strongly that in terms of total world trade, the nearest way we can do this on an overall multilateral basis the better.

Chairman BOGGS. I have one final question. Do you personally feel that we have made substantial progress as a result of these negotiations?

Mr. ROTH. Yes, I do.

Chairman BOGGS. Would you be so sanguine as to say you are rather enthusiastic about it, or would you be less than that?

Mr. ROTH. May I say first that I was surprised that in the end we were able to put together so substantial a package. Even 2 weeks before the end I had my doubts. As it turned out, I was absolutely delighted. I think we have something which is of great value both to this country and to the world.

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

I think Senator Miller has some questions.

Mr. ROTH. Mr. Chairman, could I in answer to Congressman Reuss put a few areas of export growth in the record?

Chairman BOGGS. I think it would be perfectly satisfactory to the members of the committee if you would elaborate on any phase of your testimony that you would care to.

Mr. ROTH. I just wanted to mention some of the major areas where we would get export——

Chairman BOGGS. I think that would be very helpful.

Mr. ROTH. I will do it in detail later. But just now let me mention production machinery, paper and paper products, automobile and automobile parts, finished wood products, photo equipment, leather, kraft liner board, scientific equipment, aircraft, chemicals, of course, as I have mentioned, and, in agriculture, soybeans, citrus, tobacco, variety meats, various fruits and vegetables, and tallow—and as a matter of fact, bourbon whiskey, which is considered in Europe an agricultural product, to an American a necessity.

I think these are some of the general categories. But may I put in for the record a rather specific analysis?

Chairman BOGGS. Very well.

(The following material was submitted subsequently by Ambassador Roth:)

AREAS OF SIGNIFICANT EXPORT POTENTIAL

SELECTED AUSTRIAN CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1] Pre-Kennedy Round	Most-favored-nation rates of duty [1] Final	Imports from United States, 1964 (thousands of U.S. dollars)
ex20.06	Canned pineapple	300 (51 percent)	25 percent	\$1,166
ex20.06	Canned peaches	400 (51 percent)	32 percent	
ex20.06	Canned mixed fruit	12 percent plus 400 (50 percent).	12 percent plus 300	
ex24.01	Unmanufactured tobacco	1,500 (90 percent)	750	3,477
ex28.28	Molybdic anhydride	Free (unbound)	Free (bound)	468
ex28.47	Other molybdate	18 percent	12 percent	167
40.14	Other articles of unhardened vulcanized rubber.	28 percent	20 percent	198
73.13	Electric sheets and plates of alloy and high carbon steel.	10 percent	7 percent	544
84.10F	Pumps, other	23 percent	17 percent	294
84.12	Air conditioning machines	16 percent	8 percent	307
84.22B	Mechanical loaders	13 percent	7 percent	2,214
ex84.23	Excavating machines, weighing over 5,000 kg., other.	10 percent	5 percent	1,224
84.33	Paper-cutting machinery, etc.; other machinery for making up paper.	18 percent	9 percent	181
84.45	Metalworking machine tools	25 percent	20 percent	297
ex85.14	Microphones and loudspeakers	20 percent	10 percent	193
ex87.01	Other tractors weighing over 5,000 kg	10 percent	5 percent	1,489
ex90.19	Hearing aids	13 percent	7 percent	303

[1] Rates are expressed in percent ad valorem or in Austrian scillings per 100 kilograms unless otherwise indicated (26 Austrian schillings equal U.S. \$1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED CANADIAN CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty: Pre-Kennedy Round [1]	Most-favored-nation rates of duty: Final	Imports from United States, 1964 (thousands of U.S. dollars)
7d	Fresh port meats, not otherwise provided for in the tariff.	1¼ cents per pound (4.2 percent).	½ cent per pound	$11,713
93	Apples, fresh	¼ cent per pound (3.9 percent).	Free	3,308
99c	Raisins, packages of 2 lbs. each or less.	3 cents per pound (13½ percent).	1½ cent per pound	2,815
130	Shrimp	5 percent	Free	4,488
152(b)	Orange juice	7½ percent	5 percent	14,352
192 (part)	Tarred paper and prepared roofings	20 percent	15 percent	14,283
197	Paper of all kinds, not otherwise provided for in the tariff.	22½ percent	do	7,302
198	Ruled and border and coated papers	do	do	6,953
199	Papeteries, envelopes, and all manufacturers of paper, not otherwise provided for in the tariff.	do	17½ percent	9,937
352	Brass and copper nails, etc., and manufactures of copper, not otherwise provided for in the tariff.	20 percent	do	20,994
353(b)	Aluminum bars, rods, plates, etc	3 cents per pound (5 percent).	2 cents per pound	8,680
354	Manufactures of aluminum, not otherwise provided for in the tariff.	22½ percent	17½ percent	16,767
362c	Nickel-plated ware, gilt or electroplated ware.	do	do	12,600
382(2)	Sheet or strip of iron or steel, cold-rolled, not otherwise provided for in tariff.	15 percent	12½ percent	12,007
400	Fittings and couplings of iron or steel, not otherwise provided for in tariff.	20 percent	17½ percent	6,405
415b	Washing machines	22½ percent	20 percent	10,050
427(1)	All machinery of iron or steel, not otherwise provided for in tariff, of class or kind made in Canada.	do	15 percent	96,910
427b(3)	Ball and roller bearings, not otherwise provided for in the tariff.	17½ percent	do	6,933
427k(1)	Metalworking machinery	22½ percent	do	12,610
428c	Engines and boilers and parts	20 percent	do	12,647
428e	Diesel and semidiesel engines over 500 horsepower and parts, not otherwise provided for in the tariff.	do	do	9,421
438a	Autos, trucks, and parts (not under free-trade arrangement).	17½ percent	do	26,176
438f	Replacement parts for automobiles (imports from United States, 1966).	25 percent	do	46,506
439b	Cars, trailers, and mobile homes, wheelbarrows, roadscrapers.	22½ percent	17½ percent	9,096
445f	Electric dynamos, generators, transformers, and parts.	do	15 percent	8,267
445g	Electric motors and parts, not otherwise provided for in the tariff.	do	do	13,038
445k	Electric apparatus and parts, not otherwise provided for in the tariff.	do	17½ percent	81,326
446a	Manufactures of iron or steel, not otherwise provided for in the tariff.	do	do	95,557
446g(1)	Electric welding apparatus	20 percent	Part, 15 percent; part, 10 percent.	7,023
519(1)	Furniture of wood	25 percent	20 percent	6,505
519(2)	Furniture, metal	do	17½ percent	7,236
522(1)	Woven cotton fabrics, not bleached, mercerized or colored.	20 percent	do	11,658
522(3)	Colored woven cotton fabrics	22½ percent	20 percent	24,032
523a	Clothing, wearing apparel, of woven cotton fabrics.	25 percent	22½ percent	8,283
561b	Yarns and rovings of manmade fibers: threads, etc.	22½ percent (minimum, 22 cents per pound).	10 percent plus 10 cents per pound.	9,314
562a(1)	Woven fabrics of manmade fibers, over 12 inches wide.	30 percent plus 20 cents per pound.	25 percent plus 15 cents per pound.	26,394

SELECTED CANADIAN CONCESSIONS OF INTEREST TO THE UNITED STATES—Continued

Tariff No.	Brief description	Most-favored-nation rates of duty		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round [1]	Final	
563	Clothing, wearing apparel, of man-made fibers.	27½ percent	25 percent	11,007
568(1)	Knitted garments, fabrics, and goods, not otherwise provided for in the tariff.	35 percent	27½ percent	7,763
588	Coal, coal screenings, and coal dust, not otherwise provided for in the tariff (bituminous).	50 cents per ton (10 percent).	Free	38,424
616(1)	Rubber, crude, unmanufactured, not otherwise provided for in the tariff.	5 percent	2½ percent	14,078
618	Manufactures of rubber, not otherwise provided for in the tariff.	20 percent	17½ percent	20,249
618b(2)	Tires and tubes of rubber	22½ percent	do	6,847
711	All goods not elsewhere enumerated	20 percent	do	18,147

[1] Ad valorem equivalents (1964) of specific or compound duties shown in parentheses.

SELECTED DANISH CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1]		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
08.02	Citrus fruits	5 percent	Free	566
08.12B	Dried fruits except apple	10 percent	5 percent	1,404
10.06B	Rice, husked	do	do	483
ex20.06B	Canned pineapple and peaches	27 percent	13.5 percent	1,598
ex20.06B	Canned fruit cocktail	do	do	
27.10A	Clear lubricating oils and greases	0.05 krone per kilogram.[2]	0.025 krone per kilogram.	2,477
48.01	Paper and paperboard, machine-made	5 percent	2.5 percent	816
51.04	Woven fabrics of continuous man-made fibers.	20 percent	16 percent	1,226
84.01	Steam boilers and parts	8 percent	4 percent	437
84.02	Auxiliary equipment for steam boilers	do	do	413
84.06	Internal combustion piston engines, except outboard motors or bicycle motors.	5 percent	2.5 percent	5,197
ex84.15	Refrigerating equipment with capacity over 250 liters and parts.	12 percent	6 percent	300
84.23	Excavating, leveling, extracting, etc., machinery.	10 percent	6 percent	4,049
84.35	Printing machinery and parts	5 percent	2.5 percent	522
84.45	Metalworking machine tools	10 percent	6 percent	800
ex87.02	New passenger cars	12 percent	7.5 percent	2,109
87.07	Work trucks of the types used in factories, etc.	4 percent	2 percent	1,303
90.10B	Other apparatus for photo labs	8 percent	4 percent	610
90.28	Electrical measuring, testing, etc., instruments.	10 percent	7.5 percent	1,452
98.03	Pens and pencils and parts	12 percent	6 percent	402

[1] Rates are expressed in percent ad valorem or in Danish crowns per kilogram unless otherwise indicated (6.9 Danish crowns equal U.S. $1).
[2] Ad valorem equivalent of this specific rate of duty is 8.5 percent.

SELECTED EUROPEAN ECONOMIC COMMUNITY CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1]		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
02.01BIIb	Edible offals of beef and pork:			
	Livers	20 percent	14 percent	31,417
	Others	do	12 percent	
07.05A	Dried peas and beans	9 percent	4.5 percent	8,888
ex07.05B	Lentils	5 percent	2 percent	3,012
08.02	Grapefruit, fresh	12 percent	6 percent	3,246
12.03B	Various field seeds	8 percent	6 percent	3,545
15.02A	Industrial use unrendered fats of bovine cattle, sheep or goats, tallow.	2 percent	Free	28,354
15.02B	Other than industrial use	10 percent	7 percent	8,001
16.02BI	Prepared or preserved meat of poultry (canned).	21 percent	17 percent	3,457
20.06BIIb	Canned fruit with sugar added in containers of less than 1 kg.:			
	Fruit cocktail	25 percent	22 percent	26,263
	Other, excluding grapefruit sections, mandarins, and ginger.	do	24 percent	
23.03	Beet pulp, bagasse, and other waste of sugar manufacture; brewing and distilling waste, etc.	Free (unbound)	Free (bound)	16,965
24.01	Unmanufactured tobacco valued at less than $280 per 100 kg.	28 percent with minimum charge of $29 and a maximum of $38 per 100 kg.	23 percent with minimum charge of $28 and a maximum of $33 per 100 kg.	105,899
27.01	Coal:			
	West Germany	$5 per metric ton	$2.50 per metric ton	285,161
	Other member states	Free (unbound)	Free (bound)	
27.10	Petroleum and shale oils, other than crude; preparations not elsewhere specified or included containing not less than 70 percent by weight of petroleum or shale oils, these oils being the basic constituent of the preparations:			
	III. Lubricating oils and others	12 percent	6 percent	35,293
29.04CII	Dihydric alcohols	19 percent	16.4 percent	13,854
29.27	Nitrile-function compounds	17 percent	15.2 percent	14,277
ex38.19Q	Chemical products, n.e.s	18 percent	14.4 percent	14,354
39.01CIII	Polyesters including alkyds	20 percent	16 percent	11,421
39.01CVIII	Unspecified condensation products	18 percent	14.4 percent	11,669
41.03BII	Sheep and lamb skins, leather	10 percent	5 percent	10,653
47.01B	Unbleached and bleached chemical woodpulp, sulfate and sulfite.	6 percent	3 percent	43,260
48.01	Kraft paper and paperboard, not for manufacture of yarn, and certain paper, n.e.s.	16 percent	12 percent	33,131
51.01A	Yarn of synthetic textile fibers	12 percent	9 percent	17,008
84.08AIb	Turbojet engines, thrust more than 2,500 kilograms.	10 percent	5 percent	13,095
84.08DI	Parts for reaction and turboprop engines.	do	do	29,567
ex.84.10B	Certain other pumps for liquids	12 percent	6 percent	18,414
ex.84.11AII	Pumps and compressors, other n.e.s	do	do	17,355
84.15	Refrigerators and refreigerating equipment.	10 percent	5 percent	14,118
84.17FII	Heat treating machinery and equipment other than nonelectric hot water heaters.	11 percent	5.5 percent	10,203
ex84.22B	Certain automotive loading, lifting and handling machinery.	do	do	20,508
84.22C	Other lifting and handling machinery	do	do	16,313
84.25	Harvesting and threshing machinery and similar agricultural equipment.	9 percent	4.5 percent	12,458
84.55B	Parts for statistical and punchcard machines.	8 percent	4 percent	14,726
84.55C	Parts for office machines other than electronic calculators.	11 percent	6 percent	20,393
84.59E	Other machinery, n.e.s	12 percent	6 percent	31,273
85.19A	Circuit control apparatus and other electrical circuit apparatus.	13 percent	6.5 percent	35,687
85.21AIII	Electronic tubes, other than cathode ray tubes.	15 percent	7.5 percent	16,027
ex87.02AI	Certain motor vehicles, including autos	22 percent	11 percent	15,039
ex88.02BII	Aircraft, unladen weight of over 15,000 kilograms.	10 percent	5 percent	94,761
88.03	Parts for aircraft	do	do	97,100
97.04B	Games other than playing cards	17 percent	8.5 percent	13,265

[1] Plus $5 per hectoliter per degree of alcohol if in containers of less than 2 l. Ad valorem equivalent of final duty based on 1964 would have been approximately 26 percent.

SELECTED JAPANESE CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex08.05-4	Sweet almonds	15 percent	10 percent	2,746
12.01-1	Soya beans	13 percent	2.4 yens per kilogram (6 percent AVE).	154,045
12.01-7	Safflower seed	5 percent	2.5 percent	21,589
15.01-1(2)A	Rendered pig fat, acid value exceeding 2.	do	Free	6,241
15.02-1	Beef tallow	4 percent	2.5 percent	28,382
ex27.10-1(5)B	Lubricating oils, specific gravity more than 0.8494 at 15° C.	20 percent	15 percent	24,762
ex29.04	Butyl alcohol, ethylene glycol, propylene glycol.	do	do	5,014
ex29.44-2	Certain antibiotics	17 percent	8.5 percent	3,230
76.01	Aluminum and its alloys, unwrought	13 percent	9 percent	2,348
84.22	Cranes, conveyors, lifts, hoists, etc	15 percent	7.5 percent	3,029
84.40	Machinery for cleaning, drying, and finishing textiles and printing repetitive designs on textiles, paper, linoleum, etc.	do	do	4,371
84.44	Rolling mills, rollers, and parts	do	do	8,478
ex84.45-1(6)	Gear-cutting machines, n.e.s., and gear-finishing machines.	do	Part, 10 percent; part, 7.5 percent.	4,458
ex84.45-2	Bending machines, presses, shearing machines, forging machines, and other machines for working metal, n.e.s.	do	7.5 percent	39,562
84.49	Handtools, pneumatic or with self-contained nonelectric motor.	do	do	2,965
Ex84.52	Calculating machines, accounting machines, cash registers, etc. incorporating a calculating device (except digital computers and auxiliary machinery; electric calculating machines with 3 rules or more; electronic bookkeeping and accounting machines with 3 rules or more; and cash registers with 5 or more totaling devices).	do	do	4,443
84.63	Transmission shafts, cranks, bearing housings, gears and gearing, and parts.	do	do	6,503
Ex85.11	Electric furnaces, ovens, and induction and die-electric heating equipment and parts; electric welding machines, except those operated by numerical control systems.	do	do	4,852
85.19	Electrical apparatus for making, breaking, or protecting electrical circuits and parts thereof.	do	do	10,485
90.24	Instruments and apparatus for measuring, checking, automatically controlling flow, depth, pressure, temperature, etc. of liquids or gases.	do	do	3,970
90.29	Parts of instruments or apparatus for measuring or checking falling within BTN headings No. 90.23, 90.24, 90.26, 90.27 or 90.28.	do	do	11,695
Ex92.12-3(2)	Recording tapes, wires, sheets, etc. n.e.s.	20 percent	10 percent	2,296
97.04-3	Equipment for indoor games, parts, and accessories, n.e.s.	30 percent	15 percent	5,204
Ex97.06-3	Golf requisites, parts, and accessories, n.e.s.	20 percent	10 percent	2,935

SELECTED NORWEGIAN CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1]		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
08.12A	Dried prunes	0.12 (4.0 percent)	Free	899
ex15.02A	Inedible tallow	0.08 (7.2 percent)	0.04	298
ex20.06C2b	Canned pineapple, peaches, mixed fruit.	0.06 (29 percent)	0.30	1,700
24.01	Tobacco, raw	Free (unbound)	Free (bound)	5,680
29.35B	Heterocyclic compounds	30 percent	15 percent	149
37.02B	Photo film	4.00 (5 percent)	2.00	405
38.14	Antiknock preparations	20 percent	15 percent	433
68.06A	Abrasive paper	0.16 (3 percent)	0.08	161
73.40C	Articles of iron and steel, n.e.s.	10 percent	5 percent	297
84.06C	Outboard motors	do	do	386
84.10A	Pumps for liquids	15 percent	7.5 percent	174
ex84.19B	Dishwashing machines	20 percent	10 percent	338
84.23B	Rotary rock drills	10 percent	8 percent	385
84.51	Electric typewriters	do	5 percent	217
84.53	Statistical machines	do	do	972
ex87.02A	Passenger cars	do	8 percent	1,236
ex87.06B3	Passenger car parts and accessories	25 percent	12.5 percent	679
ex90.14B	Navigational instruments	20 percent	10 percent	234

[1] Rates are expressed in percent ad valorem or in Norwegian crowns per kilogram unless otherwise indicated (Norwegian crowns 7.14 equal U.S. $1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED SWEDISH CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1]		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex08.02	Lemons	5 kronor per 100 kg. (4.3 percent).	Free	$655
ex19.08	Biscuits and wafers	10 percent	5 percent	622
ex20.02	Canned asparagus	75 kronor per 100 kg. (28 percent).	65 kronor per 100 kg	960
ex20.06	Canned pineapple, peaches, mixed fruit.	25 kronor per 100 kg. (17 percent).	12.50 kronor per 100 kg.	3,772
ex20.07	Canned citrus juices, unsweetened	20 kronor per 100 kg. (29 percent).	7.50 kronor per 100 kg.	599
24.01	Unmanufactured tobacco	Free (unbound)	Free (bound)	21,157
27.01	Coal	do	do	13,383
ex40.06	Adhesive-backed materials	10 percent	5 percent	1,380
84.06	Internal combustion piston engines	do	do	8,693
84.10	Pumps for liquids; liquid elevators	do	do	1,393
84.11	Air and vacuum pumps, compressors, fans, etc.	do	do	1,576
84.15	Refrigerators and refrigerating equipment.	do	do	1,727
84.19	Bottling, dishwashing, packing machinery and parts.	do	do	3,227
84.23	Excavating, leveling, boring machinery and parts.	do	do	5,154
84.49	Handtools, pneumatic or with nonelectric motor.	do	do	1,669
84.52	Calculating, accounting, and similar machines.	do	do	3,050
85.01	Generators, motors, converters, etc., and parts.	do	do	2,906
85.19	Electrical circuit apparatus	Part 10 percent; part 15 percent.	Part 7 percent; part 10 percent.	5,559
85.21	Thermionic cathode valves and tubes, etc.	10 percent	5 percent	4,847
87.01	Tractors	do	8 percent	3,774
87.02	Passenger cars, new and used	15 percent	10 percent	11,447
90.10	Photographic and motion picture laboratory equipment.	10 percent	5 percent	1,110
90.24	Apparatus for measuring, etc. the variables of liquids and gases.	do	7 percent	1,051

[1] Rates are expressed in percent ad valorem or in Swedish crowns per 100 kilograms unless otherwise indicated (5.18 Swedish crowns equal U.S. $1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED SWISS CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1]: Pre-Kennedy Round	Most-favored-nation rates of duty [1]: Final	Imports from United States, 1964 (thousands of U.S. dollars)
ex08.04	Raisins	8 (7.2 percent)	5	485
ex20.02	Canned asparagus	38 (14.8 percent)	20	2,194
ex20.06	Canned pineapple	40 (34.7 percent)	25	1,172
ex20.06	Canned peaches	45 (32·8 percent)	30	2,426
ex20.06	Canned fruit cocktail	45 (32.8 percent)	40	
ex40.06	Adhesives on nonrubber backings	60 (5.0 percent)	30	1,090
ex40.11	Tires and tubes, except solid	20 (3.8 percent)	16	1,000
ex43.02	Fur skins, tanned or dressed ,not assembled.	45 (0.3 percent)	30	1,338
ex51.04	Woven synthetic fabrics, bleached or dyed.	Part, 700; part, 750 (22.7 percent)	500	1,748
59.01	Wadding and articles of wadding	Part 40; part 60 (6.9 percent).	30	394
ex61.09	Corsets, brassiers, etc., of manmade textiles.	1,200 (12.5 percent)	600	1,472
ex84.10	Pumps for liquids, weighing 25 kg. or less.	60 (3.4 percent)	35	830
ex84.11	Air or gas compressors, weighing not over 5,000 kg.	Part 30 (4.2 percent) Part 40 (5.7 percent) Part 50 (4.6 percent)	Part 15 Part 20 Part 30	944
ex84.15	Refrigerators, finished	90 (19.2 percent)	45	490
ex84.22	Lifting, handling, etc., machinery, weighing 10,000 to 25,000 kg.	20 (6.1 percent)	10	1,021
ex84.23	Excavating, leveling, etc., machinery, weighing 10,000 to 25,000 kg.	20 (3.7 percent)	10	8,554
ex84.34	Machinery, etc., for typefounding or typesetting.	10 (2 percent)	5	717
84.49	Handtools, pneumatic or with nonelectric motors.	70 (2.4 percent)	35	904
ex84.52	Calculating, accounting machines, etc., weighing over 100 kg.	300 (3.8 percent)	230	1,026
84.53	Statistical and accounting punchcard machines.	200 (2.9 percent)	100	5,906
ex84.63	Transmission shafts, cranks, gears, etc., weighing 25 kg. or less.	60 (5.7 percent)	30	1,138
85.05	Handtools with self-contained electric motor.	70 (2.4 percent)	40	428
ex85.19	Electrical circuit apparatus, weighing 0.3 kg. or less.	150 (4.5 percent)	120	1,415
ex90.07	Photographic cameras with 2 shutter speeds.	150 (4.5 percent)	100	668
92.12	Sound recordings and articles for recording sound.	200 (6.1 percent)	110	629
ex97.06	Skis and ski sticks	150 (7.4 percent)	75	741

[1] Rates are expressed in Swiss francs per 100 kilograms (4.3 Swiss francs=U.S. $1). Ad valorem equivalents (1962) of specific or compound duties shown in parentheses.

SELECTED UNITED KINGDOM CONCESSIONS OF INTEREST TO THE UNITED STATES

Tariff No.	Brief description	Most-favored-nation rates of duty [1]		Imports from United States, 1964 (thousands of U.S. dollars)
		Pre-Kennedy Round	Final	
ex02.01Bla	Beef tongues	Free (unbound)	Free (bound)	4,874
02.01Blb	Edible offals of beef and veal, other	20 percent	10 percent	
07.05D	Dried white beans	8 percent	4 percent	5,642
08.04B	Raisins	8s. 6d. per hundredweight (7.4 percent).	4s. per hundredweight	
16.04C	Canned salmon	5 percent	2.5 percent	11,766
29.15	Polyacids and their anhydrides	33.3 percent	23 percent	3,077
29.27B	Nitrile-function compounds	33.3 percent	23 percent	5,963
ex48.01	Kraft linerboard	13.3 percent	10 percent	22,094
76.01A2	Alloys of aluminum	10 percent	5 percent	3,519
84.10	Pumps and parts	14 percent	7.5 percent	7,706
84.23A	Power-operated excavating machines	12 percent	do	15,844
85.19C	Circuit breakers, other	16 percent	8 percent	17,615
87.01A2	Tracklaying tractors, drawbar horsepower exceeding 50.	15 percent	7.5 percent	2,965
90.07A2	Photographic cameras, other	40 percent	20 percent	3,314
90.24	Instruments for measuring, checking, or controlling flow, depth, or pressure, etc.	16 percent	8 percent	2,754

[1] Rates are expressed in percent ad valorem or in British pounds, shillings, and/or pence per hundredweight converted at rate of $2.80 (United States) per British pound. Ad valorem equivalents (1961) of specific or compound duties shown in parentheses.

Chairman BOGGS. Senator Miller?

Senator MILLER. Mr. Ambassador, can you tell us, are there any import duties now in the EEC on our feed grains and feed shipments?

Mr. ROTH. Are you talking about wheat or feed grains?

Senator MILLER. Wheat or feed grains, our export to the EEC, are there any duties that have to be paid over there?

Mr. ROTH. There are. But let me ask Mr. Ioanes.

Mr. IOANES. There are variable levies.

Senator MILLER. There is no change in those, as I understand it.

Mr. IOANES. No change.

Senator MILLER. No reduction?

Mr. IOANES. No, sir.

Senator MILLER. Did the EEC agree to reduce any of its duties on meat?

Mr. ROTH. On certain variety meats. We early decided that in dairy products and meat, as well as in grains, we would try to have a sector negotiation. In dairy products this proved impossible, and it was certainly difficult for the United States. In meat it proved impossible. The Community was very much against opening their own market. But finally they agreed to a bilateral arrangement with the Argentinians. To the extent that the Argentinians, or, say, the Australians, could get meat into the Community and take the pressure off the U.S. market, this was to our advantage.

Finally, an agreement, as I say, was reached between the Argentinians and the Community. At that point in France there were very strong reactions by the farming groups, and the agreement was canceled by the Council of Six. And the Argentinians at that time almost left the Kennedy Round. They didn't. But the answer in short is that the EEC has not opened their market to meat to any great extent, except to some variety meats that we were particularly interested in.

Senator MILLER. We have been shipping some meat over there, especially to France. But I am not asking a question about opening their market, I am asking a question about whether or not they reduced any of their trade areas.

Mr. ROTH. Edible offals and variety meats.

Senator MILLER. What do you mean by variety meats?

Mr. IOANES. The heart, liver, tongue, and innards of animals. This is about a $30 million trade item.

Senator MILLER. To the EEC?

Mr. IOANES. Yes, sir. And the reduction was from a duty of about 20 percent down to about 10 percent.

Senator MILLER. On poultry, as I understand it, there is no reduction of tariffs, except as to canned poultry.

Mr. ROTH. Canned, preserved poultry.

Senator MILLER. No reduction on any other. As I understand, just since the negotiation was concluded, the EEC put another 3 cents a pound on poultry. There are no reductions there.

Mr. ROTH. When we settled the so-called great poultry war we took action against them, as you remember, in a number of products of interest to the Community. During the Kennedy Round they were terribly anxious to get these tariff increases back down again, particularly on Volkswagen trucks. We refused to unless they did something about poultry of advantage to us. And they couldn't. So we stand as we did.

Senator MILLER. And on dairy I said there was nothing done?

Mr. ROTH. No, sir, except we made some cuts on a very few cheeses that do not come under section 22.

Senator MILLER. Now, on our side, did we reduce our import duties on any of their meats coming into this country from the EEC?

Mr. ROTH. We reduced no duties that I remember on meats. We bound an item, but didn't reduce it—canned hams, of particular interest to the Scandinavian countries, of which the Community was a second supplier. And we gave a reduction on goose liver paste.

What we did in the nongrains negotiations with the Community was to try to give them a sprinkling of offers in various areas as they did us. But we gave them less than we received.

Senator MILLER. Then as I see it, to summarize, there were no reductions by the EEC with respect to grain, there was no access with respect to grains, there was some reduction with respect to meats, and there was no reduction with respect to poultry except with respect to the canned chickens, no reductions with respect to dairy foods. And what I come up with is that there is concern over the implementation of the policy which has been stated by the President and by Mr. Herter and by you publicly on several occasions, and privately to me in correspondence, by both Mr. Herter and by you, that consistently any trade agreements would have to include "meaningful concessions by the European Community with respect to their agricultural trade barriers."

What I am running into, Mr. Ambassador, is criticism of the failure to implement that policy. And it may be that for a few people who export those specialty items that you referred to that this will be helpful. But looking at the agricultural community as a whole, and especially the exporters of grain, feed grains, and wheat, and the exporters of what we normally consider meat, I don't see any meaningful concessions. I recognize that there is this food aid angle, but I don't look upon that as a concession in the lowering of trade barriers. And of course there is no access that may necessarily accompany that. We just take our chances with other exporting countries that 1 million tons of food aid that might open up the market in the EEC will be available to our suppliers, but there is no guarantee that our farmers are going to get that. There is no guarantee that our 9 million tons a year of grain shipments to the EEC will continue.

Now, this is the kind of criticism I receive. And I have just laid it out on the table for you to comment on. Because I certainly don't want to have my own criticism misdirected. And I want to be responsive to the critics. So I would appreciate your comment on that.

Mr. ROTH. Senator, I thank you very much for giving me this opportunity, because I think your questions are very fair ones.

Let me say that I think the criticism that I have seen distorts the issues somewhat. Because, one, the critics are talking about our trade with only one of our agricultural markets; namely, the European Community.

Senator MILLER. But they are talking about it, Mr. Ambassador, in the light of the publicly expressed policy that any trade agreement will have to include meaningful concessions by the European Community with respect to their agricultural trade barriers.

Mr. ROTH. I am aware of this.

Secondly, when they say we did not get anything substantial from the European Community, they are talking about those areas—and poultry is one of the best examples—where the variable levy exists, where the common agricultural policy has come into being. We would like to have seen the EEC change their basic policy. There was absolutely no opportunity to do this. They would not. They had six countries that came together over a period of years and put together a policy which may in the future be changed, because it is too expensive over the years, but it could not be changed in the Kennedy Round. They made us some offers based on variable levies, say, in some of the fruit areas, where we presently have bindings of tariff reductions. We turned those offers down, because we said, as long as you have a variable levy these offers are meaningless, and rather than accept a bad offer we will keep our bindings.

But in spite of this—and this comes back to the first part of your question—we got offers of value from the Community, not just in variety meats, but in tobacco, dried vegetables, citrus, fruits and nuts, tallow——

Senator MILLER. What did you get on tallow, may I ask?

Mr. ROTH. I think that was a 50-percent reduction.

Might I say that, after 4 years of negotiations, 30 days before the end of the negotiation we had from the Community on the table $50 million worth of agricultural offers. And I made it a point at that time that this was not acceptable, that we could not conclude the Kennedy Round with merely token offers on the table. And this was made strongly time after time after time. And finally, point by point in the final hours of the negotiation before May 15 we got this up to in excess of $200 million in terms of trade coverage.

So it is not correct to say that we did not get something of substance, or something of importance in the Kennedy Round from the EEC. We would like to have gotten more. And looking to the future, we have to find some way to deal with the common agricultural policy and variable levy. But never before in a trade negotation have we made this kind of breakthrough in agriculture.

Senator MILLER. You said you had $200 million covered in agricultural items with the EEC.

Mr. ROTH. In excess of that.

Senator MILLER. In excess of that. Looking at it from the industrial products' side, how many millions of dollars did you have covered, how many were included in your agreement with the EEC?

Mr. ROTH. $2.4 billion.

Senator MILLER. $2.4 billion. Now, the $2.4 billion would be roughly 45 percent, I believe, the total volume of trade with the EEC, would it not?

Mr. ROTH. I am sorry, sir?

Senator MILLER. The $2.4 billion which you said was covered by the industrial negotiations would comprise approximately 45 percent of the total trade in 1966 with the EEC. According to my figures, we had total exports of $5.2 billion to the EEC in 1966. So that the $2.4 billion would comprise about 45 percent of the total exports. As a mater of fact, the $5.2 billion total exports minus $1.5 billion of agriculture would leave $3.7 billion which probably would embrace industrial items. And you have tabled $2.4 billion worth, which is well over 50 percent of the industrial loans. But when it came to agriculture you tabled $200 million worth as against $1.5 billion of total agricultural exports.

So, looking at it from the standpoint of a ratio, well upward of 60 percent of our industrial items were tabled, but only about 7 percent of our agricultural items were tabled.

Do you follow me?

Mr. ROTH. I follow you, Senator. I am not certain about your figures, but I would like to provide our own.

Senator MILLER. These figures can be substantiated, they are in our Joint Economic Committee report at page 89.[1] And they were based on Government reports.

(The tables referred to by Senator Miller are reprinted herein:)

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[1] Senate Report No. 73, 90th Cong., first sess., 1967, Joint Economic Committee Report.

TABLE IV.—U.S. IMPORTS, 1964, 1965, AND 1966

[In millions of dollars]

	Total imports	Agricultural imports	Agricultural imports as percent of total imports
1964	$18,600	$4,082	22
1965	21,282	4,088	19
1966	25,408	4,492	18
1961–63 average			24
1964–66 average			20
From the European Economic Community:			
1964	2,831	258	9
1965	3,316	270	8
1966	4,098	306	7
1961–63 average			10
1964–66 average			8
From United Kingdom:			
1964	1,132	23	2
1965	1,403	24	2
1966	1,761	30	2
1961–63 average			2
1964–66 average			2
From Japan:			
1964	1,763	40	2
1965	2,401	37	2
1966	2,948	37	1
1961–63 average			3
1964–66 average			2
From Canada:			
1964	4,227	176	4
1965	4,813	234	5
1966	6,106	240	4
1961–63 average			5
1964–66 average			4

TABLE V.—U.S. EXPORTS, 1964, 1965, AND 1966

[In millions of dollars]

	Total exports	Agricultural exports	Agricultural exports as percent of total exports
1964	$26,086	$6,347	24
1965	27,003	6,229	23
1966	29,912	6,885	23
1961–63 average			26
1964–66 average			23
To European Economic Community:			
1964	4,481	1,416	32
1965	4,904	1,476	30
1966	5,264	1,561	30
1961–63 average			32
1964–66 average			31
To United Kingdom:			
1964	1,445	440	30
1965	1,537	398	26
1966	1,645	471	29
1961–63 average			38
1964–66 average			28
To Japan:			
1964	1,894	720	38
1965	2,042	876	43
1966	2,312	942	41
1961–63 average			35
1964–66 average			41
To Canada:			
1964	4,653	[1] 615	13
1965	5,486	[2] 620	11
1966	6,487	[3] 626	10
1961–63 average			14
1964–66 average			11

[1] Includes $160,000,000 in transit shipments.
[2] Includes $176,000,000 in transit shipments.
[3] Includes $140,000,000 in transit shipments.

Mr. ROTH. I think we are using different years.

Senator MILLER. I am talking about 1966.

Mr. ROTH. We are using 1964.

Senator MILLER. I could take 1964 if you like.

Mr. ROTH. I think you make your point.

(The following table was later supplied:)

KENNEDY ROUND CONCESSIONS—UNITED STATES AND EEC TRADE

[1964, millions of dollars, c.i.f.]

	Dutiable imports (except grains)		Average cut, dutiable	Free, bound in Kennedy Round	Grains (trade coverage)
	Total	Concessions			
Total:			Percent		
(a) U.S. imports from EEC	2,656	2,136	34	4	3
(b) EEC imports from United States	3,065	2,627	29	289	452
Agricultural:					
(a) U.S. imports from EEC	202	117	13	1	3
(b) EEC imports from United States	445	223	13	19	452
Nonagricultural:					
(a) U.S. imports from EEC	2,454	2,019	36	3	
(b) EEC imports from United States	2,620	2,404	32	270	

Senator MILLER. And the point is that when it comes to working out an agreement with the EEC, we tabled about 60 percent of the industrial volumes. But when it came to agriculture we only tabled about 7 percent.

Mr. ROTH. If you are talking in terms of U.S. offers——

Senator MILLER. I am sorry, about 15 percent.

So when it came to getting down to negotiations on agricultural items, we only got together on about 15 percent of our trade items. And on industrial items we got together on about 60 percent. And my point is that it doesn't look like we came out very well on agriculture overall, certainly not compared to industry, to the other industrial items. And I say this just to make the record straight. I understand and appreciate the difficulties you people face. But I come back to that basic policy that there weren't going to be any trade agreements with the EEC until they made meaningful concessions on agriculture. Now, what is meaningful is something that you get into semantics on; $200 million offhand sounds meaningful. But the ratio that I point out, amounting to only 15 percent of our agricultural trade, I suggest to you is woefully weak compared to the industrial items of 60 percent.

Mr. ROTH. Senator, I feel that your point is well taken. Certainly more was done in the industry, and we expected to do more, than in agriculture. I think we did get offers of real substance in agriculture from the EEC. And, secondly, we only paid for what we got.

But there are many areas in agriculture unlike in industry, or more so than in industry, which are very difficult to negotiate in. Take dairy products; they wanted to negotiate in dairy products more than anything else, but we couldn't, because, except for Roquefort, and certain other cheeses, everything was under section 22. And most recently; namely, a week ago, the President and the Secretary of Agriculture had to announce certain changes in cutback, because of problems domestically in the import of cheese. We couldn't go into that area. We were quite frank. Then they came back time after time and said, why can't you negotiate in the agricultural area of the greatest interest to us. And we had to say that each country in agriculture does have problems. They are more difficult than in industry, because they are related to farm income, and varying elements such as that.

So all I can say, Senator, is that in this area all the countries—I am not talking only about the Community and the United States—made a very substantial first step. But it is only a first step.

Senator MILLER. One more point. In connection with the wheat price the point was made that the wheat price would range from, well, a minimum of $1.80. Another criticism I hear was that this was meaningless because the world price at gulf ports is substantially over that. What is your answer to that?

Mr. ROTH. Senator, finding the right mean price, which came out at $1.73 U.S. No. 2 Hard Winter at the gulf, was a very difficult one. The other exporters, and the Canadians in particular, having in mind advance contracts with markets other than those we serve—the Soviet Union, China—were interested in as high a price as possible. So were many of our producing groups; $1.85 is where we started in the negotiations with the others, which was a price much too high principally for the Japanese and the United Kingdom, and even for the Community. And so we realized that this would be a price that we might have to lower.

On the other hand, the U.S. grain traders felt that we should increase the price as little as possible, because too high a price would undermine U.S. competitive position.

So we had to find a price in the proper range.

I would like to add that when we first began talking to the exporters about a minimum price, we tried to develop a rather rigid mechanism that would protect that minimum when the price fell that low. And we came basically to a kind of sharing-the-market concept. Many farm groups had great trouble with this, and certainly the grain traders did, too. So we threw that out. Now we have a consultative mechanism under the agreement which operates when you begin to approach the minimum price. But it is a much more flexible arrangement.

I am sorry to be so long in explaining what our thinking is. This position developed over almost a year and a half, in close consultation both with producers on one side and the grain traders on the other.

Senator MILLER. I can see and understand that this is a complex matter, and that it would be something that would require a lot of weighing of fact. My only point is that I am not able to see—and I must agree with the critics on this point—I am not able to see any particular advantage to the American grain farmer of having a $1.80 per bushel world price when the world market is now at $1.83. It may be that the market will go down and the $1.80 had been helpful, but nobody knows that. And I think that the statement that this was a great boon to the grain farmer, especially the wheat farmer, may be a little euphoria. I just want to get this thing in perspective. And I cannot reply to the critics right now by saying, oh, well, maybe the price will go back down below $1.80 and you will be protected; they are going to come back at you and say, you don't know what the future will bring. I take it you were trying to put a floor under this.

Mr. ROTH. That is right, Senator. We didn't want a minimum price so high that the world price for large parts of the year would rest on that minimum. We wanted and expected an increase underpinning which would permit the world price to float above it, so that we could maximize our competitive position.

Senator MILLER. One last question. I know it is not easy to gaze into a crystal ball, but you must have done this, especially in consultation with your agricultural adviser. Is it your evaluation that as a result of the Kennedy Round of negotiations our export of grains to the Common Market will not decrease?

Mr. ROTH. My simple answer to that would be yes. Perhaps Mr. Ioanes would like to add something?

Mr. IOANES. I would certainly agree to this. We took no action in grain or any other item that would decrease our exports. We already talked of the benefits that would come with the million ton food aid package, either from the Community itself or from third markets. And I can think of no other action we took that would result in a downturn in our grain marketing to Europe.

Senator MILLER. My question, by the way, should include soybeans as well. Would your answer hold to that?

Mr. IOANES. Soybeans were already bound duty free, and continue to be.

Senator MILLER. And it is your forecast that they are in their rolls——

Mr. IOANES. I would be optimistic with reasonable certainty that our marketing of soybeans would continue to expand in future years as it has in the past.

Mr. ROTH. And we also have a decrease in our soybeans tariff to Japan.

Senator MILLER. Yes, I understand.

I appreciate very much the testimony of not only the Ambassador, but his colleagues. And I thank my chairman for his indulgence in giving me so much time.

Chairman BOGGS. Thank you very much, Mr. Ambassador, and the members of your staff for coming here.

We will adjourn until 10 a.m., tomorrow, Wednesday, July 12, when we will meet in room S-407 of the Capitol.

(Whereupon, at 12:25 p.m., the committee was adjourned to reconvene at 10 a.m., Wednesday, July 12, 1967.)

THE FUTURE OF U.S. FOREIGN TRADE POLICY

WEDNESDAY, JULY 12, 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 S-407 the Capitol, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Reuss, and Widnall.

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 informed that Assistant Secretary Solomon is, unfortunately, ill this morning.

We have his deputy, Mr. Joseph A. Greenwald, Deputy Assistant Secretary for International Trade Policy, with us.

Mr. Greenwald will incorporate the Secretary's statement into the record, and also make the statement that the Secretary would have made had he been here.

We are very happy also to have Assistant Secretary McQuade, with his deputy, Robert L. McNeill.

We will hear from all of these gentlemen this morning.

Thank you very much for coming. You may go right ahead.

STATEMENT OF HON. LAWRENCE C. McQUADE, ACTING ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS; ACCOMPANIED BY ROBERT L. McNEILL, DEPUTY ASSISTANT SECRETARY FOR TRADE POLICY

Mr. McQUADE. I am very pleased to be here today to take part in this evaluation of our foreign trade policy. I believe that hearings of this type are useful in defining problems and seeking to determine precisely what our national objectives should be.

Six years ago this committee held hearings on our foreign trade policies, and a great deal of credit belongs to this committee for the passage of the Trade Expansion Act, which laid the groundwork for the successful Kennedy Round negotiations just completed. The results of these negotiations have not been fully revealed but I can assure you that in a few days complete details on the concessions granted by other countries will be made public and those interested in this area can see the fruits of our work. I think, given the aggressive and imaginative character of U.S. businessmen, that it will open up great new opportunities for them in the international markets.

However, I do not plan to make any further remarks about the Kennedy Round other than to note at this time that there is still some unfinished business. The administration will be submitting to the Congress proposals for implementing the second part of the agreement on chemicals dealing with elimination of the American selling price system of valuation. The Department of Commerce supports elimination of the American selling price system of valuation. The Department of Commerce supports the chemical agreement and we will be testifying before the appropriate committees urging enactment of the implementing legislation. Action by the legislatures of other countries is required for fulfilling some of the obligations they have assumed. In brief, the Kennedy Round will be occupying part of our time for some months to come.

Other issues of trade policy which lie before us can be divided into two categories—those of immediate importance calling for action in the next few months and those of a longer term nature. I will discuss them in that order.

Perhaps the most immediate problem before us, other than the legislation dealing with chemicals, is additional tariff cutting authority for the President to replace that which expired on June 30. Basically our need is for a relatively small reduction authority which will provide us with tools for handling day-to-day housekeeping problems of compensating other countries for increases in U.S. tariff rates. Such increases, as you know, may be brought about by legislation enacted by the Congress, by escape clause actions which might be approved by the President increasing rates on items now subject to tariff concessions, and by decisions of customs courts. We might also need such authority to modify existing tariff concessions in order to take care of technical problems or close loopholes which may arise. We anticipate that proposals on this subject will be presented to the Congress in the near future.

Probably the second matter of immediate importance arises from the fact that the concessions granted by the United States will go into effect on the first of next year. This will necessitate, in our judgment, amendment of title III of the Trade Expansion Act to improve the provisions relating to applications for adjustment assistance. Failure of any firm or groups of workers to meet the act's tests for injury or the threat of injury from imports over the last 5 years indicates that the provisions may be too rigid. This matter is being discussed within the administration with a new view to submitting appropriate legislation to the Congress.

These are the problems in the immediate future which require action. Now I would like to concentrate on some of the longer range issues. While I cannot do so here today, I think it is proper to note that the problems have to be related to the economy of our country and to the impact on our balance-of-payments position when we try to define our national interest.

One of the problems which will be given considerable study is the effect of removing trade barriers on the flow of investment both into and out of the United States. While our knowledge in this area is limited it is clear that a relationship does exist, as almost one-quarter of our total exports is to overseas subsidiaries of U.S. firms. As you know, when U.S. firms seek to enter international markets they have a variety of ways they can go about it. One of these is by exporting, another is direct investment, and a third is licensing. And they seek to be effective in international markets by the appropriate mix of these three methods.

This is reflected in part in the extraordinary growth over the last decade of the international firm. We know these firms are making very considerable contributions to economic growth here as well as abroad. We also know that these firms have great flexibility in shifting sales and purchases among suppliers of various countries. We believe we should look further into this relatively new aspect of international business so that we can take into account more fully the effects of policy decisions on the operations of these firms.

Much has been said and written about nontariff barriers and in the Kennedy Round the first real progress was made in tackling these restrictions on a multilateral basis. Nontariff barriers are different things to different people. Some European countries, for example, consider that the U.S. tariff is itself a nontariff barrier because the United States has not adopted the Brussels tariff nomenclature system. We, of course, reject such contentions but the very argument illustrates the variety of things which someone may regard as a trade barrier. Dealing with these subjects is very difficult and requires a great deal of time and effort and understanding as well as constructive thinking on the part of all interested parties. The agreement on international rules for dumping emerged from the Kennedy Round because all countries agreed after long discussion that there was a common problem and that individual attention to it by each country only compounded the difficulties.

This area is very broad and we believe that we should pick up from where we stopped in the Kennedy Round and proceed to see what we can do. Some of the important nontariff barriers of particular concern are in the areas of national procurement, quotas, purchasing policies of State enterprises and monopolies, and safety and health regulations.

But let's not forget that, like negotiations on tariffs, negotiating removal of nontariff barriers to trade is also a two-way street. We have to be willing to put our own house in order when demanding that others do likewise. The handling of the ASP legislation will be a major test in this respect.

Many consider that the border taxes imposed by a great number of the developed countries constitute a nontariff barrier. We do not disagree, but there is a strong relationship with the general problem of tax policy. This issue is extremely difficult in that we are dealing with national tax structures and any solution will have to be approved by a host of national assemblies. Some theorists argue that border taxes have no trade effects. However, it is another thing to explain to a businessman that a border tax of 10, 15, or 20 percent on top of import duties does not have any effect on his exports, or that exemption from such taxes of exports to this country does not have an effect on the prices in the markeplace in the United States. We do not yet have satisfactory answers to the border tax question but we will be looking for some in the near future. Some think it would be best to seek amendment of the General Agreement on Tariffs and Trade to wipe out the distinction between direct and indirect taxes so that the United States, which largely relies on direct taxes, could legaly adopt the same arrangement now followed by most European countries. Perhaps some constructive suggestions for dealing with this problem will emerge from these hearings.

The problems of the developing countries will be covered rather fully by Mr. Greenwald, so I need not dwell a great deal on that subject at this time. The problem in its simplest terms is whether we can properly adopt trade policies which would help promote economic growth in those countries and assist them in earning sufficient foreign exchange so that they can join the developed countries in a trading world free of restrictive devices.

One current suggestion toward this end is a proposal by the developing countries that the industrial nations grant to less-developed country exports the tariff cuts of the Kennedy Round right away instead of staging them over 5 years. We need to examine the implications of such action in terms of its impact on our industries and the general problem of preferences for the exports of developing countries. We know, of course, that many of the products of the developing countries are not competitive with domestic production and that these will pose no problem whatever—some, of course, would pose a problem. We still want to give this matter further consideration, however, before making specific proposals.

Second, there are a number of materials needed by American industry and not available in the United States which are subject to import duties. Some of these could be made free of duty without any difficulty. The Congress seems to be in general sympathy with this idea, for it has approved a number of suspensions of duty in recent years to relieve industry of unnecessary costs. Congress has also given the executive branch authority to negotiate elimination of duties for a few such products, namely nickel and limestone for making cement. We would like to look further into this area and possibly make some recommendations for eliminating duties which would not only help reduce the costs of our domestic industry but would also benefit the developing countries.

Next is the issue of trading with the countries of Eastern Europe and the Soviet Union. This is a matter which is already being discussed within the Congress. We support the principle that the United States should improve its trade relations with these countries. In fact, we believe it is in the national interest to do so. In addition to the foreign policy advantages involved in which we would defer to the Department of State, these countries constitute useful markets for our industrial and agricultural output. We should not, of course, rush headlong into blanket MFN treatment of all such countries, but we should, in my view, authorize the President to make individual MFN arrangements on a country by country, quid pro quo, basis where the benefits are clear.

I mentioned earlier that other nations have urged us to adopt the Brussels Tariff Nomenclature system to make our tariff and product classification system consistent with most of the developed countries of the world. Without prejudicing the issue one way or another I think we should give this idea consideration. A universal tariff classification is obviously desirable and I am sure it would be very helpful to us in the Government and those in business to be able to use statistical data without having to go through complicated and tortuous comparisons of nomenclature. On the other hand, our present tariff was designed to meet our needs. So, the issue is important enough, I think, to merit our consideration in coming months.

Now, Mr. Chairman, I have briefly identified a number of trade policy issues which seem important to us in the Department of Commerce. There are others, of course. We will be following these hearings closely and we will do everything we can to cooperate with this committee in its examination of our foreign trade policy. We expect your deliberations to make an important contribution to the Nation's assessment of the next steps in this field.

Representative BOGGS. Thank you very much, Mr. McQuade.

I think before going into questioning we will hear from Mr. Greenwald.

Mr. GREENWALD. Thank you, Mr. Chairman.

I would like to apologize for the fact that Mr. Solomon is not able to appear this morning. He was particularly looking forward to it. I think he attaches a great deal of importance to the work this committee is doing and particularly wanted to be present here to participate in the discussion.

I think you already have the rather lengthy statement which was prepared for Mr. Solomon. It wasn't his intention to read you that lengthy statement. And I will follow his own purpose and just comment very briefly, summarize it very briefly, extemporaneously, if that is all right.

Chairman BOGGS. We will incorporate the statement in the record, without objection.

STATEMENT OF HON. ANTHONY M. SOLOMON, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

U.S. FOREIGN TRADE POLICY AND THE DEVELOPING COUNTRIES

INTRODUCTION

The developing countries, as that phrase is now commonly used, consist of well over 100 political entities. There are marked differences among them in size, population, degree of industrialization, and economic growth—so much so that it is misleading to speak of them in aggregate terms as though they were a homogeneous group of countries. But they do share certain characteristics in common: their per capita income is low; their level of industrialization is low; a large part of their labor force is engaged in agriculture with low productivity per acre and per man; and they all want to modernize their economies. Indeed economic growth has become a symbol of national worth and dignity. In human terms, the overwhelming majority of their people face the kind of grinding day-in, day-out, year-in, year-out poverty that leads to the "harsh, brutish and short" lives which is the prevailing condition in most of the world. (Table 1.)

TABLE 1.—*Gross national product per capita, by country*

[U.S. dollars]

Kuwait	3,290
United States	3,020
Sweden	2,040
Switzerland	2,030
Canada	1,940
Luxembourg	1,770
New Zealand	1,760
Australia	1,730
Denmark	1,650
Iceland	1,550
France	1,540
Germany, Federal Republic of	1,540
Norway	1,520
United Kingdom	1,500
Belgium	1,460
Finland	1,440
Netherlands	1,260
Czechoslovakia	1,200
Germany (East)	1,120
Israel	1,070
Austria	1,020
Puerto Rico	980
Poland	930
U.S.S.R.	890
Hungary	890
Italy	850
Ireland	800
Venezuela	780
Rumania	710
Japan	660
Bulgaria	650
Argentina	650
Trinidad and Tobago	590
Uruguay	540
Cyprus	530
South Africa	530
Spain	530
Greece	510
Mongolia	480
Singapore	460
Chile	450
Panama	450
Mexico	430
Jamaica	430
Malta	410
Lebanon	390
Yugoslavia	390
Albania	380
Cuba	360
British Honduras	360
Costa Rica	360
Barbados	360
Portugal	340
Surinam	330
Nicaragua	320
Hong Kong	320
Guatemala	290
Gabon	280
Colombia	270
Peru	270
El Salvador	260
Malaysia	260
Guyana	260
Turkey	240
Iraq	240
Ghana	230
Algeria	230
Mauritius	220
Brazil	220
Oceania	220
Jordan	220
Libya	210
Dominican Republic	210
Korea (North)	210
Rhodesia	210
Iran	210
Ivory Coast	200
Paraguay	200
Honduras	190
Ecuador	190
Saudi Arabia	190
China, Republic of	190
Syria	180
Tunisia	180
Liberia	180
Morocco	170
Senegal	170
Zambia	160
United Arab Republic	150
Philippines	140
Bolivia	140
Mauritania	140
Congo (Brazzaville)	140
Ceylon	130
Korea (South)	120
Cambodia	120
Sierra Leone	120
Cameroon	110
Thailand	110
Vietnam (South)	110
Nigeria	100
Vietnam (North)	100
China (Mainland)	95
Malagasy Republic	95
Sudan	95
Central African Republic	90
Pakistan	90
Yemen	90
India	90
Kenya	90
Afghanistan	85
Gambia	85
Togo	85
Swaziland	85
Uganda	80
Niger	75
Haiti	75
Chad	70
Congo, Democratic Republic of the	70
Dahomey	70
Guinea, Republic of	70
Indonesia	70
Nepal	70
Tanzania	70
Bechuanaland	65
Mali	65
Burma	65
Basutoland	60

TABLE 1.—*Gross national product per capita, by country*—Continued

[U.S. dollars]

Laos	60	Somali Republic	50
Angola	60	Ethiopia	50
Burundi	50	Upper Volta	45
Rwanda	50	Malawi	40

Source: World Bank Atlas of Per Capita Product and Population, IBRD, September 1966. The data are for GNP and relate to 1963 and 1964. It is stressed by the Bank that the figures should not be regarded as official and must be taken with some reserve.

These countries are moving forward with varying degrees of success. A few are sprinting ahead; a few are stagnating. On the average there has been progress but the pace of improvement is uneven and slow. In the first half of the sixties, proclaimed by the United Nations as the development decade, there has been no acceleration in the rate of economic growth of the developing countries as a whole. The rate of growth of per capita income, about 2 percent in 1960–65, was lower than in the preceding decade owing to an acceleration in the rate of population increase. (See table 2.) Thus the gap between the per capita incomes of industrialized and developing countries has continued to widen during the first half of the development decade.

TABLE 2.—GROWTH OF REAL GROSS PRODUCT OF DEVELOPING COUNTRIES BY REGION, AND OF DEVELOPED COUNTRIES, 1950–65

	Annual compound growth rates (percent)		
	1950–55	1955–60	1960–65
Developing countries [1]	4.7	4.5	4.6
Per capita	2.7	1.9	2.0
Asia	4.2	3.8	4.3
Per capita	2.2	1.5	1.8
Latin America	5.0	5.0	4.9
Per capita	2.9	1.3	2.0
Developed market economy countries	4.7	3.3	5.0
Per capita	3.4	2.0	3.7
Socialist countries of Eastern Europe and Asia [2]	9.8	8.2	6.7
Per capita	8.2	6.6	5.4

[1] Includes the following African and Middle Eastern countries: Algeria, Congo (Kinshasa), Ghana, Kenya, Malawi, Morocco, Nigeria, Southern Rhodesia, Sudan, Tanzania (Tanganyika only), Tunisia, Uganda, United Arab Republic, Zambia; and Iraq, Israel, Lebanon, Syria.

[2] Gross material product.

Source: UNCTAD secretariat document TD/B/C.3/34, Feb. 17, 1967, based on data supplied by the Statistical Office of the United Nations.

Trade is a means to economic growth. I would like to talk to you today about U.S. trade policy and the contribution it can make to the economic progress of the developing countries.

A. *The importance of foreign trade to developing countries*

The developing countries are far more heavily dependent on foreign trade than the United States and most other industrialized countries. For the equipment needed to build a modern economic structure and, all too often, even to import the necessary food to avert starvation, the developing countries are heavily dependent on imports from the industrialized countries. To pay for these imports, the developing countries must export. And trade is clearly the senior partner to foreign aid—about 80 percent of the developing countries' foreign exchange receipts stem from export proceeds. (See table 3.) While foreign aid is a welcome and most important addition to the developing countries' ability to acquire the goods and services they need for their economic growth—and often the margin which avoids their slipping backward—their growth prospects depend critically on the extent to which they can increase their foreign exchange earnings through exports.

TABLE 3.—DEVELOPING COUNTRIES: RECEIPTS AND USES OF EXTERNAL FINANCIAL RESOURCES

[In billions of dollars]

Year	Receipts			Total	Uses						Total
	Commodity exports (f.o.b.)	Foreign private investment (net)	Official flows (gross)		Debt service		Other investment income payments	Miscellaneous uses (net)	Commodity imports (c.i.f.)	Changes in official reserves (net: + = increase)	
					Amortization	Interest					
1957	25.4	3.4	4.5	33.3	0.8	0.2	3.5		29.7	−0.9	33.3
1958	24.7	2.6	5.1	32.4	1.0	.3	4.5		27.6	−1.0	32.4
1959	25.7	2.2	4.8	32.7	1.1	.3	3.5		27.2	+.6	32.7
1960	27.3	2.4	5.4	35.1	1.4	.4	2.1	1.3	30.0	−.1	35.1
1961	27.7	2.4	6.7	36.8	1.5	.5	2.1	2.8	30.8	−.9	36.8
1962	28.9	1.8	6.8	37.5	1.7	.6	2.3	2.1	31.1	−.3	37.5
1963	31.5	1.6	7.5	40.6	1.8	.7	2.6	2.3	32.4	+.8	40.6
1964	34.4	2.3	7.8	44.5	2.3	.8	3.0	3.2	34.9	+.3	44.5
1965	36.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	36.9	+1.0	(1)

1 Not available.

Source: UNCTAD Secretariat document TD/B/82/Add. 1, July 20, 1966.

While the total value of their aggregate exports has been increasing year by year, from $21 billion in 1953 to $27.3 billion in 1960 to $36.5 billion in 1965, the developing countries have not shared proportionately in the dramatic growth-promoting spurt of world trade during the postwar era. Thus while the developing countries account for about 27 percent of world exports in 1953, this figure dropped to about 22 percent in 1960 and dropped further to less than 20 percent in 1965.

The root causes of this situation have been well documented in numerous academic studies as well as reports of various intergovernmental institutions. First and foremost is the heavy dependence of the developing countries on exports of primary commodities. About 85 percent of the export earnings of the developing countries as a whole is accounted for by exports of nonmanufactured primary agricultural commodities, crude minerals and metals, and petroleum. The dependence of particular developing countries on exports of a single product is even more striking, for example coffee, cocoa, rubber, sugar, cotton account for very heavy percentages—up to 80 percent—of the total export receipts of particular countries.

With the exception of petroleum, these commodities are not a dynamic and dependable source of foreign exchange. They are, by and large, subject to a low-income elasticity of demand; their prices fluctuate sharply because of variations in supply or cyclical changes in demand; several of them face growing competition from synthetic substitutes; and many are being produced in increasing quantities in the industrialized countries themselves.

In this situation, it is not at all surprising that the developing countries have been focusing their attention on an acceleration of industrialization and industrialization for export. World trade in manufactures has consistently exceeded the growth of world trade generally. The developing countries are anxious to break out of the straitjacket of dependence on a narrow range of products with an unpromising outlook in hopes of rapidly increasing the foreign exchange earnings they need to pay for their ever-increasing imports.

The developing countries have already achieved a measure of success in this regard. An analysis of imports of manufactures, from developing countries to the OECD countries combined,[1] reveals a yearly rate of increase of 15.5 percent between 1960 and 1964 and an increase of 16 percent from 1964 to 1965. An analysis of 49 commodity groupings over the 10-year period 1956–65 indicates an increase of 215 percent. (See table 4.) This relatively favorable picture, however, must be interpreted with some caution. First, exports of manufactures from developing countries are still only the small visible part of the iceberg—85 percent of their earnings are still accounted for by the unpromising primary or crude materials sector; secondly, the commodity composition is fairly narrow and concentrated on certain products, such as textiles, where they cannot expect large increases—indeed, the whole textile sector is fairly rigidly regulated at the present time under the international long-term arrangement governing trade in cotton textiles; and finally, only a relative handful of the 100-plus developing countries are currently benefiting from the recent rapid

[1] United States, Canada, Western Europe, and Japan.

increase in exports of manufactures and semimanufactures—African countries, for example, are almost totally absent from the figures on exports of manufactures.

TABLE 4.—LESS DEVELOPED COUNTRIES' EXPORTS TO THE OECD AREA BY CATEGORIES OF PRODUCTS

Category	Amount (millions)				Increase from 1956 to 1965 (percent)
	1965	1964	1960	1956	
Textiles and clothing (8 groups)	$1,122	$10,20	$598	$301	273
Foodstuffs and tobacco (8 groups)	462	428	315	256	80
Precious stones and jewelery (2 groups)	378	196	62	54	600
Articles of wood and furniture (4 groups)	170	159	61	39	336
Leather, leather and rubber articles, and footwear (6 groups)	174	158	105	79	120
Iron, steel, and metal articles (2 groups)	140	124	71	51	175
Chemicals (4 groups)	146	103	75	80	83
Paper and paperboard and manufactures thereof (2 groups)	11	12	3	10	10
Glass and ceramics (3 groups)	12	11	3	2	500
Miscellaneous (10 groups)	255	207	93	40	538
Total (49 groups)	2,870	2,417	1,393	912	215

Source: OECD Secretariat.

B. The Administration's approach to improving developing countries' export earnings

At the present time, and for the decade ahead, trade in primary products will continue to be the main source of export earnings of the developing countries. If we want to help these countries improve their trade earnings as a means to development, commodity trade is the place to begin.

1. *Primary commodities.*—This trade is plagued by a variety of problems: by persistent overproduction in some key products; by wide and destabilizing price swings in other key products; by severe competition from both natural and synthetic products produced in the industrialized countries, often under highly protectionist regimes; and by preferential arrangements in certain advanced countries that favor one group of primary producers over others.

There is no one solution to this range of problems. What is needed is a multifaceted approach tailored to the problems of specific commodity markets.

In the case of coffee which is the single most important agricultural commodity in the trade of the developing countries and absolutely critical to Latin America and certain African countries, the key problem is structural overproduction.

The International Coffee Agreement, which we helped to develop and actively support, has conducted a valuable holding operation. It averted a disastrous collapse of prices that threatened coffee trade in the early 1960's and it has kept coffee prices reasonably stable by supply control; that is, by keeping exports in line with demand. But more coffee is being produced than the world wants to consume; land, labor, and capital are being wasted in surplus production; and this very surplus production is undermining the agreement.

The critical next step is to help the producing countries move resources out of surplus production into more rewarding uses. We would hope to see a diversification fund become an integral part of the Coffee

Agreement. Access to the funds would be open to countries pursuing appropriate policies to curb coffee overproduction, and the funds themselves would be used for investment in products with a more promising future, including importantly food for domestic consumption where this is feasible.

At the Latin American summit meeting in Punta del Este, President Johnson made clear our willingness to lend $15 million to help initiate a coffee diversification fund that would be financed on a continuing basis by the producing countries themselves; and to match the contributions of other consuming countries by an additional loan of up to $15 million. The International Coffee Organization is working closely with the World Bank in developing the main features of the diversification fund.

Cocoa, a critical export earner for Ghana, Nigeria, and other African and Latin countries, is notoriously subject to wide swings in price because of variations in supply due to weather and insect attack. Cocoa prices averaged 17 cents a pound last year, 36 cents in 1959, 29 cents a few months ago. We cannot disregard the impact of these price fluctuations on the economic and political stability of the producing countries.

Negotiations looking toward an international cocoa agreement foundered in 1963 on the question of price. Producers wanted a price range that consumers believed would encourage overproduction, saddle the market with burdensome stocks, check consumption, and encourage the shift to substitutes. In the years since then, further consultations have been held both on price and on the mechanics and financing of a workable buffer stock scheme. Differences have narrowed appreciably and there is reasonable prospect that an agreement can be consummated in the near future that would give producing countries steady growing earnings and assure consumers a stable supply at reasonable prices.

The outlook is less promising in the case of sugar. The International Sugar Agreement has not been operative for many years—in fact, since Cuba refused to accept the rules. Our own trade is governed by our domestic sugar legislation which provides premium prices for supplying countries to the extent of their import quotas in our market. But the world market price has been seriously depressed for some years and adversely affects many low-income suppliers that sell a substantial volume of their output at the world market price.

Efforts to negotiate an international agreement that would strengthen the world price have proved to be very difficult, complicated by Cuba's intransigence on the matter of supply control, and by the unwillingness of certain advanced countries to provide reasonable access.

For many primary products of importance to the trade of the poor countries, improved access to the markets of developed countries is a major concern. Indeed, more than half of their commodity trade, petroleum apart, competes with similar or identical products produced and exported by the rich countries. Their mineral ores and metal exports face few trade barriers in the industrialized countries; demand is buoyant and future prospects are reasonably good. Natural rubber and some tropical fibers are similarly traded freely but the markets for these products have been eroded by the development of synthetics. For the developing countries dependent on these products the central objective must be to increase the efficiency of their production and marketing so as to meet the competition of synthetic substitutes on a price and quality basis.

There is, however, a wide range of temperate agricultural products in which the poor countries face an array of protective tariff and quota barriers that limit their access to the markets of the rich countries, and of subsidized exports from the rich countries that compete against them in third markets.

The developing countries are pressing for trade liberalization in these products. The prospects for substantial liberalization are not good. In virtually all developed countries, domestic agriculture is insulated in varying degrees from the free play of demand and supply by high price supports, direct subsidies, and import controls. The average income of the farm sector in the rich countries tends to be below that of other sectors in their economies, and the array of protective measures is intended to maintain and increase the income of this sector as a matter of equity.

The developing countries do not challenge the desirability of maintaining farm incomes in the advanced countries but they ask that measures to protect such incomes not be applied in ways that stimulate excessive production. Thus they urge that in lieu of high price supports, farmers' incomes be maintained by direct payments that do not inhibit consumption or unduly stimulate production.

We have recognized that agricultural support policies can have restrictive and disruptive effects on international trade. In the case of cotton, wheat, and feed grains, we have shifted from high price supports to direct payments and we have made our farm payments contingent on producers' cooperation with acreage control. Where surpluses have developed, we have stored them rather than dump them, or made them available on concessional terms to improve the diet and assist the development of low-income countries unable to purchase food on commercial terms. And we have taken precautions to insure that these food aid programs do not interfere with the normal pattern of international trade.

The developing countries have also asked the rich importing countries so to manage their farm economies as to give them a share in their markets and a share in the growth of these markets.

While existing U.S. legislation restricts sugar imports, we have set aside 35 to 40 percent of U.S. sugar requirements for imports. And in the case of meats, the present law permits imports equal to about 5 percent of domestic production before quotas would come into play.

The developing countries have urged the rich countries to assist their farmers by some form of adjustment assistance, of the kind applicable in industry, rather than through protective devices. We are to a considerable extent using a form of adjustment assistance in the farm sector. Thus we are helping marginal farmers to move out of agricultural through our cropland adjustment program and through training programs to enable them to develop skills in industrial employment.

We would hope that the increased effectiveness of the supply management and flexible pricing programs, the continuing shift of marginal farmers to nonagricultural occupations, and the increased role of food aid will make it possible for us progressively to liberalize agricultural trade.

This will necessarily be a slow process. The Kennedy Round has demonstrated that substantial liberalization of agricultural products is not easy to achieve. But it is important that we work together with other developed countries in the years ahead to consider how to deal effectively with all major barriers to less developed countries' agricultural exports.

In the case of tropical products produced solely in the low-income countries, we have no barriers to trade or consumption. Some developed countries do subject these products to high-revenue duties that inhibit consumption or to preferential tariffs that discriminate against certain low-income suppliers in favor of others. We believe the developing countries have a legitimate case that commodities produced solely in the tropical zone should not be a source of revenue to the rich countries at their expense. They have suggested that where such fiscal levies cannot be removed, a share of the receipts be turned back to them.

As to tariffs and quotas that restrict trade in tropical products or discriminate among primary producers, we would hope that all the rich countries would provide duty-free access for these products from all the poor countries. We shall continue our efforts in this matter.

A review of our trade policy as it affects the primary commodity trade of the poor countries would be incomplete without noting the important role that compensatory financing can play in assisting low-income countries whose export earnings fall off for reasons beyond their control. We have supported the liberalization of the compensatory financing facility in the International Monetary Fund, and developing countries are making increasing use of that facility. We are also considering the feasibility of supplementing that facility in the case of deep or protracted shortfalls in the export earnings of developing countries that are disruptive of their development and that may require longer term assistance than the Monetary Fund facility provides. The World Bank has developed a proposal for such a supplementary facility. The specifics of the Bank scheme raise a number of serious questions and we are not prepared to endorse it as formulated, but we are studying variants of the proposal that we may be able to support.

Even if everything were done that could reasonably be done to improve conditions of access for the primary product trade of the developing countries, to stabilize commodity prices at reasonable levels, and to supplement export earnings when shortfalls occur, the developing countries would still be vulnerable because with a few notable exceptions the commodities on which they depend are not dynamic. Demand is not likely to grow commensurately with the increase in world trade and world income.

The fundamental answer to the trade problems of the developing countries is to diversify their output and their exports and thus reduce their excessive dependence on a few traditional commodities. Some benefit can come from a more diversified commodity base and from a substantial attack on their food problem to lessen their dependence on food imports. But they must also industrialize. While continuing to produce raw materials for the world market and increasing the range of materials they produce, they must expand their industry.

2. *Regional integration.*—The developing countries have tried to develop industry—on a national basis—each country shielding its infant enterprises behind protective walls. The result, by and large, has been high cost inefficient industry with little growth potential. However, by joining together with their neighbors and dismantling the trade barriers among them, they can produce for a wider regional or subregional market. In the larger market, their industry would not be limited as it is today to light consumer goods. They could move in time to more complex intermediate and capital goods. Shielded for a time by their outer tariff walls from the export competition of the advanced countries, enterprises would be exposed to more tolerable competition within the broader regional market and would reach a competitive position in international markets much earlier and more effectively. And not unimportantly, foreign investment would be stimulated to locate within the grouping.

Recognizing the benefits that could come from a continentwide market such as the United States enjoys and spurred by the example of the European Common Market, low-income countries have been moving together to develop free trade areas and common markets.

At the Latin American summit meeting in Punta del Este, the countries of Latin America undertook a commitment of major significance to move forward toward a full Latin American common market. And the United States undertook a parallel commitment to help them with adjustment assistance when the common market gets underway.

We would hope to see similar movements among developing countries in other hemispheres. We believe that regional integration among neighboring less-developing countries that are at roughly the same level of development can be a positive force for economic growth and stability. It can also be a force for political cohesion. The difficulties in such undertakings are formidable, including the resistance of protected enterprises to exposure to increased competition and the concern of each country in the group to get a fair share of new enterprises. The benefits of integration can be realized only if the governments have the political will to push ahead. But if the political will is there, encouragement and support by the rich countries could be quite fruitful.

3. With respect to trade in manufactured goods, the principal point I wish to discuss with the committee is the question of trade preferences for developing countries.

There is nothing very new or startling about trade preferences. We have had preferential trade ties with the Philippines for decades. The extensive network of British Commonwealth preferences dates from 1931. The French and a few other European nations had similar arrangements with African areas for many years. What is new is that the developing countries themselves have recently become dissatisfied with this uneven situation, and with good reason. Neighboring countries of the developing world who frequently produce the same kinds of products face discrimination in developed country markets when one receives a preference and the other does not simply because of the historical fact of colonial relationships. The system pits the poor against the poor and has neocolonial overtones. It is made to order for creating friction and tensions among the very countries who most of all need to cooperate with each other economically and for their mutual prosperity. And one area of the world—Latin America—has historically had not trade preferences in any market; instead, it has had to cope with discrimination against its exports nearly everywhere. Moreover, developed countries, including the United States, frequently face discrimination because many of these preferential arrangements are reciprocal.

A new situation arose several years ago, however, when it became apparent that discriminatory trade arrangements of this kind were on the increase. The preferences which individual African countries enjoyed in their former metropoles were extended to all of the six member states of the European Common Market. An association agreement between Nigeria and the EEC was concluded last year after lengthy negotiations, thus extending preferences to a single African country which had previously had such advantages only in the Commonwealth markets. A large number of other African countries—the Maghreb and three east African countries—have been seeking some kind of special trade arrangement with the European Common Market.

This growing risk of further proliferation of trade arrangements which discriminate among developing countries was from our viewpoint a most unfortunate development, both politically and economically. It threatened to fragment world trade; it increased the pressures from Latin America for exclusive trade arrangements with the United States; it was a retrogression toward special spheres of influence.

We have always felt that the best way to assist the developing countries is for all industralized countries to join together in a common effort to help all of the low-income countries. The developing countries themselves felt that a more desirable course of action would be to replace the network of existing preferences which are selective as to product and countries by a general system of trade preferences by all industrialized countries for the benefit of all developing countries and without reciprocal preferences.

In early 1966 the United States, United Kingdom, France, and the Federal Republic of Germany began to explore some of the issues involved in trade preferences pursuant to a mandate from the OECD Ministers. Our own participation in this exercise was, of course, severely circumscribed by our own position of scepticism concerning the workability of any scheme of preferences and, indeed, our basic reservation on the idea as a matter of principle. It became quite apparent to us in the executive branch that this posture which the United States had maintained since the issue of trade preferences first arose in 1964 was ill-suited to our political and economic interests. Politically, we found ourselves virtually isolated from all the developing countries, and most of the industrialized countries as well. Economically, our reservation in principle and scepticism precluded our having much influence over the proliferation of discriminatory arrangements and also reduced our influence with regard to the specific workings of a preference scheme which other industrialized countries indicated they might put into effect whether or not the United States took part. An important precedent in this regard was the unilateral announcement by Australia in 1965 that it intended to apply a system of trade preferences of its own for developing countries.

This, then, was the general situation confronting President Johnson when he undertook to meet with his fellow chiefs of state of the Inter-America System at Punta del Este last April: a trend toward proliferation of discriminatory preferences which our own adherence to the principle of most-favored-nation treatment had done little to check, and an awareness that the Latin American countries, like other developing countries, are anxious to improve their opportunities for access to the markets of all industrialized countries.

After a searching examination and analysis within the executive branch and preliminary consultations with the Congress, the President agreed that he would indicate to the Latin Americans that we are prepared to explore the feasibility of a system of generalized preferences. The President told his fellow chiefs of state:

> We have been examining the kind of trade initiatives that the United States should propose in the years ahead. We are convinced that our future trade policy must pay special attention to the needs of the developing countries in Latin America and elsewhere in the world.
>
> We have been exploring with other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this.
>
> We think this idea is worth pursuing. We will be discussing it further with members of our Congress, with business and labor leaders, and we will seek the cooperation of other governments in the world trading community to see whether a broad consensus can be reached along these lines.

The present hearings are very timely since it gives us in the executive branch an opportunity to discuss further with the Congress—as the President promised would be done—how we presently believe the question of trade preferences will evolve in the coming months and years. I wish to stress that the President has committed the United States only to an exploration of preferences to see whether a consensus can be reached. There are many difficulties—both technical and policy—to be overcome if we are to reach a consensus. We also need the advice of Congress and our business and labor leaders as this matter is pursued.

Multilateral discussion of the preference question thus far has indicated two different kinds of approach in order to deal with three interrelated issues: depth of cut, the means to insure that any preferences actually extended would in fact be temporary, and safeguards for domestic interests in the industrialized countries. These are by no means the only outstanding issues but they are, we believe, the really crucial ones.

One approach envisages the establishment of duty-free quotas for preferential imports from developing countries. Under this approach, the industrialized countries would agree to permit the importation of some fixed percentage of domestic production or consumption of products from developing countries on a duty-free basis. This approach contains its own built-in safeguard against excessive adverse impact on industrialized countries—depending, of course, on the size of the percentage which might be agreed upon—since, in setting the percentage figures, governments would presumably take into account the extent to which their own domestic interests could absorb increased imports from the developing countries without serious injury.

There are, however, a number of difficult problems with this approach. One is the absence of any mechanism for insuring that preferences thus established would in fact be temporary. It has been suggested that such a scheme might operate for say 10 years after which the situation could be reviewed to see whether it should or could be extended, modified, or terminated. We are not sure this is politically realistic because it is easy to anticipate the pressures that would be exerted when the time for review occurred to extend the system rather than raise duties against the products of developing countries. Moreover, during such a 10-year period reductions of barriers among the industrialized countries themselves might be inhibited because of vested interests in maintaining margins of preference.

An alternative approach to this range of issues might be to visualize preferences for developing countries as the extension in advance to developing countries of trade barrier reductions which the industrialized countries themselves would be prepared to undertake on a most-favored-nation basis over a longer period of time. If an agreement could be reached with other industrialized countries for this kind of approach, the problem of insuring that preferences would in fact be temporary would automatically take care of itself since the preference margins would erode as trade barriers were reduced on an MFN basis. There are numerous difficulties with this approach as well, however. First there is the question of whether any industrialized country, including the United States, is prepared so quickly after the major reductions of trade barriers recently concluded in the Kennedy Round to enter into any kind of commitment to eliminate duties. I believe the realistic answer to this is no. This has accordingly led to the suggestion that the margin of preference under what has been called the "advance cut" approach would have to be something other than duty-free treatment across the board. This, of course, might reduce the attractiveness of the scheme to the developing countries. The question of safeguards under this approach would no doubt have to encompass the traditional devices such as exclusion of products deemed to be particularly sensitive, and an escape clause procedure in the event imports from developing countries threaten or cause serious injury to domestic interests. The case of cotton textiles of course is a special one in that the developing countries are already highly competitive in industrialized country markets and therefore do not need preferences. Moreover, so long as cotton textiles are subject to quantitative restrictions, tariff preferences would not be of any significant benefit to developing countries. In this particular sector, the developing countries will have to look for a gradual liberalization of quantitative restrictions rather than tariff preferences if they are to capitalize on the competitive advantage they already have.

I would like to draw the committee's attention to an important aspect of the second approach I summarized a moment ago; namely, the link between reductions of trade barriers for developing countries and the future of trade barrier reductions among the industrialized countries themselves. As you all know, the future pattern of our trade relations with the industrialized countries of Western Europe is difficult to predict with any certainty. We have of course given our full support and encouragement to the European Economic Communities and, as the President stated last October, we look forward to a strong, united Europe—with Great Britain a part of it. We thus hope the British will succeed in their current efforts to join the European Communities. We are also aware that if the British effort succeds, it is likely that a number of other European countries will join the Common Market or possibly associate with the Communities in some manner or other. The precise geographic dimensions and form of membership or association by the various European countries simply cannot be predicted at this stage. It is clear, however, that as trade barriers are reduced among a major grouping of European countries without the benefits of such reductions being extended to the United States, our own competitive position in this enlarged market will be adversely affected. We have accordingly felt that it will be necessary at some stage in the not too distant future—albeit after the Kennedy Round reductions have been digested—to visualize further reductions to the mutual benefit of both the United States and Western Europe, and the other major trading countries of the industrialized world. This is one reason why we have been giving close attention to the feasibility of establishing some kind of meaningful link between the establishment of a possible temporary preference scheme and the future reduction of barriers among the industrialized countries as a whole.

Another major policy issue involved in the preference question is what is to be the disposition of existing preferential arrangements. As I mentioned earlier, there are many such arrangements currently in force with the notable exception of Latin America. Latin America has been particularly critical of this situation and this, indeed, was a contributing factor to the President's decision at Punta del Este to commit us to an exploration of the feasibility of a generalized system of preferences. It has been our thought that we could develop a scheme which would subsume the existing preferences enjoyed by particular developing countries in particular markets. Some difficulties have come to light on this point, however, and we may succeed in only partially achieving our objectives. For example, the developing countries of the Commonwealth and the African countries associated with the European Communities all enjoy duty-free access to these respective markets. If a generalized preference scheme does not take the form of duty-free entry, existing beneficiaries might feel they are obtaining lesser benefits than they now have even though this point is debatable.

There is also the question of reverse preferences, that is the preferences currently enjoyed by some industrialized countries in the developing countries to whom they accord preferential treatment. We for our part have made it clear that such arrangements must be terminated as part of any generalized scheme since we do not consider it reasonable that the United States should be expected to accord preferred treatment to developing countries discriminating against U.S. exports. These arrangements, moreover, convey no benefits to the developing countries who are denied the opportunity to buy in the most favorable market.

Even if it should not prove possible to eliminate completely the preferential access to certain developed country markets that certain favored poor countries now enjoy, agreement on a new system of preferences extended on a nonreciprocal basis by all developed to all developing countries would be a major achievement. It would check the further proliferation of special discriminatory arrangements, the thrust toward new bilateral trading blocs; and it would reduce the range and significance of existing preferences.

There are other policy and technical issues related to preferences that I could discuss with the committee, but I believe the foregoing is sufficient to indicate the range of complexities which are involved.

I would like to invite the committee's attention to an excellent recent survey by the UNCTAD Secretariat of the key issues. I will make available to the committee copies of this document (app., p. 380) and would have no objection if the committee wishes to incorporate it in its report on these hearings. This particular document is being discussed at this very moment in Geneva where the UNCTAD Group on Preferences, on which the United States and 33 other governments are represented, began its meetings on July 4. The document to which I have referred and the specific proposals advanced therein illustrate some of the complexities and the options open to us and other countries. The United States will not enter into any kind of commitment on any of the key details of the suggestions presented by the UNCTAD Secretariat at the meeting now in progress. We believe, however, that the discussions based on this very competent review should serve to clear the air a bit and give us a better appreciation of how the developing countries themselves view the operation of a possible preference scheme. We need such an understanding because a workable scheme of preferences—if it is to be worth the effort which would have to go into it—would have to be one which has the support not only of the industrialized countries but of the developing countries themselves.

With the President's announcement at Punta del Este, the work of the small group of countries in the OECD entered a new phase since the United States no longer maintained a basic reservation on the principle of preferences. Still it appears that there are important areas of difference between the approaches to some of the key issues involved in preferences. The UNCTAD document to which I have referred gives a succinct and quite accurate exposé of these differences in approach.

The time sequence of events is that a report by the small group will be considered within the regular OECD framework this fall, culminating in the meeting of OECD ministers on November 30–December 1. If, at that time, a general consensus can be reached, there might well be a joint OECD proposal to be put before the second United Nations Conference on Trade and Development to be held in New Delhi beginning February 1, 1968. On the other hand, there may be no joint proposal but alternative ideas presented for consideration at that Conference. No matter which course of action may transpire, the United States for its part does not expect that any proposal or proposals will be presented on a take-it-or-leave-it basis but that, instead, the views of developing countries and detailed discussions to develop a workable scheme will require many meetings over a period of many months both during and after the New Delhi Conference. During this period, of course, the United States will have to be refining its own views in consultations with business and labor and with the Congress since, of course, the United States will not be in a position to extend trade preferences without new enabling legislation. The actual mechanism for ascertaining these views will be part of the long-range study of trade policy which the President has charged Ambassador Roth to carry out.

Let me conclude my presentation by a brief commentary on our trade policy as it relates to both primary products and manufactured goods. The United States has been the prime mover in the worldwide effort to reduce unnecessary barriers to trade. This long effort has recently been crowned with success in the outcome of the Kennedy Round negotiations. There has been some unfortunate—and in our view inaccurate—press commentary to the effect that the Kennedy Round accomplished little or nothing for the developing countries. Let me give you our own appraisal of this situation.

One of the principal objectives throughout the Kennedy Round negotiation was to reduce barriers to exports of developing countries to the maximum extent possible. The U.S. position throughout the negotiation was conditioned by its commitment to this objective. The U.S. concessions benefiting the developing countries cover $900 million of their exports to the United States in 1964. Of this total, the United States is completely eliminating the duty on more than $325 million, either under section 202 or section 213 of the Trade Expansion Act. Provisions of the act are such that eliminations under section 213, accounting for at least $45 million of imports from developing countries, do not need to be staged over a 4-year period. A substantial portion of U.S. concessions—nearly $500 million—are on manufactured and semimanufactured products from developing countries. This represents a significant reduction of our tariffs on items of interest to the developing countries. We made these concessions, moreover, without seeking reciprocal tariff reductions by the developing countries in keeping with the negotiating principle accepted by all the industrialized countries that full reciprocity could not be expected from the low-income countries.

We have recently completed a detailed analysis of U.S. concessions in relation to a list of the products which the developing countries themselves have declared to be of export interest. This list (see appendix 2) covers 1,376 different tariff classifications of the Tariff Schedules of the United States in which the 1964 trade interest of the developing countries was $622.7 million. The United States is making tariff concessions on 1,160 of these items accounting for $489.8 million of their 1964 trade interest. Thus the U.S. concessions will cover approximately 84 percent of the items requested and 79 percent of the developing countries' trade interest in the items contained in this composite list.

We do not yet have similar detailed analyses of the significance for developing countries of concessions made by other industrialized countries but we know that, in general, they are of a comparable order of magnitude. The composite effect of the vast reductions by all industrialized countries is that the trade opportunities open to the developing countries are substantially better than ever before.

I would not wish these comments to be misconstrued as implying that developing countries will obtain the major benefits from the Kennedy Round. It is quite clear that trade between the United States and other industrialized countries will be the major beneficiary. But the implication that nothing was done for the developing countries is very much wide of the mark.

We in the executive branch are delighted with the successful outcome of the Kennedy Round. We recognize that a period of reflection will be needed to assess—and digest—the results, and that it may be some time before the United States and other major industrialized countries will be ready to undertake another assault on the remaining barriers to trade. But I also would not wish to end this presentation by implying that the Kennedy Round is the end of the road. Indeed, as the President stated at Punte del Este, "The process of freeing trade from unnecessary restrictions will not come to an end when the current and important Kennedy Round negotiations are completed."

Not all of the issues we and our negotiating partners had hoped to come to grips with during the Kennedy Round could be dealt with during the marathon sessions of the final months. One issue in particular of major interest to the developing countries has been left over for further consideration next fall. That is the question of extending the benefits of the Kennedy Round reductions to the developing countries without the normal staging requirement. The United States has not taken a firm position on this point. It would, of course, require specific legislative authority. If this were done in a preferential way, that is covering all products but for developing countries only, it would constitute a precedent for the longer term problem of temporary tariff advantages. We will be exploring this issue with our major trading partners over the coming months and, of course, with the Congress.

TESTIMONY OF HON. JOSEPH A. GREENWALD, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL TRADE POLICY, DEPARTMENT OF STATE

Mr. GREENWALD. What we tried to do in our statement, Mr. Chairman, is to focus on the question of U.S. foreign trade policy and the problems of the developing countries.

I think by general consent this is one of the major trade policy areas which we perhaps have not yet dealt with adequately, and one we will have to face in the coming months and the coming years. Although I think the developing countries themselves have perhaps underestimated the benefits they will receive from the Kennedy Round, they have taken the position that the Kennedy Round was not really the answer to their problems, and that further steps would have to be taken designed specifically to deal with their trade flows.

We have laid out in the statement our estimates of what the benefits will be as a result of the Kennedy Round, which we think will not be limited just to the trade that is presently flowing from the developing countries, but also to additional trade that will emerge as they increase their developing industrialization.

Nevertheless, it is quite clear that the less developed countries have not achieved what they consider to be an acceptable level of economic activity and industrialization, and that we will have to focus our efforts in the future on working out policies which will help them.

But the trade problems of the developing countries need to be looked at in perspective. The prepared statement makes clear that in terms of present trade, the vast bulk of their export earnings come from exports of primary products. The figure is about 85 percent. And, therefore, the question of trade and pricing of primary products, particularly tropical products, is of extreme importance to the developing countries.

I think, however, that the U.S. Government has a fairly well-established and longstanding policy of trying to deal with trade in primary products, in the first instance by achieving improved access to markets, by eliminating tariff and nontariff barriers as well as internal taxes, where that is possible.

Commodity policy has to be pretty much on a case-by-case basis. It has been possible to work out commodity agreements in some areas. And we are looking into other areas where it may be possible in the future. This again is spelled out in the statement where the history, for example, of the coffee agreement, and the prospects for negotiation of a cocoa agreement are reviewed.

The second area where we think the developing countries can improve their economic and trade position is through regional integration. The problems of regional integration for the developing countries are substantially different from those in Europe that had to be solved to achieve what is now called the European Communities, instead of the European Economic Community. But the advantages which would flow from larger markets, we think, are just as important for the developing countries as for the industrialized countries.

In the case of Latin America in the recent meeting at Punta del Este there was an undertaking that the Latin American countries themselves would move toward a common market. It is expected to be achieved over a number of years. And we think this will have major benefits for the developing countries and the industrialized countries as well.

The third area covered in our paper, which I would like to spend a little more time on, is the question of special tariff treatment or preferences for the trade of the developing countries, particularly in manufactured and semimanufactured goods.

The reason I would like to devote a little more time to this subject is that it is really the major trade policy problem that we may be facing in the coming months and years.

The developing countries have argued that most-favored-nation treatment is really not most-favored-nation treatment, not equal treatment, when you have such wide disparities of economic strength and ability to compete.

Just as some people in this country feel they are disadvantaged, so the developing countries feel they have suffered a disadvantage, and they need what might be called a "head start" in international trade terms. They press their request in this field in the form of a proposal for a generalized system of nonreciprocal preferences. What this means is that all the industrialized countries would give to all the developing countries preferential treatment. I think they have all generally agreed that this would be a temoparary phenomenon, designed to give them the opportunity to industrialize and to become more competitive.

Another element which has led people to consider the possibility of a general system of preferences is that since the formation of the European Economic Community and its association with certain African countries, there has been a proliferation of special arrangements. Countries like Nigeria have obtained similar association arrangements with the EEC, and other countries in Africa and elsewhere have been seeking special treatment. We have considered that this is an undesirable development, both in political and economic terms this kind of closed north-south relationship, we think, is not the most desirable way to organize either international trade or international political relations. And the two are closely related.

For this reason the idea of a generalized system which would overtake and perhaps subsume the existing arrangements, including those within the Commonwealth, presents some advantages. Again, if the United Kingdom application for admission to the Common Market is successful, some of the additional problems relating to the Commonwealth and the treatment of Commonwealth trade in the United Kingdom can perhaps be dealt with in the wider context of generalized preferences.

These are some of the reasons, then, why both the developing and industrial countries are giving serious consideration to seeing whether a system of generalized preferences can be worked out.

As far as the Latin American countries are concerned with whom we have special relations and special concern, they have been left out of all the existing special systems. As far as their trade with the United States is concerned, they receive the same treatment, for example, as African countries. On the other hand, in Europe their exports, such as coffee and cocoa, are discriminated against. For this reason they have sought either special arrangements between the United States and Latin America, or sometimes they have talked about a system of "defensive" preferences which could be negotiated off against the European-African system.

In any event, underlying these various trade policy and political issues has been the basic factor that economic growth in the developing countries has not really been adequate, and that increasing foreign trade is one of the key elements in trying to increase the level of economic activity activity in the developing countries.

In terms of primary products, the possibilities for exports are not growing, due to the well-known problems of the growth of synthetics, the fact that the industrialized countries themselves are producing more of the same raw materials, and that the demand itself is not very dynamic.

I think everybody has agreed that the only real long term solution to the problem of economic development is the growth of trade of the less developed countries and that this must take place in the field of manufactured and semimanufactured products.

At Punta del Este President Johnson took us perhaps a step further in our consideration of the preference issue by saying that he would undertake to consult with the other industrialized countries to see whether a consensus could be achieved on a generalized system of preferences which would be generally acceptable. In the course of this he said that he would naturally be consulting with private interests in the United States and the Congress as well, since, if we were to depart from our basic policy of most-favored-nation treatment, we would need legislation. Most-favored-nation treatment is the policy we have had, in conditional or unconditional form, for about 145 years or so. And I think that we are all agreed that we would have to examine the situation extremely carefully before we proposed legislation which would change such an important and longstanding policy.

This search for a consensus on an acceptable system of generalized preferences has already begun in the OECD. As is explained in the statement, there is a small group of four countries, the United States, the United Kingdom, Germany, and France, looking at the various issues involved to see whether we can come out with a generally acceptable system. Some of the problems that have arisen there are spelled out in the statement: such questions as how to make sure that preferences are temporary, how to define a developing country, and what happens to existing preferences, not only those enjoyed by the developing countries, but also the preferences enjoyed by the industrialized countries in some developing countries.

This work is to continue for the next 2 or 3 months. And the subject will then ultimately be considered in November at the ministerial meeting of the OECD.

If we can proceed along these lines toward the consensus that the President talked about, the ultimate objective would be to put before a meeting of the United Nations Conference on Trade and Development an outline of a generalized scheme which the industrialized countries would be willing to consider. This meeting takes place in New Delhi in February of next year. In the view of the developing countries, it would be a major step forward in providing help for them if the industrialized countries were to come forward with a generally acceptable scheme.

As far as the domestic situation is concerned, I think Ambassador Roth has already talked about his mandate from the President to work on trade policy. The question of preferences will be one of the major issues to be discussed in the study group and with other interested bodies in the United States, and with the Congress as well.

Then there will be international discussions.

And finally, as we see the timetable and if all goes along the lines I have outlined, we will probably be coming back to the Congress for legislation in early 1969. We need a period for reflection and analysis of new commercial policy developments before deciding what sort of legislation we should seek.

Although we would not be looking for legislative action for a couple of years, we certainly would continue to consult closely with the Congress at every step of the way to make sure we would have the understanding of what we were trying to do, and that this was a feasible policy to follow.

Thank you, Mr. Chairman.

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

Mr. Reuss, do you have any questions?

Representative REUSS. Yes; thank you, Mr. Chairman.

I certainly want to express my support of President Johnson's approach at Punta del Este to this question of preferences to the developing countries on a generalized, nondiscriminatory basis. I think that it would be a very poor thing if the world became divided up into Hjalmar Schacht enclaves. And I think the administration is on the right track there.

I am hopeful that the Congress, and perhaps this committee, can give some formalized support to what we are doing. I certainly can't complain that this is being pursued at a low level, since the President has very forthrightly put his prestige on the line on this. And I would hope that it could be a major and continuing U.S. bargaining point.

I am interested in the tour of the horizon contained in yours and Mr. Solomon's paper on the export earnings of developing countries and the primary products. Particularly, I was interested in what has been said about sugar. Would you share my impression that if all the primary commodities involved a change in policy by some of the developing countries so that they produce less of the future increment to their needs in sugar in the next 15 or 20 years themselves, and give the reciprocal countries an opportunity to produce a larger percentage, that this would be about as good a foreign exchange for many of the developing countries as one can think of? And that this one commodity, if the developed world is prepared to make some rather important changes in its domestic policies, offers the possibility of a large-scale improvement in foreign exchange earnings by many countries, including at least a dozen in Latin America?

Mr. GREENWALD. I think the general idea of maintaining a certain share of the market for developing countries is one that is embodied in our own legislation, and one that we could support on policy grounds as well.

Representative REUSS. We have, I think, under our present system, around 35 or 40 percent dedicated to imports.

I wonder how much we know about relative costs of products and what it costs to maintain 60 percent of our domestic consumption under home production.

Mr. GREENWALD. I think that would be a little hard to answer.

Representative REUSS. And what it costs the French, the Germans and the other beet sugar producers.

Mr. GREENWALD. In a general sense, where you have a very high degree of protection, whether it is in agriculture or industry, there is some economic cost involved. My impression is that the beet sugar industry has probably become more efficient over the years, and that perhaps that the disparity is not now as great as it originally was when the sugar legislation was first instituted. I think in any kind of interference with the normal market there is bound to be some economic costs. I think the situation in Europe is perhaps developing into an even more costly situation, because the plans in the European Economic Community call for an increase in their output to the degree that they will be actually exporting on a subsidized basis. In this situation you have a double cost, not only the price of the product domestically, but the cost of subsidizing exports.

And this is perhaps one of the more important developments that it might be possible to tackle if we could reach the point of an international discussion of the sugar situation. This hasn't been possible so far, for two reasons, as spelled out in our paper. One, Cuba has not been willing to consider a realistic export quota which would have to be part of any plan. And, secondly, some of the industrialized countries, particularly the EEC, are not yet willing to consider the possibility of limiting their own expansion of production.

Representative REUSS. Cuba's position, of course, I would judge, resulted not only from its sugar production potential, but from its international political position. Do you need Cuba to work out an international sugar agreement? I don't see why. If Cuba wants to be a dog in the manger on sugar, I don't see why she couldn't be hermetically sealed from the non-dog-in-the-manger world.

Mr. GREENWALD. I don't pretend to be a sugar expert. I will try to answer that, subject to correction by the people who have followed sugar in much greater detail than I have. But my impression is that it would be hard to isolate as large a producer as Cuba from the international market and from an international marketing agreement, if that is what you contemplate. It is not just the question of Cuba's direct exports on the world market, but she also has a long-term contract with the Soviet Union. What this means is that you would have to isolate the Soviet Union, too, because what the Soviet Union has apparently been doing is exporting some of the sugar. It is not clear whether it is a direct reexport of the Cuban sugar that she had to take under a long-term arrangement, or whether she is using the Cuban sugar domestically and then exporting her own beet production. But these two elements would make it extremely difficult to try to reach an agreement without their accepting commitments under the arrangement.

Representative REUSS. You say the settlements. Is the other settlement the EEC's present production policy?

Mr. GREENWALD. Well, certainly the anticipated production—what they have been talking about in terms of their targets for production. The common agricultural policy as it applies to sugar, will apparently lead to substantial increases in production within the Community.

Representative REUSS. We have not been as high level in our deprecating the EEC's sugar outrages as we have been in, let us say, the President's excellent Punta del Este observations on trade preferences or LDC manufactured goods; have we?

Mr. GREENWALD. If you mean has the President made a statement on EEC sugar policy, the answer is "No".

Representative REUSS. Who has deprecated that, and at what level?

Mr. GREENWALD. I don't know that it has been formally the subject of a deprecatory official statement by the U.S. Government. The way it really came out—and it wouldn't have come out, I guess, in formal public statements—is that the Secretary General of the UNCTAD, Dr. Prebisch, proposed that there be a standstill on production among the industrialized countries. The U.S. response was a positive one. We thought this was perhaps one way—an intermediate way—to deal with the sugar problem. But it hasn't been possible to achieve agreement among all industrialized countries. And I think that possibility fell by the wayside.

Representative REUSS. What was the forum?

Mr. GREENWALD. I think this was in an UNCTAD sugar consultative group that was meeting in Geneva to see whether the basis was there for an international negotiation of a revived international sugar agreement.

Representative REUSS. What was the term of life of the International Sugar Agreement? I am not even sure it ever lived.

Mr. GREENWALD. My recollection is that it was effective for a while. I think that there still is a sort of a framework agreement. There is an International Sugar Council, if that is the proper term. But the Agreement isn't operative at the moment. I am sorry, I just don't know whether it had a termination, whether it had a limited period of life, or not.

(The following statement was subsequently supplied for the record:)

The International Sugar Agreement of 1958 was scheduled to expire December 31, 1963. Its export quota and related economic provisions became inoperative as of January 1, 1962, but the statistical work of the International Sugar Council continued. For this purpose and because the Sugar Council provided a useful forum for discussion, the Agreement was extended by protocol, in 1963 for two years, and in 1965 for one year through 1966. A further protocol to extend the Agreement through 1968 is now before the Senate.

Representative REUSS. As I review the various primary commodities which, as you point out, account for 80 percent, I believe, of the exports of the LDC's—coffee, cocoa, rubber—these other commodities other than sugar don't seem to me to offer near the possibilities for doing a great deal of good for the developing countries and removing the need for foreign aid which is otherwise going to be necessary at a given level if the LCD's are to survive. I would think that sugar ought to be consuming more time at a higher level within our executive branch than I think it does now.

Mr. GREENWALD. I think we can agree that there are a limited number of products on which you can do something internationally in terms of any kind of international arrangement. The products that have been under active discussion, if they are not yet in formal negotiation, are cocoa and sugar. For the reasons that we talked about earlier, it hasn't been possible to get very far on sugar. But it still is being actively considered. As a matter of fact, I think the consultative group was talking about Dr. Prebisch undertaking some consultations in key capitals to see whether it is possible to proceed with an international agreement on sugar.

Representative REUSS. Thank you.

And to conclude this part of the discussion, I would explain to the chairman that I am quite confident that Louisiana cane sugar production is a lot more economic than Wisconsin sugar beet production.

Chairman BOGGS. I would say to my good friend that is a very complex subject.

The gentleman from New Jersey?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. McQuade, and Mr. Greenwald, would you comment on this—on the President's power to negotiate and implement the antidumping agreement without further congressional approval?

Mr. McQuade. I believe this is within his power, as we understand it.

Representative Widnall. So that once the present negotiation becomes a fact——

Chairman Boggs. Excuse me. I didn't hear the answer to that question.

Representative Widnall. It is within his power, I believe he said.

Chairman Boggs. He didn't qualify it?

Representative Widnall. You didn't qualify it, did you?

Mr. McNeill. Mr. Widnall, if I may, the negotiation on the antidumping code was a negotiation whereby the President did not negotiate any changes in the Anti-Dumping Act that was enacted by the Congress in earlier years. Pursuant to the Anti-Dumping Act the administration over the years, several administrations over the years have spelled out administrative procedures. And it is in the area of administration that the negotiations took place in Geneva. And so what the President has done through his chief negotiator has been to conclude an antidumping code which provides commonality of procedure internationally which in our judgment will be of substantial benefit to U.S. exporters.

Representative Widnall. So that you believe under the existing law, without any further implementation, the President has the power to negotiate and further implement the antidumping legislation?

Mr. McNeill. Assuredly, yes.

Representative Widnall. In view of what has been going on around the world, and keeping us more or less in a tinderbox, I would like to ask what may seem to be a simple question, and yet I think it is something that we all should know. Are there any tariff or nontariff barriers to the trade in arms between the United States and the other countries?

Mr. Greenwald. Perhaps I can try to answer that. As far as exports of arms from the United States are concerned, they are all controlled and licensed. The State Department has the responsibility for licensing arms and ammunition under an act of Congress. I don't think any arms—ones that are on this list—can be exported without specific licensing authority.

Representative Widnall. I understand the licensing part of it. But do foreign countries charge a tariff? Are any payments made to the foreign countries to enable us to sell arms to them?

Mr. Greenwald. As far as the tariffs are concerned, I think they actually have tariffs on what we call arms and ammunition. But in most cases they are imported from the account of the government, and therefore the tariffs are waived—the tariff doesn't apply—because the government is the sole importer of arms and ammunition.

Representative Widnall. It is sort of a frightening thing to think that for war purposes you have free trade, and yet for other commodities having to do with the growth of the country and the health of the country we have the tariff barriers. I don't think it makes any sense.

Mr. McQuade. Well, there are two observations. First is that when you talk of free trade you are generally talking of transactions in the private sector, and in one sense all trade in arms and ammunition has a government involved. In our case we would control the export, and the purchaser would be a government.

And the other thing is that there is another barrier which is in the form of the United Nations resolutions which have been implemented by countries with respect to, for example, Rhodesia and South Africa. There are some limitations. And it is really not on all four's with other products.

Mr. GREENWALD. I don't think you can really call it free trade when there is a complete licensing system, certainly on exports as far as we are concerned, and on imports in most countries. The fact that the tariff is rebated because the purchase is for the account of the government doesn't make it free trade in the usual sense. As Mr. McQuade says, it is not the same as a private transaction, and you can't call it free trade. The most effective nontariff barrier to trade is a quota or licensing system. And that is what you have in arms and ammunition.

Representative WIDNALL. I have been very much disturbed since receiving word recently that a great amount of the arms trade between our country and the countries in the Middle East have been financed through the Export-Import Bank. Now, this is more than just licensing, too. And if it is true—and I'm going to pin it down, and I intend to follow it up—I think it is something that the country can well look into to our present posture and our future position with respect to this kind of trade.

Mr. MCQUADE. I am sure the answer, Mr. Widnall, is that if we make a national decision to sell arms, that it is the sensible thing to do under the military assistance program, why then we will facilitate that sale with credit if that is appropriate.

Representative WIDNALL. We certainly find ourselves in a great box since this Middle East system blew up. And a lot of things have come to light with respect to our own participation and that of the Soviet Union. And I think we had better have everything fully on the record as to what we are doing with respect to this entire trade.

Representative REUSS. Will the gentleman yield?

Representative WIDNALL. I will yield.

Representative REUSS. I think the gentleman from New Jersey is performing a very useful service here. I was not aware of the use of the Export-Import Bank for this purpose. But it was certainly not the intent of Congress to set up a Sir Basil Zaharoff institution when it inaugurated the Export-Import Bank. And I hope the gentleman will pursue this. I pledge my help with it.

Representative WIDNALL. I thank the gentleman.

If Britain fails in its bid to enter the European Common Market, what alternative sources of action might be open to the United Kingdom, and what might be the United States attitude toward such possibilities?

Mr. GREENWALD. Let me try to answer the question.

If the United Kingdom doesn't succeed on this occasion in joining the European communities, there will certainly be a great deal of consideration given to what people describe as alternative arrangements. As a matter of fact, I think both in the United Kingdom and in other countries people have thought about this on past occasions, and something called contingency planning is going on all the time.

My own feeling is that perhaps too much attention is given to the institutional aspects of these alternative schemes. People talk, for example, about a North Atlantic Free Trade Association as a possible alternative. I think in economic terms an alternative, not just for the United Kingdom, but perhaps for all the industrialized countries of the world, would be to try to move toward the elimination of all tariff and other barriers to trade. This is the economic aspect of the United Kingdom effort to try to join the Common Market.

The economic objective can be dealt with rather simply. And I don't think it needs an elaborate institutional arrangement.

The real problem, I think, is probably on the political side rather than the trade or economic side. The problem for the United Kingdom, as Dean Acheson once put it, is to find a role. And as it sees itself now, its role is part of an integrated European community. In that sense it is very hard to think about any viable or sensible alternative in political terms. And I think that there is some risk that the people will mix up the two: institutional arrangements with essentially political overtones, and economic arrangements which could be just an agreement among all the industrialized countries of the free world to move toward the goal of free trade. We don't need any elaborate system. I think it has been demonstrated by the Stockholm Convention of the European Free Trade Association that you can move toward complete elimination of tariffs and other trade barriers without having either special political relationships or a very elaborate institutional structure.

This deals with the economic side of the problem of United Kingdom entry. The question of handling the political aspect is much more difficult and much more complicated. And I don't think there is any simple solution or simple alternative in that case.

Representative WIDNALL. Mr. McQuade, if Britain succeeds in entering the Common Market, what would you think the long-range impact will be on U.S. trade?

Mr. McQUADE. The important thing is that as overseas markets become stronger economically they generally become better markets for the United States. Now that we have the Kennedy Round behind us, and we seem to be moving in the direction of removing tariffs as a really big factor in the trade picture, I do not view Britain's accession to the Common Market as particularly troublesome. In fact, if it makes the Common Market a better and stronger economic entity, it will probably help our trade, especially if we keep the various nontariff barriers in control and hopefully move forward to lower them. I think that it would not be a troublesome thing for us.

Representative WIDNALL. Thank you, Mr. McQuade. My time is up.

Chairman BOGGS. Mr. Greenwald, did I understand you correctly when you said that no legislation was required until 1969? Or did you say that no programs would be recognized?

Mr. GREENWALD. I didn't say that no new legislation would be required until 1969. I think the legislative program we have in mind was outlined by Ambassador Roth earlier, which would be what is referred to as essentially housekeeping legislation—a simple extension of the trade agreements program for another 2 years.

Chairman BOGGS. He also said that he would recommend certain amendments to the adjustment provisions of the existing trade agreement program?

Mr. GREENWALD. Yes. There are other elements in the legislative program to be presented this year. One would be the adjustment assistance amendment that you spoke of.

Chairman BOGGS. Are you prepared to spell those amendments out?

Mr. GREENWALD. No, I am afraid that——

Chairman BOGGS. Is anybody?

Mr. McQuade?

Mr. McQUADE. I don't think that we have hammered out in our own minds what would be the right thing to propose.

Chairman BOGGS. When do you plan to propose them? This is July.

Mr. McQUADE. In the very near future.

Mr. McNEILL. Mr. Chairman, if I may just add to that comment, the Trade Expansion Act test for eligibility for adjustment assistance has proven indeed to be a very difficult test, as I think you all know. You will recall that in passing the Canadian Automotive Products Act the Congress liberalized very considerably the test for eligibility. Pursuant to the Canadian Automotive Products legislation, the Tariff Commission and the administration have in most cases, where applications have been made, been able to certify under the looser and more liberal eligibility tests that workers indeed have been adversely impacted and affected by operation of this particular agreement that we have with Canada. The administration is very carefully examining both tests of eligibility; that is, those in the Trade Expansion Act and those in the Canadian Automotive Products Act, with a view to asking the Congress to liberalize the Trade Expansion Act test. We have not at this time made final determination as to whether we would want to move wholly in the direction of the Automotive Products Act, or go beyond this, or go almost up to it. But we will, I think, quite shortly, as Mr. McQuade indicated, be submitting to the Congress proposals for amending the Trade Expansion Act.

Chairman BOGGS. Have you ever had a case under either act?

Mr. McQUADE. We have had quite a number of successful cases under the Automotive Products Act. All cases under the Trade Expansion Act have been turned down by the Tariff Commission.

Chairman BOGGS. What has happened? What has been the action?

Mr. McQUADE. In the case of the employees under the Automotive Products arrangement we have granted quite a number of adjustment assistance programs. And I could get that number if you would like to have it.

Chairman BOGGS. Yes; and we will include it in the record. (See p. 100.)

Mr. McQUADE. But under the Trade Expansion Act the Tariff Commission has never determined that the major test required by the statute has been met, which is that the tariff concessions must be the major cause of increase in imports and that the increased imports must be the major cause of the injury. We have never had a successful determination on that front.

Chairman BOGGS. Is it the general feeling that the test in the Automotive Agreement would be better than the existing arrangement?

Mr. McNEILL. Yes; I think that is true, Mr. Chairman. It was the intention of the Congress in enacting the Trade Expansion Act to provide for adversely affected persons and firms a program of adjustment assistance. And this simply has not worked, whereas the Canadian Automotive Arrangement has.

Chairman BOGGS. Mr. Greenwald, on another subject, what implication, if any, does the conclusion of the Kennedy Round have for the question of the East-West trade?

Mr. GREENWALD. The results of the Kennedy Round were fairly limited in terms of East-West trade. Perhaps the major development was the adherence of Poland to the GATT. Poland negotiated for access in the course of the Kennedy Round and, therefore, there will be some impact in that sense.

As far as the United States is concerned, we already give "most favored nation" treatment to Poland and Yugoslavia, which are two of the Eastern European countries that are members of the GATT. Czechoslovakia is also in, but we have a special decision which permits us to discriminate against Czechoslovakia in accordance with our own legislation. Our law will continue unaffected by the results of the Kennedy Round.

The proposal that the President made for East-West trade legislation is one that would still be relevant and still important, even after the Kennedy Round. What he asked for, you may recall, is the authority to negotiate most-favored-nation treatment with individual Eastern European countries and the Soviet Union when it is found to be in the national interest. This is something that we would do, at least initially, on a bilaterial basis. And we still think that this is an important foreign policy tool that ought to be given to the President to allow him to carry out his policies with respect to Eastern Europe and the Soviet Union.

Chairman BOGGS. Again, in connection with the less-developed countries, the Kennedy Round gave no consideration at all to Latin America, is that correct?

Mr. GREENWALD. I wouldn't say that it gave no specific consideration. A number of the countries of Latin America participated in the negotiations. Argentina, for example, received some concessions from us and other countries on meat, which is an extremely important export product for Argentina. Other countries got concessions on items of interest to them. The Kennedy Round didn't have any specific provisions for any particular area of the world. It was a multilaterial negotiation.

Chairman BOGGS. Let me put it another way. The existing discrimination against the Latin American tropical products will continue, will it not?

Mr. GREENWALD. That is true. That is not an outcome of the Kennedy Round, but a continuing situation which we hoped we might be able to deal with in the Kennedy Round. We had authority that the Congress had given the President to eliminate duties on tropical products if other countries did the same. We weren't able to use that authority as we would have liked to use it, because particularly the EEC wasn't prepared to go further. The major discrimination against Latin America—that is, the duties on coffee and cocoa—continues. And we didn't get anywhere in trying to reduce that discrimination in the Kennedy Round. That again is one of the reasons why we were trying to pursue another route to put Latin America on the same footing as the other developing countries.

Chairman BOGGS. Suppose you spell out simply and categorically what you propose to do in this other round.

Mr. GREENWALD. What we are trying to work out is an arrangement whereby all the industrialized countries—for all practical purposes, this means the key countries in the OECD—woulld be willing to give either duty free treatment or reduced duty treatment to the products of the developing countries. This is the basic element. It would be a temporary extension of duty free or reduced duty treatment. And how the temporary feature would be made to operate would depend upon the particular approach. Some people, for example, have been talking about this as an "advance cut," the idea being that the industrialized countries among themselves would agree to reduce their duties, the MFN duties, over a certain period of time, and that they give lower duties immediately to the developing countries. This is the idea of an "advance cut," or a "head start" for the developing countries.

Chairman BOGGS. In our case, though, again referring specifically to Latin America, in most cases the countries produce one commodity, such as tin in Bolivia, or coffee in Chile, or beef in Argentina, or oil in Venezuela, or sugar in Peru, and coffee in several of these countries. There are no tariffs there to speak of on Latin American products coming to this country, are there?

Mr. GREENWALD. Not in the United States, no. But there are into Europe, and in some cases into the United Kingdom and some of the other industrialized countries. So what we have been suggesting is that the other industrialized countries either eliminates the duties on these products of interest to the Latin American countries, or they give them duty-free treatment on these products to put them on the same basis as their African suppliers who now receive duty-free treatment under the terms of the Yaounde convention.

Chairman BOGGS. What tools do we have to induce the countries to bring this about?

Mr. GREENWALD. I think probably the major bargaining tool, or weapon, if you want to call it that, would be this idea of a generalized system. If we say we are prepared to go along with a generalized system that will meet the concerns and problems of Latin America, then we have some leverage to bring the European countries along to eliminate or reduce discrimination against Latin America.

Chairman BOGGS. My time is up.

Mr. Reuss, do you have any further questions?

Representative REUSS. I have had a chance. Thank you.

Chairman BOGGS. You are entitled to more time if you would like it.

Representative WIDNALL. I have a couple of more questions.

I think we all recognize that the process of negotiating removal or the moderation of the nontariff barriers is very difficult. Do you believe that the procedure of negotiating rounds is appropriate to reduce nontariff barriers, or should some new negotiating procedures be developed?

Mr. MCQUADE. I don't think it is going to be as easy to have a large multilateral system working here. The problems oftentimes have only bilateral implications. And I don't think we would like to prejudge how it ought to be done. There are some items which might lend themselves to the multilateral treatment. For example, I think I noted in my statement that the problem of Government procurement is something analogous to the antidumping arrangement about which Mr. McNeill spoke of, something where all of us could benefit from more forthright, openly stated general rules. That would be helpful for the world market in general. Maybe something like that would lend itself to the multilateral system. But many of these things are so special that they really have to be fought out on a bilateral basis, perhaps, before we try to make them more generally applicable.

Representative WIDNALL. Do you really believe that the system using the Kennedy Round wouldn't apply here in order to be effective?

Mr. MCQUADE. We will have to see.

Representative WIDNALL. Do you see any danger that as a result of the tariff reductions achieved under the Kennedy Round new instruments of protection will be developed, or that more extensive use may be made of the old instruments?

Mr. MCQUADE. Would you say that again?

Representative WIDNALL. Do you see that as a result of the tariff reduction due to the Kennedy Round, that new instruments of protection will develop, or that more extensive use will be made of old instruments?

Mr. MCQUADE. It seems to me that all these things have large political overtones, and we are never going to totally remove the kinds of actions which will have some protective benefit for a particular segment of the community which, after all, is a political entity. The object of the game is to try and minimize these in a way which each country can see is consistent with its national interest. And while I think the Kennedy Round technique may be something which will be useful in some selected items of nontariff barriers, I think that there will be some effort inevitably of pressure groups in every country, including our own, to use nontariff barriers more, if that is the necessary tool to gain some protection.

Chairman BOGGS. I wonder if the gentleman would yield?

Representative WIDNALL. I yield.

Chairman BOGGS. In that connection, what authority do you have now to negotiate on these? And if you lack sufficient authority, is it the intention of the President to recommend such a grant in any new legislation?

Mr. MCQUADE. This is, of course, the main objective of Mr. Roth's assignment from the President, to try and find what new authorities and what new policies we ought to seek. And I would not be surprised if there were such an effort.

Mr. McNeill, do you want to comment on that?

Mr. MCNEILL. I think that with respect to the second part of your question, that is absolutely the correct answer, Mr. Chairman, that this is something that will be considered in the major study under the leadership of Ambassador Roth.

On the first part of your question, the nontariff barriers that are maintained in the United States tend to be in many areas in the form of national legislation, such as the Antidumping Act, the Buy American Act, and others. And in these areas the President, of course, does not have the authority in the Trade Expansion Act or elsewhere to negotiate away an act of Congress. Where he does have negotiating flexibility is in respect of the administration, perhaps, or some of these acts. For example, in the Buy American Act the Congress, in 1933, said that there shall be special preference for domestic suppliers in Government procurement programs, but did not designate what that special preference should be. The President, in 1954, through Executive order, laid down some very specific price preferences. And it would be in that kind of an area of administration and presidential flexibility where the area of negotiation now lies. And this was the case in antidumping.

Mr. GREENWALD. I wonder if I could come back to Mr. Widnall's question. I think most people feel that the effect of the Kennedy Round; that is, the relationship between the Kennedy Round and nontariff barriers, is that as the tariff barriers are reduced two things happen. One, as the nature of the nontariff barrier becomes clear and as tariffs fall it is evident that they have a greater impact than tariff barriers. Tariff barriers are not that significant so the people who want a higher degree of protection not only in the United States but in other countries will look to nontariff barriers. Second, I think the comments of both Mr. McQuade and Mr. McNeill have made it clear that you can't talk about nontariff barriers as a general category as you can about tariff barriers. Negotiations to deal with tariffs are possible because they are fairly easily identifiable, and represent a common technique of protection that all countries have pursued for years. But when you come to nontariff barriers, as Mr. McNeill pointed out, you get involved in purely national legislation, tax systems, fiscal systems, and it gets extremely complicated. They are related to national economic policies that aren't adopted purely in terms of international trade and are extremely difficult to deal with. Therefore, it would be hard to have a negotiation that tried to cover all nontariff barriers.

What we have been trying to do is deal with nontariff barriers as appropriate, and sometimes in different forums. For example, we have tried to tackle the border tax issue in the OECD through its relationship to economic policy in something called the "adjustment process"—trying to convince countries in good balance-of-payments situations—surplus earners—that they shouldn't take action on taxes which is contrary to the policy that a good creditor nation should follow. There is also the issue of government procurement which is a problem mainly of the industrialized countries. We have pursued it in the OECD in the terms that Mr. McNeill suggested—trying to arrive at a uniform system of government procurement practices. The real problem, it turns out, is that we have a law, we have open competitive bidding, but other countries in the world use much more subtle methods to achieve "buy national" purposes.

So our first effort there has been to get agreement on the publication of bids and publication of the results of the bids and the system of competitive bidding. And this is what we have to try to deal with rather than going immediately to the question of what is the percentage of preference, because some of them have come to us very blandly and said, we don't have anything like a Buy American Act. We found, though, that the results are actually the same achieved through a much more subtle, devious method. So each nontariff barrier has to be looked at individually, not only the methods of negotiation, but the forum in many cases may be different, depending on the kind of nontariff barriers it is and how we can best tackle it. Nontariff barriers are an important problem, and they will be more important as time goes on.

Representative WIDNALL. I just have one more question. How long a period of time do you think it will take before we can obtain a fair evaluation of what has been accomplished by the Kennedy Round?

Mr. GREENWALD. I am not sure what it means to get a fair evaluation and I don't know whether time will necessarily help. I think opinions differ on the results of the negotiation. You have heard Ambassador Roth's evaluation of it, and the administration generally. I don't want to denigrate or undermine the objectives of tariff reduction. But I think a number of economists who have been working in this field recognize that there are factors other than Government decisions on tariffs or other trade barriers which will affect the flow of trade. It is awfully hard to predict exactly what has been caused or not caused by particular reduction of a particular tariff, or a whole series of tariff reductions in a negotiation. Just as the weather perhaps has more to do with the crop results than an agricultural policy of the Government, so the general level of economic activity which is related to tax policy, fiscal policy, deficit financing, may well affect the results in trade flow terms more than what actually happened to the tariffs.

Representative WIDNALL. Thank you.

Chairman BOGGS. Thank you very much.

Mr. McQuade?

Mr. MCQUADE. Just to give you a roundhouse feeling on this automotive parts arrangement, I might mention that as of December 31, 1966, 1,141 workers had filed for assistance, and 819 had been found eligible. And they paid out something less than $900,000. But there have been several cases since then, including the American Motors case.

Chairman BOGGS. Thank you very much. Thank you Mr. McNeill, Mr. Greenwald. You have been very helpful to the subcommittee.

Now, Congressman Curtis, we will hear from you.

We are very happy to have our colleague, one of the distinguished members of this committee, and distinguished member of the House Ways and Means Committee here this morning, Congress Curtis of Missouri. Congressman Curtis was one of the two Congressmen appointed by the Speaker to represent the House Ways and Means Committee at the Kennedy Round, the other being Congressman Cecil R. King of California. And he was very diligent in attending the sessions there. Mr. Curtis has been kind enough to come and make a statement before the subcommittee this morning.

Before he begins, we will accept Representative King's statement for the record and include it herein.

STATEMENT OF HON. CECIL R. KING, A U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA AND DELEGATE TO THE KENNEDY ROUND

Mr. KING. Mr. Chairman, you have invited me as a congressional delegate to the Kennedy Round to appear before the Subcommittee on Foreign Economic Policy currently conducting hearings on a reassessment of U.S. foreign trade policy.

The Kennedy Round agreements are exceedingly complex, as might be the expected result of more than 3 years of negotiations involving more than 50 countries, countries that account for three-quarters of the world's trade. The final agreements were not signed until a little over a week ago. It is not surprising, therefore, that we in the Congress have been given only preliminary information on the outcome of the negotiation.

We await the report to the Congress required by the Trade Expansion Act for definitive analysis of the Kennedy Round result. Until we see this report, our assessments must be tentative.

I am, nevertheless, willing to express confidence that our negotiators have brought home a Kennedy Round settlement that will largely fulfill the expectations and intentions of the 87th Congress which wrote into law the historic Trade Expansion Act of 1962. Basing my views on observations made as a congressional delegate, I believe that our people in Geneva have used their negotiating authority wisely and well. The act enjoined them, to quote from the statement of purposes, "* * * through trade agreements affording mutual trade benefits (1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of U.S. agriculture, industry, mining, and commerce." I can attest that they were persistent and diligent in pursuit of this objective.

I shall reserve comment on details of the agreements until I have had the chance to study these agreements carefully and to consider the analysis which is under preparation.

I would like to remark, however, on two matters that are creating considerable controversy.

The Kennedy Round has resulted in the negotiation of an international antidumping code. Without entering into the merits of the provisions of this code, I am inclined to support our negotiators' contention that they have entered into an agreement that does not violate the letter or the essential spirit of our U.S. antidumping law. I know that they made a very great and sincere effort to achieve this end, which included extended domestic consultation and public hearings.

Secondly, an agreement was reached that commits the administration to seek legislation to convert the American selling price (ASP) system of customs evaluation to the normal evaluation system as it applies to certain chemicals. Again, I don't intend to discuss the merits of such legislation at this time, but I do want to say that prior to entering into negotiation on ASP, a maximum effort was made to seek public advice, to assure that the views of the industry affected were heard and considered, and to establish that a change in the system was justified.

Both in regard to dumping and ASP, the administration has recognized its obligation to seek and fully consider public and congressional opinion. In fact, to a far greater extent than in the past, the development of U.S. positions throughout the Kennedy Round has involved extensive consultations not only within the administration, but also with representatives of the public and with Members of Congress. The Trade Expansion Act established, for the first time, the Special Representative for Trade Negotiations, directly responsible to the President for the conduct of such negotiations. The act stated in section 241(a) that the Special Representative should "* * * seek information and advice with respect to each negotiation from representatives of industry, agriculture, and labor, and from such agencies as he deems appropriate."

The act further obliged the President to seek Tariff Commission advice (sec. 221), advice from the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury (sec. 222), and public views through hearings (sec. 223).

A hierarchy of interagency committees, including one at the Cabinet level, was established for the purposes of formulating policy recommendations, with the Special Representative and members of his staff presiding over their work. Similarly constituted was the Trade Information Committee, which held public hearings on concessions that might be made or sought by the United States. These supplemented the hearings which were held by the Tariff Commission.

The President appointed a 45-member public advisory committee to the Special Representative, made up of spokesmen for the public interest selected for their leadership in the business, labor, farm, and consumer sectors. This group met regularly with the Special Representative and many of its members traveled to Geneva for a firsthand look at the negotiations.

Members of Congress have also been brought in as an integral part of the policy formation process in the role of congressional delegates. The creation of congressional delegates was an important innovation of the Trade Expansion Act, which, in section 243, states:

> Before each negotiation under this title, the President shall, upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation.

Two Members of the House and two delegates and two alternates from the Senate were so accredited from the beginning of the Kennedy Round.

Throughout the negotiations, and increasingly as the bargaining reached the critical stage, we were kept current with developments and were consulted on moves to be made. We held regular meetings with the Special Representative, received written reports from him, and, on several occasions, made individual trips to Geneva. There we sat in delegation meetings and negotiating sessions and were given access to the position papers and cable messages concerning negotiations.

As the U.S. position evolved on the handling of such difficult questions as American selling price, an international antidumping code, inclusive of agriculture and nontariff barriers, the views of the congressional delegates were sought, given, and, in my view, very carefully considered.

Ambassador Roth has, on several occasions, testified before congressional committees on the usefulness to him of the delegates to the Kennedy Round. He has had an opportunity to probe congressional views and sensitivities and to take advantage of prior consultation on matters that might require, or result, in congressional action. He has been able, based on the consultations, to make clear to other participants in the negotiation the realities of U.S. politics.

With the Kennedy Round concluded, we, the congressional delegates, would appear to have finished our assignment. I believe very strongly that the concept of congressional delegates to trade negotiations should not be allowed to expire with our retirement. As new negotiations are begun, Members of the Congress should be named as delegates. Through this means, the Congress can both advise and be kept informed on the conduct of our trade relations. The two-way usefulness of the congressional delegates has been proved in the Kennedy Round.

Mr. Chairman, I have tried to focus my remarks on a particular aspect of our conduct of trade negotiations, that of the utilization of means of clarifying the public interest through the participation of representatives of the public and of the Congress in the policy development process. I would recommend that this aspect be given full consideration in the deliberations of this distinguished subcommittee.

Chairman BOGGS. Congressman Curtis, we are very happy to have you here this morning. You may begin.

STATEMENT OF HON. THOMAS B. CURTIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI AND A DELEGATE TO THE KENNEDY ROUND

Representative CURTIS. Thank you, Mr. Chairman.

Mr. Chairman and members of the Subcommittee on Foreign Economic Policy, I first want to thank you for your invitation to me as a congressional delegate for trade negotiations to testify during these important hearings on trade policy. I also want to thank the chairman for his invitation to me to sit on the subcommittee panel during these hearings, in light of the fact that, though I am a member of the full Joint Economic Committee, I am not formally a member of this subcommittee.

I would also like to express my great enthusiasm that these hearings on foreign trade are now being held. They have been badly needed, and will serve a very useful and very important purpose: to give perspective to the negotiations just past and to give focus to the many new ideas about trade policy now current. I hope such hearings by this subcommittee, or by the full Joint Committee, can be held regularly—ideally, I would hope they could be held at least annually and that the base of this annual congressional trade inquiry could be the President's Annual Trade Report, a requirement of section 226 of the Trade Expansion Act.

If the Joint Economic Committee would hold hearings annually on this document as they do on the President's Annual Economic Report, I think we could move forward greatly in our understanding of these very complicated matters involving international economics and trade.

At the outset I would like to establish what I consider to be the context in which our trade negotiating efforts have taken place since the 1930's. The Tariff Act of 1930—the "Smoot-Hawley" Tariff enacted the highest rates the Nation had had—higher even than the exceptional rate in the 1922 Fordney-McCumber Tariff. Starting from this high level of rates, reciprocal trade negotiations beginning in 1934 and proceeding until the Kennedy Round have in effect amended the 1930 tariff schedules.

Thus we have descended, step by step, from the rates fixed by the 1930 act—rates that still appear in column 2 of our tariff schedules—to levels where the tariff per se has ceased to be really meaningful restriction to flows of international trade in the industrialized free world.

With the successful conclusion of the Kennedy Round we have come, then, to the end of an era, and we stand at the threshold of a new effort. Now, if only because of the relative unimportance of tariffs, many new trade problems spring to our attention, demanding study and action. I will discuss some of these problems and what to do about them later. I wish to note here however that I detect a new trend of thought, one that I feel contradicts the thrust of U.S. foreign economic policy evident in the progressive reduction of tariffs.

The purpose of this tariff reduction has been to establish a more competitive international economy based on the fuller operation of a fair marketplace. But this objective is endangered by developments such as measures that use quotas and licenses as means of regulating trade in order to bring about objectives that governments consider to be important. Commodity agreements, for example, are major deviations from marketplace conditions because they use quotas and licenses to completely regulate trade in a certain product, often of major importance. The Long Term Cotton Textile Arrangement, renewed for 3 years by the same Kennedy Round agreement that will result in the reduction of tariffs, is just such a measure. It establishes a comprehensive quota system for cotton textile imports, and this has had a profound effect on economic development in the poorer countries.

So I see two themes, two ideas of foreign trade, now current. On the one hand, there are those who wish to expand international trade and payments on the basis of freely operating, competitive international marketplace. The reduction of tariffs has brought us toward this objective. On the other hand, there are those who, though they may even support tariff reduction, at the same time seek to establish new methods of trade regulation that will impair the function of the marketplace. I believe that it is important to resist such "neomercantilist" efforts and to adhere in the new period that lies ahead, to the principles of international competition that have guided our policy in the tariff-reduction period.

Beyond these comments I will limit my remarks to observations about the role of Congressional Delegate for Trade Negotiations, some post-Kennedy Round concerns of international trade policy and some comments on our administrative organization for formulating foreign trade policy, conducting trade negotiations and in other ways implementing that policy.

The function of congressional delegate is set out in section 243 of the Trade Expansion Act as follows:

CONGRESSIONAL DELEGATES FOR TRADE NEGOTIATIONS. Before each negotiation under this title, the President shall, upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation."

I should note that, in addition to the two full Senate delegates, two alternate delegates have been designated from the Senate Finance Committee as a measure of the interest of that committee in the trade negotiations. These alternate members, one from each party, have served as full congressional delegates.

The language of section 243 obviously leaves the congressional delegates' role open to interpretation, but it is nonetheless important. For the first time, congressional participation in trade negotiations was elevated from the level of "observer" status to that of actual participant. This is an important distinction, one that I am keenly aware of, having also served as a congressional "observer" of past negotiations. As "observers" access to documents and meetings was limited. As "delegates" we have access to classified data and to negotiations between governments.

The resulting relationship between executive and legislative branches has been described as "unique." Initially it may have created a bit of disquiet in administrators accustomed to the usual cards-against-vest approach to dealing with Congress. But my opinion is that the "unique" relationship has worked well: I have found that efforts to expand and intensify congressional knowledge and participation in the foreign trade program have been met with good cooperation by the executive branch.

My interpretation of the language of section 243 and the role of congressional delegate for trade negotiations has been to keep well informed about the negotiations and trade matters generally, to consult with the trade negotiating staff, and to attempt to explain to the public and its representatives in Government—my colleagues here in Congress—the issues in the trade negotiations, with attention at the same time to their meaning to our domestic industries, our relations with other nations, and our future trade concerns.

Moreover, I have hoped to promote what I consider to be another profoundly important objective. I believe the Congress is an institution intended to make decisions through processes of open study and debate. I have hoped that publicly exposing as completely as I could the facts about the negotiations would aid better congressional decision-making in foreign trade and related matters. This has been a principal reason why I have used the consultations and participation open to me as a congressional delegate to report extensively on the negotiations and related problems to the Congress.

In May 1963 at a meeting in Geneva the Ministers of the major countries participating in the Kennedy Round resolved upon certain resolutions to guide the "Kennedy" negotiations. A year later, in May 1964, I attended the formal opening of the Kennedy Round, at which time the Ministers published new resolutions essentially reaffirming those of a year earlier.

But by May 1965, my second visit to the negotiations, very little had been accomplished in fulfilling the earlier ministerial resolutions. So on June 2, 1965, Congressional Record pages 11925–11930, I explained the arguments surrounding the negotiating ground rules that had absorbed everyone's energies during this 2-year period.

Our negotiators had spent months simply trying to define the meaning of a "tariff disparity," and the idea of establishing world reference prices for all agriculture commodities based upon fixed levels of farm support—a Common Market proposal known as the "montant de sourien." These intellectual exercises had delayed any real tariff bargaining very effectively.

As an indication of the recency of the progress of the round, I would recall that, even as late as June 2, 1965, the antidumping agreement that was signed on June 30 had not even been discussed. The group—the Non-Tariff Barriers Committee of the General Agreement on Tariffs and Trade—that was to be the forum for organizing the negotiations on nontariff barriers, had not even met, and its membership had not even been organized.

But very shortly thereafter, I believe the middle of June, the British Government submitted its paper deeply criticizing what it then considered the shortcomings of the U.S. administration of the Antidumping Act of 1921, an opinion shared by many other countries.

It is rather a surprise that, 2 years later, we have mollified our foreign critics first just by explaining the logic behind our antidumping administration, and second, making apparently minor changes in our administrative practices. Above all, we have succeeded in having the essence of much of our own procedure—open hearings with rebuttal, public explanations of antidumping actions, and the criteria for such actions, among other safeguards—adopted by all the major trading nations under article 6 of the new antidumping agreement.

It has seemed to me that such an international agreement harmonizing national practices is a very promising achievement, an important first step toward much broader agreement on other international business practices. For the record, I would like to cite my previous comments in the Congressional Record on the problem of dumping: June 1, 1965, pages 11645–11647; March 8, 1966, pages 5112–5116; August 24, 1966, pages 19554–19557.

The year from May 1965 to May 1966 will be remembered as perhaps the period of most frustration in a very frustrating 5-year negotiation. The long stalemate in the functioning of the Common Market from June 1965 through February 1966 prevented its participation in the negotiations—the negotiations could not proced.

But by the spring of 1966, the negotiations had begun again. After my early May 1966 trip to Geneva, I was able to report on May 31, Congressional Record pages 11280–11293, about the opening of discussions in two critical industrial sectors, steel and chemicals, and the resumption of discussions on wheat and feed grains, among other matters. Later in the summer, the Community tabled additional agricultural offers and so, by the fall, real negotiations were at last well underway.

Time does not permit me to chronicle minutely the step-by-step development of the negotiations, and that is not my purpose here. Suffice it to say that by the time of my return to the Geneva negotiations in late November 1966, the major issues had been clearly delineated, initial assessments of the dollar value of the offers had been drawn up and these were being presented to other participating countries with lists of requests for additional offers and lists of possible withdrawals.

Key issues remained, however, and their solution, as we know, was a touch-and-go proposition until the very final weeks of the negotiations. These key issues—mainly steel, chemicals, American selling price, a grains agreement, dairy and meat sector problems, and other temporate zone products—were the matters of greatest concern. But equally important, if somewhat in the background, were the trade and development problems of the poorer countries.

To explore these issues, I began on April 10, this year, a five part series of reports titled "The Kennedy Round and the Future of United States Trade Policy." The April 10 installment, part I, Congressional Record pages H3819–H3830, dealt with the tactical negotiating problem in agriculture, but mostly with the efforts, and the issues, in the negotiation of an international grains agreement.

On April 13, Congressional Record pages H4128–H4140, I submitted part II, which dealt with dairy, meat, poultry, and other major farm products.

In reviewing the content of these two speeches and the results of the negotiations it is obvious that the Kennedy Round agriculture negotiations did not alter at all the Common Market's farm pricing and import restriction systems, which we had hoped we could modify. Of course, many believed that this was not possible, even from the start of the negotiations. But I think we made a very good try—a beginning in treating in an international forum difficult problems of agriculture. This itself was an important initiative, because previous negotiations had not attempted discussion in the agriculture area.

These inquiries into international farm trade demonstrated an important lesson. The failings, the complications of international farm trade, begin at home. Almost all governments have stepped into their own agricultural marketplaces to achieve through government direction social and political objectives they consider important. Establishing real competition in international agriculture markets largely requires that governments first step out of these markets, remaining there only to perform the essential function of guaranteeing their honesty and enforcing other standards of fair competition. So complex is this problem that I am reminded of a statement by the very able, astute Director General of the General Agreement on Tariffs and Trade, Eric Wyndham-White, at a press conference in Washington in April 1965. He said that—

> The evolution of an acceptable viable international agricultural and food policy is something which will have to be worked out very patiently over the years. We mustn't expect that one can solve all these very deep-seated problems in one go-around—in a single negotiation.

Part III of the report, which appeared on May 1, Congressional Record pages H4891–H4905, was an effort to explain the tactical problems in the industrial negotiations, particularly the development of the sector approach to negotiations in difficult industries—steel, chemicals, textiles, aluminum, and pulp and paper. Part III also discussed the so-called technology gap which was used by certain countries as a reason for excepting certain tariffs from cuts in the negotiation. In part III I also described the problems facing the conclusion of a meaningful negotiation in the steel sector talks and, in relation to this, I explored some of the problems in our own steel industry, in an effort to bring them out into the open and examine their merits at a key time in the negotiations, the last moment when, if some special measures were required, they would have to be taken.

My descriptions of the problems in the other major industrial sectors—chemicals, textiles, aluminum, and pulp and paper—begin on Monday, July 10, Congressional Record pages H8380–H8394, with a discussion of chemicals. The second section of part IV will be submitted next Monday, July 17, and it will conclude the discussion of the industrial sector negotiations. I would conclude that these sector negotiations, an innovation in the Kennedy Round, resulted in more intensive study of the international and domestic economics of these industries than any previous negotiation. This has been a major positive result of the Kennedy Round approach to the industry sectors.

Study of these sectors of international trade negotiations, and the domestic economics of the U.S. industries in question, has led me to emphasize the importance of change—that is, shifting inputs of resources among and within industry groups as a result of new technology, new demands, and new sources of supply. These continuing changes are the expression of a truly dynamic economy. A tendency I see is that, in examining intensively an industry, some of us become wedded to a static view of the industry in question, forgetting that change is incessant and that some very profound economic changes can take place very rapidly.

This is an attitude sometimes adopted also by businessmen themselves. Used to looking at their role in the economy in terms of a certain share of production or sales or other measure of size, they are proud to see an increase and very reluctant to accept a decreased share, even though the larger forces of economic activity and innovation may demand constant changes in the relative importance of various industries. And I must add that the actual amount of that industry has increased, the proportionate share may decrease, but the industry still is expanding.

So we are continually faced with the question whether to maximize economic growth, thereby increasing the totality of economic activity, or accept some lesser amount of activity in order to preserve certain dominant or less dominant interrelationships among major industrial groups.

Implied in this observation is that certain industries may in a sense be "doomed" to suffer declines. This is not necessarily the case, as we know. By flexibly responding to new challenges in the marketplace, perhaps by diversifying into related but more growth-oriented lines of production, perhaps even by selective foreign investments, so-called "older" industries may rejuvenate themselves. And all of this activity should take place in terms of fair competition, both domestic and international, in a situation where the competitive rules of the road, the "conditions of the market and the exchange" must become internationally understood.

My researches into the textile industry have given me some insights into this dynamic economic process. These were published in the Congressional Record of August 29, 1966, pages 20077–20113. A new report on textiles will update much of the data that I then related.

I found that what seemed to be a genuine economic depression in the cotton textile manufacturing industry in the late 1950's and early 1960's was diagnosed as a problem of import competition, when the essential problems were those of industry modernization and of artificially expensive raw cotton supplies under the so-called "two-price" cotton subsidy system.

It is well known that for cotton textiles a continuing program of comprehensive quotas, which are by definition the most restrictive form of measuring the international economic differentials a society considers it important to measure, was begun. Though the quotas were initially applied to Japan and Hong Kong, Spain and Portugal, the countries that are now most affected are the poorer developing countries, many of them striving for industrial development, in which textile manufacture is conceded to be a natural beginning step.

Since 1960 the cotton textile industry, according to a wide variety of economic indicators, has shown tremendous improvement. It has ironed out some of its basic structural problems, it has modernized and expanded extensively, it employs more workers, produces more goods at lower unit costs, and makes higher ratios of profits on invested capital. The quotas remain, however, as an obstacle to the reestablishment of the marketplace. The industry is understandably reluctant to give up the quotas—they in fact want stricter quotas and want them extended to the wool and manmade fiber sectors of the industry, seemingly unable psychologically to adjust to new conditions.

To me the textile quota program is of deep concern because of its effects on the poorer countries. It raises this profound problem: how can we effectively create the conditions for worldwide economic growth and prosperity?

The financial foreign aid programs carried on by the United States and other countries since the early 1950's have been less than successful, barely, if at all, bringing about increases in per capita income. Foreign trade; that is, the ability to sell goods in foreign markets to earn income, is a more fundamental, more correct method of generating income and growth, and would remove much of the need for financial aid.

Restrictions on exports of such things as cotton textiles both discourage the natural process of industrial development and create a continuing dependence on unearned financial aid—with all its psychological impact, including irresponsible expenditure of such unearned money.

So our businessmen and our labor unions, and our investors and Government officials must face this question: Will we allow the developing countries to sell us what they make, or will we continue to support them by means that I and many others consider to be wasteful and even harmful? Will we really accept the meaning of the slogan, "Trade, not aid"? Do we really mean it? And if we do, of course, then, we have to give thought to what is it economically feasible for these countries to produce.

I regard foreign aid—and I am in favor of the basic program, if it is designed to help nations get on their economic feet. But just as in welfare programs domestically, if it doesn't get people on their economic feet, it can result in creating a condition of permanent welfare or permanent aid.

Because I have used textiles as an example does not at all mean that this argument applies only, or even exclusively, to textiles. It might not even apply to textiles, though I think it does. It is a consideration for all goods and service industries.

Another consideration that has broader application is the question of foreign investment. The case has been very strongly made that textiles, like other industries, should defend their home markets by establishing their own foreign factories, thus participating in growing markets outside the United States. There are fewer and fewer large American industries that have not entered international markets through direct investment abroad, largely to sell in the foreign market rather than simply supply the U.S. market. One of these exceptions appears to be steel. Such industries should consider how they can take advantage of the global opportunities for their products, their know-how, their unexcelled merchandising and distributive ability, and their efficient management. If they were to do so in poorer countries, they would also make fundamental contributions to sound economic growth.

These are some of the observations derived from the examination of the industrial sectors in the trade negotiations. They may seem far afield from the topic of negotiations, but they serve again to illustrate that tariff negotiations as they have been conducted in the Kennedy Round have been exceptionally fruitful in terms of deepening our understanding of the industries that are the subjects of the negotiations.

Part V of my five-part report is still to come. It will deal with other-than-tariff trade problems, especially dumping, international patents, and other matters, many of which will absorb our attentions in future international trade efforts.

I have been told that I have become knowledgeable in events that are past, the implication of course being that the knowledge is now useless. I reject this theory. Nowhere is the aphorism "Past is Prologue" more applicable than the just-completed Kennedy negotiations on tariff and trade. The many lessons learned from the wealth of detail of this negotiation will instruct, enlighten, and shape future action. They are the basis for a beginning of a new, more fruitful kind. Coming through years of negotiations concentrated on tariffs is like passing through a high mountain range and emerging to find some remaining foothills to traverse, and to see, a little distance beyond, a lush plain. The plain is lush, but hazy—its outlines dim. We are in the unique position of being able now as we look down over it to shape the economic conditions that will be in force there. The question is, what courses of action should we take?

The Kennedy Round itself holds the seeds of the answer. It made innovations in areas like agriculture, nontariff barriers, and problems of the developing countries that were very meaningful and basic.

In the area of agriculture, I have already identified above what I consider to be the main problem: Government interference. Here, one course of action would seem to be establish more effective international consultative institutions to deal with domestic policies as they affect international trade and impinge on the domestic agriculture policies of other countries.

In the area of nontariff barriers, much work study has to be done. I will simply mention some of the more obvious matters that are considered to be problems: border taxes and export rebates, Government buying regulations, valuation and tariff nomenclature problems. These are matters that can affect exports. There are other Government programs that can affect imports into this country as well as our exports to third markets, such as grants and subsidies, especially to stimulate exports.

There is another group of trade problems of the other-than-tariff type that must also be subject to concentrated attention. I have in mind the area known as restrictive business practices, or problems of unfair trade practices, such as combinations in restraint of trade, which essentially have to do with creating fair marketplace conditions.

In addition, there are areas such as international patents and copyright protection, where national practices should be harmonized and internationally codified in order to equalize and stabilize these basic business laws.

There is another area, where the costs of doing business may be severely affected by various governmental programs, that should be given consideration in future trade negotiations. Wage differentials in context with productivity should be treated as an element affecting trade negotiations because they may reflect an unfair competitive burden on U.S. producers.

Finally, there is the very complex problem of our trade and aid policies toward the economically disadvantaged, developing countries. In our attempt to find the proper solutions to these problems I believe that the basis of consideration should be to permit such countries to manufacure and to sell to us those products that they are able to produce efficiently, such as the processing of raw materials to more finished stages. The tariff structures of industrialized countries often contain built-in differentials that permit the free importation of raw materials but tax, by means of a higher tariff rate, the same materials in processed form. These tariff differentials can therefore adversely affect economic development.

Incidentally, these apply to most developed countries. The United States has got some of these, and other countries do the same.

Removing discriminations against the exports, and the industrial development and diversification of the developing countries, should be our first concern. Only then should we take the step toward other special measures on behalf of the developing countries. We are all aware of the proposals that have been made to establish tariff preferences for the developing countries. The political case for preferences on the part of the developed for the developing countries has been argued effectively. But the economic case is much less clear. Is it logical to adopt, for political purposes, an economic program that will not have the expected economic consequences in terms of real benefits for developing countries' exports?

I urge that the United States and other industrialized countries give very careful scrutiny to the economic case for tariff preferences and other special trade measures for the developing countries. It would seem to me that the first steps in helping such countries has only been taken partially.

One such area is commodities. Commodity agreements for cocoa and coffee and other basis materials, cocoa, sugar, copper, are merely devices to organize international markets along mercantilist lines. I believe that the stabilization of prices is important, both for buyers and sellers. But I also believe that the market has created a mechanism for bringing about price stability for internationally traded commodities. And we need to develop those. Futures markets are such a mechanism. They focus the wealth of knowledge of the producer, trader, and merchandiser to create an educated market where, if well regulated in the same sense that our stock markets are regulated, price movements take place in an orderly stabilizing environment.

Just as many of our domestic commodity markets perform these essential price functions well, so international futures markets can be created to perform the same functions. Futures trading may not now exist in all types of coffee, but I believe that, with less effort than is now expended in the administration of the International Coffee Agreement, a smoothly functioning international futures market could be created for coffee. I have long hoped that an appropriate committee, but particularly the Joint Economic Committee, would intensively study one of these commodities, sugar or coffee or any single one, in order to have an economic case study upon which to base our commodity policy. And this study is basically needed. All these questions and more are in need of concerted action. Our next problem is to decide what to do about them. The President has asked the Special Representative for Trade Negotiations, Ambassador William Roth, to conduct a full-scale study of these problems. As Ambassador Roth explained yesterday, this study will take place by means of interagency task forces, and it will be headed by a new Public Advisory Committee. This Public Advisory Committee and the format of the study should be modeled as much as possible along the lines of the Hoover Commission—that is, there should be congressional participation in all its aspects.

Of course it would not provide one feature of the coffee agreement, which is a hidden subsidy to coffee producers accomplished by means of maintaining artificially high coffee prices. A futures market would provide desirable price stability but not subsidy—it would therefore not artificially encourage continued coffee production and continued surplus, but provide a market stimulus for producers to lessen production and, hopefully, to diversify into other products. I have commented further on international futures markets in the Congressional Record of July 11, 1966, pages 14373–14374.

The pause for study, while needed to formulate effective policies and effective means of carrying them out, must not be allowed to dull our Government's responses to the trade problems that will continue to confront us. In my July 10 report concentrating on chemicals I also discussed the problem of the border tax. Here is an area where I believe that, because of the rapid development in Europe of a harmonized turnover tax system and increased border taxes, there is a need for international consultation at least to define the issues behind the dispute about the alleged adverse effects on U.S. exports of the border tax and export rebate that are part of the turnover method of indirect taxation.

Let me emphasize one of the great things I thought we created in the Reciprocal Trade Act of 1962, this prominent mechanism in our society, the Office of Trade Negotiator of which Ambassador Roth is the head. This is permanent structure.

While discussing the trade policy studies to be undertaken by the administration, I would suggest that there is an alternative that should perhaps be considered. Would not the most effective method of studying our foreign trade policy in its proper context be a much broader Foreign Economic Policy Commission, which has adequate financial backing to hire an independent staff and secure outside studies from external sources, hold hearings in various parts of the United States and abroad, and publish its own studies? My concern is that we attempt to create a policy that is farsighted as well as oriented to problem solving in the near term.

There is another kind of study that should be undertaken either within or outside the Government. There has never been an effort to find out what the economic effects of tariff reductions really are. Five rounds of tariff negotiations have been undertaken since World War II without any thorough attempt to document their effects on world trade. The sixth and most far-reaching, tariff negotiation has just concluded, and it has been accomplished with the best statistical resources and equipment that have ever been employed. This wealth of statistical data should be used to study the economic effects of the tariff cuts just completed. This would necessarily be a long-term effort because the tariff cuts are staged over 5 years. But it should, at some stage, be undertaken.

One of the great achievements of the 1962 Trade Act was to establish the organization needed to conduct trade negotiations, the Special Representative for Trade Negotiations. I am convinced that the Special Representative for Trade Negotiations, created by the Trade Expansion Act as a position responsible directly to the President and with confirmation by the Senate, was the proper means of carrying out the mandates of the 1962 Trade Act. I think it has brought much greater independence and much more scholarship into the conduct of our trade negotiations.

I am pleased to see that the continuation of the Office of the Special Representative has been budgeted for this fiscal year. Even though the Trade Act's delegation of negotiating authority has run out, there is nothing in the Trade Act to suggest that the Special Representative should cease functioning, and instead of allowing the function to wither, increased responsibility should be given to the Special Representative for conducting foreign trade relations. The impending legislation to give the President some "housekeeping" authority in this area may be an appropriate place to redefine the functions of the Special Representative and strengthen his office.

Ideally, I would like to see us move toward a method of administration used by the British and other governments. That is, I believe we should ultimately create a Department of International Economic Affairs headed by a Cabinet Secretary. This Department would combine functions in the trade area trade and monetary policy, including development aid, that now are scattered throughout the Government in many different agencies.

Finally, what of the congressional role in such decisionmaking? It is understood, of course, that the President has the power to conduct foreign relations, and it is equally certain that the Congress has the power to regulate interstate and foreign commerce. There is obviously a tension created by this assignment of powers. The tension can be restored by Congress truly taking the initiative in many difficult trade areas by holding hearings, by studying the problems, and then giving the President the mandate to try to solve the problems through international action. Another way to help resolve this inherent tension between executive and legislative powers is to include full congressional participation in cases where the President employs his negotiating power in the foreign trade field such as in the Kennedy Round.

The role of Congress in foreign trade is not simply passive. The Tariff Commission, of course, is an arm of Congress, in one way in which we do follow these things closely.

We should not simply sit by to act only when called upon by the President, or to examine trade policy broadly only in the years preceding or concluding a new tariff and trade negotiation. The role of Congress, and the participation of Congress, should be persistent and continuing, and it will be much more informed as a consequence.

So, I conclude by again urging that the Joint Economic Committee put on its agenda as a regular function hearings on the President's annual trade report.

Thank you very much.

Chairman Boggs. Mr. Curtis, I would like to commend you on a very comprehensive statement, and on the amount of time and effort that you gave not only to the statement but to the work that you did in Geneva. I appreciate very much your coming here. Your statement has been most helpful.

Mr. Reuss, any questions?

Representative Reuss. Thank you, Mr. Chairman.

I join with our chairman in congratulating Mr. Curtis, not only on the statement, but on his valuable work in making, I think, a tremendous success out of the congressional experiment in the Trade Expansion Act in section 243, in setting up a full-fledged congressional delegate.

I have read over the years with great interest the interim reports which you have given us in the Congress, and usually in the pages of the Congressional Record. I don't say that I have read every word of the fine print, but I have read most of it. And I think you have done a tremendous job of keeping us informed.

I also find myself in very close agreement with you on almost every point you make in this substantive paper this morning.

I would take time to pursue just one line there with you. You point out, and it is surely true, that in trade negotiations themselves we in the Congress through the congressional delegates, have established a pretty good liaison arrangement. We have tried to adapt our congressional political system to the needs of the modern world. It is also true, I think, that in the field of international monetary reform—something that is not before us this morning—due to the receptivity of Secretary Fowler and the Treasury Department generally, a good working arrangement has been provided whereby the Joint Economic Committee and the Banking and Currency Committee have been kept in close touch with the progress of international monetary negotiations. And while some of us aren't formal delegates, there is a role analagous to our role in trade.

Which leads me, of course, to your excellent suggestion that we should give consideration to the establishment of a permanent or semi-permanent foreign economic policy commission, on which I would take it you would want Hoover Commission type congressional representation?

Representative CURTIS. Yes.

Representative REUSS. You spoke specifically of Ambassador Roth's ad hoc informal activities. But there he is concerned just with trade. And it is informal. I think I am right in distilling out of what you said a recommendation that there should be a statutory forum and a congressionally participated in foreign economic policy commission.

Representative CURTIS. Yes; I think it should be formalized. I think we know enough now so that we could formalize it with some wisdom.

Representative REUSS. And this commission would concern itself with trade negotiations, of course, with international monetary matters, but also with some of these other important things, monetary values, commodity agreements——

Representative CURTIS. Investment, development loan funds, and very close coordination with AID. I want to again emphasize that I think that AID performs a real function, but in order to do it it should be closely coordinated with the private sector.

Representative REUSS. One point you made in connection with primary commodities of developing countries. You particularly mentioned the other commodity which I have had occasion to allude to the 2 days of hearings, sugar. And it seemed to me that these were items as to which long range and well thought out policies were necessary. It is not criticizing anybody in particular to say that we do not now have them. We are hopeful that a foreign policy economic commission could take a fresh approach.

Representative CURTIS. I think the Joint Economic Committee would take any commodity, sugar, for instance, one that is important to developing countries—or coffee, or copper and go into depth to determine what the economics and the political problems are. I think that would be very desirable. That is where I would like to see us do this study on the futures market to see whether my hunch that futures markets, properly regulated, would serve the very necessary purpose of stabilizing prices is valid. That was the big reason for the International Coffee Agreement. The prices do fluctuate. So we went to, in effect, the quota license technique of stabilizing the prices. I think if we understood the futures markets better we would find that this would serve this purpose and really utilize the great efficiencies that do exist in the marketplace.

Representative REUSS. I am not sure, at this stage, that I share your optimism about the futures market as a sole regulator of the price and protection of basic commodities. But the only way to find out is to study it. And that has not been done.

I conclude with the hope that you will further refine your thoughts about a foreign economic policy commission and introduce legislation on it. I am certainly disposed to want to work with you on it.

Representative CURTIS. Let me say that perhaps we can work on this together. I would very much welcome you, and particularly someone from the other side of the aisle. This is not a partisan thing in any sense, and I think it would be very valuable to work on this on a bipartisan basis.

Representative REUSS (now presiding). I thank the gentleman.

Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

I do want to join with the chairman and with Congressman Reuss in complimenting you on the excellent presentation today and the fine effort that you have been making in this particular field.

For those of us in the Congress who have been with you over a period of years know of your own expertise in this particular area and your own dedication through the years.

You have made some very constructive suggestions here today that I think, as Congressman Reuss has just said, refined and presented would give us something more than a pause for thought, and a chance to act affirmatively on something that can improve our present position.

I want to especially commend you for the great effort that you have been making through the years to inform the country and also the Congress as to what has been going on. And the five reports that you are now making in a series called "The Kennedy Round and the Future of the U.S. Trade Policy" I think will prove invaluable to all of us.

Thank you.

Representative CURTIS. Thank you very much.

I would like to add one other thing. Many people in my own community have said why spend all of this effort on such a complicated subject as foreign trade and what it does to us.

I honestly believe that there is more war and peace wrapped up in these economic problems and trade than anything I can think of. If we can come up with more rational solutions in this area, we are going to do more toward attaining that which we are all seeking, which is a peaceful world based on justice. And I think the efforts are well worth it to dig into this most complicated subject and see what we can do.

Representative REUSS. I agree with you. And I don't have to adjure the gentleman to stick to his guns, because I know he will.

We want to thank you, Congressman Curtis, for your great contribution. And we want to thank the other excellent witnesses that appeared before us this morning.

Chairman Boggs had to go to the phone, but he has asked me to say that we will convene tomorrow morning at 10 o'clock in room 1202, New Senate Office Building, where we will hear Kenneth Younger, director, Royal Institute of International Affairs, and Aurelio Peccei, vice chairman of Olivetti, member of the Steering Committee of Fiat-Turin, and president of Italconsult, Rome.

We stand adjourned until that time.

(Whereupon, at 11:55 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, July 13, 1967).

THE FUTURE OF U.S. FOREIGN TRADE POLICY

THURSDAY, JULY 13, 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, Widnall, and Rumsfeld; and Senator Miller.

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

Chairman BOGGS. The subcommittee will come to order.

We are pleased to have two distinguished witnesses, Mr. Aurelio Peccei, who is an outstanding industrial and business leader in Italy. He has probably done as much to contribute to the outstanding industrial development of Italy since World War II as any single man.

I would like to make a part of the record at this point his complete biographical sketch.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF DR. AURELIO PECCEI

Born July 4, 1908 in Turin, Italy, he holds a summa cum laude doctorate in Economics from the University of Turin. During the war he was an active member of the underground Resistance Movement in Italy; and was jailed during one year for that activity.

He joined the Fiat Co. of Turin in 1930 and has been member of the Steering Committee since 1950. He is head of the Latin American Affairs Division and Chairman of the Board of Fiat Concord, the industrial subsidiary in the Argentine.

He has been President of Italconsult, Rome, the foremost firm of engineering and economic consultants in Italy, since its incorporation in 1957.

When Fiat took an interest in the Olivetti Co. of Ivrea in May 1964 he was appointed President and Chief Executive of the Company for three years. Having completed his mission he remained with Olivetti as its Vice Chairman.

Chairman BOGGS. Also the Right Honorable Kenneth Younger, who has had a distinguished career. He was a Member of Parliament from 1945 until 1959, during which time he held the positions of Parliamentary Private Secretary to the Minister of State from 1945 to 1946, and to the Under Secretary of State for Air, 1946 to June 1947, and the Chairman of the UNRRA, Committee of Council for Europe from 1946 to 1948.

I will also include in the record the complete biographical sketch of Mr. Younger.

(The biographical sketch follows:)

BIOGRAPHICAL SKETCH OF RT. HON. KENNETH YOUNGER

Kenneth Younger was born December 15, 1908 and educated at New College, Oxford. During World War II he served in the British Army Intelligence Corps.

He was elected to Parliament in 1945 where he served as a Labour Party member until 1949. During this time he held the positions of Parliamentary Private Secretary to the Minister of State (1945–46) and to the Under-Secretary of State for Air (1946–47), and Chairman of the UNRRA, Committee of Council for Europe (1946–48).

He became Parliamentary Under-Secretary of State for Home Affairs from 1947–50 and was Minister of State for Foreign Affairs from 1950–51.

In 1953 Mr. Younger accepted the position of Joint Vice-Chairman of the Royal Institute of International Affairs and in 1959 became Director of that organization.

Chairman BOGGS. We are happy to have you here, Mr. Younger and Mr. Peccei.

Mr. Peccei, you may proceed first. And the other members of the subcommittee will be coming along.

We appreciate the long journey that you have made.

STATEMENT OF AURELIO PECCEI, VICE CHAIRMAN OF OLIVETTI, MEMBER OF THE STEERING COMMITTEE OF FIAT-TURIN, AND PRESIDENT OF ITALCONSULT, ROME, ITALY

Mr. PECCEI. I wonder, Mr. Chairman, if I may make some side comments to my prepared statement?

Chairman BOGGS. Certainly. Proceed in any way you wish.

Mr. PECCEI. First of all, I should like to thank you for the honor that you have done me with your invitation to appear before you, thus giving me an opportunity to express some personal views with regard to certain aspects of international trade.

It is particularly gratifying for me to address you, gentlemen, since I am fully aware of the great contribution that your subcommittee has made, and is making, in the continuous review of the various problems which beset the expansion of international trade.

We in Europe have been particularly impressed by, and indeed we owe you a debt of gratitude for the initiative that you have taken some years ago in clearing the ground and making it possible for the United States to adopt the 1963 Trade Expansion Act. We would have had no Kennedy Round but for your enlightened foresight.

I propose to discuss today three main areas in which international cooperation and bold American initiative are required; namely, the post-Kennedy Round prospects, East-West trade, and trade relations with developing countries. There is nothing novel in this approach, but these are undoubtedly the main issues before us.

With regard to the Kennedy Round, I believe that one can say that the world has gotten adjusted even too quickly to the extraordinary technical results which have been reached. It seems to me that we haven't yet had the time to appreciate and appraise the fact that the negotiations which went under the Kennedy Round name have produced the greatest tariff reductions known so far. It is true that the original goals have not been attained, and that therefore there is a residue of custom duties still barring a completely free international trade. Nonetheless, one could ask legitimately the question whether there is any sense in maintaining—after all—a custom structure so small, so insignificant and yet so expensive to administer. In many cases, isn't this residue more a fiscal than a protective feature? Certainly, this is true for the external tariff of the European Economic Community. My hope is that in due course the governments concerned will draw the logical conclusion and muster the necessary strength to dispose entirely of it.

The Kennedy Round is to be applauded for its outstanding technical results, but even more so for its political implications. There were and are still latent, in every country in the world, powerful protectionist forces. The political implication of the Kennedy Round is that these forces have been deterred, if not finally defeated. Had the Kennedy Round failed, or had it produced inadequate results, we would be witnessing their resurrection, and ours would be an uphill fight.

But those who believe, as I do, in an ever freer international trade, cannot rest in complacency. One large area has remained unattacked by the Kennedy Round: the whole diversified cumbersome area of nontariff obstacles. And this provides the ground for our work ahead. Permit me to say that in this respect as a European I look to your subcommittee with confidence and hope. No country goes blameless for having devised, through an ingenuity that would be better placed in the promotion of free trade, all sorts of unilateral and objectionable measures. It is quite obvious that each one of these measures is justified by Governments responsible for them on various grounds, and that all of them are deep rooted in each of the national economies concerned. Nevertheless, very few of them could stand the test of broader international interests.

If I may give you an example, in the opinion of people in my country and the rest of Europe, this is the case of the countervailing duties on imports from Italy of fabricated structural steel units established by a Treasury Department's decision of April 21, 1967, right on the eve of the Kennedy Round successful conclusion.

This decision is based on the Bounty Act of 1890, which in 70 years was applied only in a very few cases. Now, the Treasury Department modified its longstanding interpretation that the legislation does not apply to rebates of internal taxes by the exporting country; and imposed countervailing duties by unilateral action, instead of proceeding by international consultation and agreement in OECD, as all the member states unanimously agreed, or in GATT, which, by the way, would have assured that every country and every party would be treated equally, instead of selecting a specific product from one country.

I have mentioned this example, among others, because of the disconcert, bitterness, and malaise it is raising in Italy.

I believe that after the Kennedy Round the time has come for a sincere soul-searching analysis. It is my hope that—for the sake of international cooperation—a stock-taking operation, painful as it may be, will be promoted on the widest possible international basis.

I am aware that such exercise has been already started in the United States on a national basis, but an international approach is needed. I am confident that through an objective analysis, through a sincere give-and-take attitude, a process of gradual elimination will be initiated. For too long Americans and Europeans have been accusing each other of ill-doings, with the result that only the faults of the other side were emphasized, in a fruitless and frustrating exercise. A more direct confrontation might serve the more constructive purpose to turn the criticism inward. In this connection may I suggest that it might be well that the trade policy study President Johnson has asked Ambassador Roth to undertake over the next year be matched by or combined with a similar study to be undertaken by the EEC, which should be prompted to do it, and another by EFTA on the United Kingdom.

Some quiet, off the record contacts among the Atlantic protagonists of world trade may serve some of the purposes outlined in the very good paper presented to this subcommittee by Mr. Robert Schwenger, that is, to coordinate the economic activities of governments—at least across the Atlantic—without resorting to arbitrary political pressures.

Such an approach is even more necessary now that, having almost dismantled the custom tariff fortress, governments will be subject to severe pressure and tempted to restore protectionist policies and practices on a nontariff basis. No doubt, we must be vigilant.

When looking to American-European trade relations, assuming that the process of elimination of tariff barriers may continue to the very successful end, the nontariff area offers the greatest opportunity for further cooperation.

Some adequate arrangements will have to be made, also, with regard to the implications of the growing technological gap between the United States and Europe. As you know, we are faced here with a rather hazy problem, because a clear-cut definition of the gap is still to be found. Nevertheless, I believe that informed circles would not any longer doubt that a gap exists.

Specifically, the problem that affects international trade is the question as to how technology should be transferred from one country to another and from one company to another.

Here again, I believe that a liberalistic approach should be adopted, and that the countries which lag behind in technological development should not shield themeslves under a protective structure, whether custom or otherwise, least they are condemned to a progressive underdeveloped status; conversely, countries which are ahead in technological development, should not indulge in monopolistic attitudes least they themselves are tempted by ephemeral advantages and thus isolate themselves from the rest of the world.

We must keep in mind that the main feature of our contemporary world is interdependence, and that any action intended to ignore reality can only produce damages for all.

I would like to mention in this connection that an important Conference on Trans-Atlantic Technological Imbalance and Cooperation was sponsored by the Scientific Technological Committee of the

North Atlantic Assembly—of which Senator Javits is so prominent a member—and the Foreign Policy Research Institute of the University of Pennsylvania; and was held last May in Deauville. After an extensive study of the problems involved, the conference reached some conclusions, which may be of some interest to this subcommittee, as they are related to the exchange of goods and know-how.

The continuation of the conference work which was decided at Deauville may receive moral support from this subcommittee.

Mr. Chairman, I have here the final report of the conference for this subcommittee, if you will allow me to put it at your disposal.

Chairman BOGGS. It is so ordered.

(The report follows:)

REPORT OF THE CONFERENCE ON TRANSATLANTIC TECHNOLOGICAL IMBALANCE AND COLLABORATION*

(Sponsored by the Scientific/Technological Committee of the North Atlantic Assembly and the Foreign Policy Research Institute of the University of Pennsylvania; Hotel du Golf, Deauville, France, May 25–28, 1967)

INTRODUCTION

A conference dealing with the problems of technological imbalance in the Atlantic Community was held in Deauville, France, from May 25–28, 1967. The conference chose to work in five different panels which dealt with the following problems:

(1) *Education.*—Higher education (problems of scale, nature and quality), implications of cultural factors for scientific creativity, education in institutes of technology, university or other educational facilities, source and adequacy of educational funding.

(2) *Scientific Research.*—Status of pure research, basic research base, technological transfer organizations, information transfer schemes including common standards for documentation, reporting, institutional mechanisms.

(3) *Industrial Management.*—Size of corporations, national/international characteristics, size of national markets, impact of patents and licensing regulations, scope of U.S. investment in Europe, barriers to collaboration, management education and training, competitive situation of U.S. and European corporations in various industrial lines, attitudes toward privately financed research, adequacy of privately financed research.

(4) *Governmental role.*—Government investment in Research and Development (defense-oriented and non-defense-oriented), government contract policies, defense spin-offs, weapons standardization, security restrictions (i.e., McMahon Act), leadtime problems, military collaboration, political-economic competition, and rivalry (i.e., the SST), taxation policies (i.e., amortization time).

(5) *Technological Development and Application.*—Topics in this seminar dealt with present status, level of achievement, and priority with respect to: electronics, computers, avionics, ceramics, metallurgy, nuclear energy (peaceful and military applications), life matter (e.g., biophysics, biochemistry), problems of technological transfer.

I. DIAGNOSIS

The panels began their deliberations by asking the following questions: Is there a technological gap and will there be a gap in the future?

The answers varied according to the differences in definitions of the words "technological" and "gap" as well as to conflicting judgments. The differences of definition of "technological" derived from differences in focus on such phenomena as scientific research; the application of research to production; the marketing of production; investment, government and private, in research and development; as well as restraints upon political independence brought on by disparities in politically relevant technological resources.

*A draft report was presented at the Plenary Session of the Conference on the morning of May 28. This report incorporates suggestions and criticisms made at that time by the participants.

These different definitions of "technological" made it difficult to agree on whether or not there was a gap because each person's reference was not the same. As the panels progressed, the referents became clearer, and a consensus was built which included the greatest number of participants. It was generally agreed that there was an overall imbalance between Europe and America, but in a number of specific industries and in certain areas of pure science Europe enjoys parity and even superiority. However, the number of such sectors was relatively small and the United States was seen to have a decided edge, not only in the overall conditions, asserted to result in technological growth, but in the specific results themselves, especially in the critical industries of aerospace, electronics and computers.

Thus, defining "gap" as an uneven distribution of technologically relevant resources, it was agreed that such a gap existed. There was also a sentiment that, even in the local circumstances where now the gap was not pronounced, the future was threatening because of the large scale impetus to technology which the Americans were able to stimulate in their society. Furthermore there were gaps within Europe itself and between Europe and the undeveloped nations. Under these circumstances, the panelists turned to the causes of the disparities identified.

While there is much variation in the individual cases, reflected in the different examples discussed in each panel, a number of common themes can be identified which lay at the base of the technological imbalance. Large scale European-Atlantic differences in values, mobility, institutional structures, size, and rigidity were seen to account for the discrepancies. Values or attitudes which might foster behavior leading to technological growth were found to be relatively weak in Europe. Whether the issue under discussion was the attitudes toward accepting innovation and change, or working to increase the profit of a firm, or moving to turn pure science into applied technology, the values of Europeans were deemed to be less supportive to technology than those of Americans.

Mobility was another common theme. The reference varied from one panel to the other. Some stressed the relatively greater capacity of Americans for geographic mobility, while other stressed the relative ease with which Americans enjoyed occupational mobility between universities, research institutes and the industrial sector. In each panel, the relative dynamism of American society was underlined as a major cause of technological superiority deemed to be dependent on the free exchange of individuals and information throughout the society. Special attention was paid to the link between the generator of science, the university, and the applicator of science, industry. The link was seen to be highly productive in the United States and relatively weak in Europe.

Related to the differences in mobility, are the differences in institutional structures. Communications between institutions and within institutions were deemed to be better in the United States than in Europe. In the new pragmatic political environment of the United States, government is allowed and even encouraged to play a major role in developing the U.S. technological base. Government aids industry by subsidizing research in the early non-profit stage. Industry profits from spin-offs from government initiated projects. Mutual benefits accrue from the structural relations which industry, government, and the university have evolved with each other. The relative absence of structural barriers against trade and the relative ease with which the different economic, political, and intellectual institutions can communicate with each other and adapt to changes in the needs of one or the other partner, all these assets of the dynamic environment were considered by many to be at the root of technological disparities.

For others, size was counted as a major asset in favor of the United States. Size of firm, to allow for capital formation and size of production facility, to allow for small unit cost, were said to work in the favor of the United States. The size of market was judged as an especially important and, perhaps, critical factor. However, some panelists argued that size alone was not the key factor. Some small firms have managed to be extraordinarily innovative. It was pointed out that the critical role of size varied from one phase of product development to the other, and from one sector to the other.

In all panels, mention was made of the relative rigidity of European factors of production. The flexibility and adaptability which characterizes social and economic institutions in the United States was deemed as a useful asset of a technologically receptive society. Unpredictable demands of a rapidly developing technology are most readily met in a society which is flexible and willing to evolve new forms of person-to-person, institution-to-institution relations. The relatively larger sector of American society which has been educated on the college and university level, contributes to that flexibility and mobility which enhances employment opportunities.

Among the factors judged by most conference members to be at the base of technological differences between Europe and America, the disparities of values, mobility, structure, size, and rigidity were viewed as the most serious. Their influence was great because they were related to each other in an interacting system in which the multiplier effect of the American assets made the potential of the United States appear enormous and European disadvantages appear to be part of a vicious circle.

The pessimism which appeared in some panels as a result of diagnosing the problem was relieved by a number of alternative views. It is evident that there has been substantial success in Europe. There are many examples which cast doubt on the assumptions in the diagnosis. Evidently, there are firms which, applying technology, successfully compete with the United States, even in the North American home market. There are industries—notably, nuclear energy, metallurgy, and chemicals—which have readily technologically equalled or surpassed their competitors in the United States. Obviously, the vicious circle can be—and has been—broken in many technological areas.

The examples of success show that a diagnosis which excludes the possibility of remedial solutions is too pessimistic. Nonetheless, these are severe restrictions on Europe's ability to rapidly accelerate and close the gap in a short time. The interaction of factors is complicated. It requires systematic treatment. While there was a consensus on the list of important factors, there was no consensus on their relative importance and the nature of their interaction. Scientific and systematic methods of analysis must themselves be brought to an understanding of the process of technological growth. The conference participants had no such systematic knowledge available to them. Differences of opinion derived not only from different values, but also from different understandings of what is needed to stimulate technology. It was clear from differences in national and sector performances, that the problems are complex and in need of further systematic effort.

However, no one underestimated the magnitude of the assignment. A large body of interacting and complex factors had to be moved together to make a major assault on the problem. To do this, goals had to be defined which would capture the attention of relevant parties and motivate them to a major effort. However, when the panels turned their attention to the goals which might provide the unifying and motivating impetus, the agreement on causes gave way to disagreement on aims. While the motivating symbols of past regional cooperation still commanded attention, they did not now suffice to ensure consensus. Instead, more emphasis was placed on solving problems by functional categories. Regional loyalties to nation or to Europe or to the Atlantic area were determined by the pragmatic criterion of their respective relevance to the solution of problems at hand.

In sum, the gap was recognized. Though its seriousness was evaluated differently, no one wanted to allow present forces to continue in the present direction. Whether the reasons for action be political, economic, social, or some mix of these motives, action was desired by the greatest number of participants. The panels then turned their attention to a program for action.

Part II—Recommendations

A. General

In dealing with such a complex problem as the Transatlantic technological gap it is much easier to diagnose the causes of disparities than it is to present prescriptions for eliminating them, let alone to achieve consensus as to which prescriptions should be adopted. The recommendations which follow reflect a consolidation of those reported by the various panel chairmen as both desirable and to a lesser extent feasible. Their presentation does not imply any enorsement by individual panel members or by the conference as a whole. These recommendations were preceded by discussions of American and European environments and goals respectively.

Great achievements result from sustained and compelling motivations along with the dynamic competitiveness of the American system. The source of many American accomplishments in science and technology can be traced, in part, to the successive challenges presented to the United States by the Second World War, the cold war, the Korean conflict, the space race and involvement in Vietnam. Which challenges will evoke a comparable European response or which goals can the peoples of Western Europe pursue which will similarly motivate the nations of Europe to accelerate their technological capabilities? Some of those might be:

1. *The Soviet Challenge.*—Under the American umbrella Europeans never felt compelled to meet, by themselves, the challenge of Soviet power. As long as the growing Soviet industrial and technological base is perceived by Western Europeans as posing no threat to their societies, the peoples of Western Europe are unlikely to make great technological exertions to counter balance Soviet technological advances.

2. *American Technological Hegemony.*—The potential threat to European independence posed by this possibility may motivate some but not all Europeans to match American technological powers. At the very least, however, most Europeans would like to improve their technological status in order to bargain more effectively with America regarding technological disparities.

3. *Solving Common Problems.*—The social, political and human problems posed by urbanization and environmental pollution are now threatening the quality of human life for people living in urban areas in most parts of the globe. A cooperative search for solutions to these new problems may hasten technological progress.

4. *Aid to Developing Nations.*—Modern technology is compressing the distances that formerly separated peoples. If the gap between the well-being of peoples living in the "Third world" and those living in the industrialized nations grows, the world may be come politically more unstable than it is now. There may be a common European and American interest in exploiting technology and making it available to the new nations.

None of the foregoing goals may provide sufficient motivation to the Western European peoples to take all the measures required to reduce, if not eliminate, the existing transatlantic technological gap. Nevertheless, partial response to any of these challenges may inspire a determination in Western Europe to reduce the imbalance between the new world and the old.

Throughout the conference it was generally agreed that concentration of effort and new experimentation are required within each country and on a European basis. Though the problems themselves are functional, their solution ultimately requires both private and political action at the national, European and Atlantic Community level. Hence, the conference proposals are grouped into three categories: National, European, and Atlantic Undertakings.

B. NATIONAL UNDERTAKINGS

The recommendations put forward include those concerned with long-term action affecting structures and attitudes, and those for immediate action.

I. Education

(a) The expansion and democratization of higher education should be promoted so as to extend the pool of competent participants in productive functions and improve exchange and mobility between employment opportunities. This should be accompanied by a systematic effort, which is now proceeding, consisting of providing programs of studies corresponding to requirements and capacities at the various levels.

(b) The system of education should be adapted to the new structures of the world of today, where the scientific approach has become an element of culture and this end in view:

(1) the training of students in political, social and economic sciences and the humanities, such as history and law, should be supplemented by an introduction to technological problems and an education in basic science.

(2) technical training should be supplemented by the teaching of political, social and economic science and business management.

(c) New disciplines should be introduced into the traditional teaching of scientific subjects. As scientific subjects and others concerned with the management of businesses are both involved in technological development, they should be made the subject of programs of studies in higher education.

(d) Promising young students should be drawn into technical disciplines, and more of them should be encouraged to prepare themselves for careers in the application of the natural and social sciences in business and industry.

In view of the reduction in the number of students currently attracted by scientific subjects, it is essential to reverse this trend to intervene both at the secondary education stage and subsequently to organize programs of higher education which, being adapted to the modern world, would promise to stimulate interest, and enthusiasm, for demanding subjects.

Continuous education in the technological field should be encouraged by industrial firms. This could be accomplished by staff participation in technical retraining or advanced training courses lasting from one to six months and taking place outside the firm. The teaching profession would have to develop many programs adapted to modern industrial needs. The organization of these programs will facilitate collaboration between industrial and educational circles.

None of these proposals are very new; many of the methods have already been applied, and they do not have the same importance for all the countries of the Atlantic world. Nevertheless, it is well to emphasize these guiding principles, if only to stress the pressing need for such efforts.

2. Research

While the excellence of much of the fundamental research of Europe is evident, many reforms are necessary to increase its effectiveness. This is a matter of urgency since such research is a pre-requisite for increasing technological vitality for the following reasons:

(a) it is vital to the quality and scope of the educational process;

(b) it produces new knowledge available for development and industrial innovation;

(c) without a first class research effort, the level of scientific awareness of a nation can hardly provide a critical assessment of the significance of scientific developments throughout the world which have high technological potential;

(d) advanced study, associated with research is necessary for the provision of higher skills;

(e) the encouragement of inter-European cooperation should be considered as a means of extending and complementing national efforts.

Considerable barriers to the full deployment of European effort exist in the rigidity of many of the national systems and institutions. Recommendations are therefore made:

(1) to encourage mobility of scientists between European countries;

(2) to improve university-industry relations.

3. Mobility of Scientists

(a) All European governments should recognize university degrees in science and technology granted by the other countries. (Discussion of equivalence of diplomas is likely to be sterile but employers and especially research institutes are well aware of the value and nature of degrees in the main countries. Degrees in medicine pose special problems preventing mutual recognition.)

(b) Governments should make it possible for foreigners to occupy university chairs where this is not now possible. Provision should be made for the appointment of visiting professors from abroad.

(c) Consideration should be given to means of maintaining pension rights on movement from one country to another and also that social security schemes should be extended where necessary to insure medical and other benefits.

4. University-Industry Relations

(a) It is highly desirable that mobility between universities, industrial firms and government research laboratories be encouraged. Furthermore, it is to the benefit of both firms and universities that many other forms of cooperation be extended including the acceptance of suitable research projects by universities, the use of university staff for advice, the recognition of good work completed in industrial and governmental laboratories for higher degree purposes, and the participation of industrialists in special university courses and seminars.

(b) It is specifically recommended that each country should initiate dialogue between industrialists and academics to assess the existing situation on such matters, to make specific recommendations and initiate schemes of cooperation. International exchange of such schemes is also desirable.

(c) European scientists should be taught to appreciate the importance of the industrial sector of society. To maximize collaboration between the universities and industry, opportunities should be sought and devices worked out to promote greater intimacy between them in enterprises of mutual benefit.

(d) To promote further interchanges and improved collaboration between industry and the world of education, professors should be granted one or two sabbatical years, during which they have the opportunity to participate in industry as research workers or consultants or are employed part-time in industrial laboratories. Conversely, businessmen could be invited to deliver lectures at universities.

6. Government

(a) To encourage the greater mobility of men and information, improve the management of this mobility, and improve the partnership between the State and industry and education in the pursuit of certain challenging national aims, European governments should:

(1) promote greater mobility of men between government, industry and the universities;

(2) develop clearly defined machinery at the national level for deciding priorities of a science and technology policy in order to be able to participate effectively in a European science policy.

(b) Computer technology should be dealt with on a European basis as soon as possible. Until appropriate arrangements are worked out, it is necessary to tackle it first of all on a national level, and subsequently try to broaden the field and develop teaching in the "soft-ware" fields and computer utilization.

C. THE EUROPEAN LEVEL

1. Education

(a) Young engineers leaving their college or university should be encouraged to follow training courses in industry in countries other than their own. (Such courses should last one or two years; they should not compromise the future career of those concerned, but could provide a good means of effecting the transatlantic transfer of technologies. Even if a certain amount of emgiration resulted from such a scheme, the advantages arising from the return to Europe of engineers with their training completed in this way would largely compensate for such loss.)

(b) A few European strong points of research should be developed on an experimental basis choosing new, interdisciplinary subjects. (As an example, computer soft-ware was suggested.)

(c) A European Institute of Science and Technology should be established. (The organization of a European postgraduate course with an international faculty and students in all subjects concerned with technical progress, ranging from scientific subjects to their industrial application and including the basic sciences, economics, sociology and psychology, could be not only a considerable stimulant for the various European educational systems but also a rich source of engineers trained for the requirements of our society. The lengthy discussion of this proposal surveyed the financial problems involved, the necessity for a suitable site, the recognition of its diplomas by the various countries concerned, and the necessity for close cooperation at government and private enterprise level, both among European countries and between them and the United States).

2. Industry

(a) European industry should seek to prepare and promote a program for the Governments of Europe to eventually computerize the economic and administrative activities of the Continent with due consideration for the hardware, the software, the communications and the education of personnel needed for the efficient execution of the program.

(b) Multinational companies should form themselves into an active group to make available generally the benefits of their experience in organizing business across national frontiers.

(c) The Conference should draw the attention of European Governments to the magnitude of the gap in the aerospace sector as between Europe and the United States, and stress the urgency of deciding what part Europe wishes to play in this sector and what aims it wishes to pursue, and upon what European industry should concentrate its efforts.

3. Government

(a) An overall strategy for European science and technology should be developed by a common authority. While welcoming the progress being made on the basis of bilateral and *ad hoc* arrangements, these must be integrated, as soon as possible, within an overall strategy.

(b) European public authorities must seek to harmonize their requirements, for instance in the fields of computers, communications equipment, aircraft and defense equipment.

(c) Common requirements should be established to encourage the development of trans-national consortia and companies.

(d) Certain major joint European development projects would also be a useful means of promoting the development of European companies or consortia. An example of such a common development project would be the establishment of a common European Information and Documentation Center for the whole of science and technology. This Center would provide information rapidly to the major centers of research in industry, universities and governments throughout Europe. It would work closely with similar centers in the United States and other regions. The Center should aim at a highly selective approach to information acquisition and exchange in order to minimize the dissemination of irrelevant or trivial documents and data.

(e) European projects should have clearly defined goals and in each case be run on the single director managerial principle.

(f) European Governments should take early action to facilitate supranational corporate activities, including the creation of a European company statute. Simultaneously, fiscal and monetary legislation and practice should be harmonized and standards and measurements unified. Efforts should be made to accelerate the removal of the remaining obstacles to the completely free movement of goods, persons and capital between European nations.

(g) Every encouragement should be given to efforts to simplify and harmonize existing patent procedures, and, if possible, to establish common European or Atlantic machinery for patent searching and recognition.

D. THE ATLANTIC LEVEL

Common policies in science and technology for Europe should be developed to create a more fruitful partnership with the United States through the exchange of information and know-how, and by further negotiations to remove nontariff barriers to trade and open up public buying on both sides of the Atlantic to competitive tenders from the partner Continents.

The work of the Conference should be continued in some form in order to promote closer ties between the academic and industrial communities across the Atlantic.

Mr. PECCEI. Before I turn to other subjects, I should like to spend a few words on the European Economic Community and its relations with the world.

On the positive side, I should like to mention that not only the process toward the completion of the customs union has practically come to a successful end, but also the gradual movement toward an external common tariff is reaching its prescribed final level.

Even before this level is reached, as a result of the Kennedy Round the Community has accepted to lower it beyond the target established by the Rome treaty. This is a significant factor, which substantiates a posture of the Community itself as an outward-looking system.

The process of economic integration among the six member countries has had very positive effects in expanding their reciprocal trade, but, more significant, has made of the Community the first ranking trading bloc in the world, and its external tariff also ranks among the lowest in the world.

Having made these few positive remarks, I will admit frankly that there are certain negative aspects as well. In the first place, the Community has been too busy, and justifiably so in holding its own structures, and has, therefore, been forced to postpone consideration of other matters, and particularly the establishment of a common trade policy, of which there have been so far only scattered examples.

The Community has also suffered from a certain imbalance, due to its limited membership. Most Europeans—and I am one of them—are openly in favor of enlarging the Community and admitting other members.

However, it is too early to advance any prediction at this stage as to the outcome of the new application submitted by the United Kingdom, and as to the prospects of other countries to follow suit.

With regard to the Community position regarding developing countries, one can detect a certain apparent contradiction. In fact, on one side, the Treaty of Association with African States provides a model of sound cooperation insofar as preferences are established to the benefit of trade with the African countries concerned, financial assistance is provided through the European Development Fund, and broad technical and cultural assistance is also envisaged. On the other side, developing countries, which are not part of this broad scheme, and do benefit from it, claim that they are discriminated against. A claim, however, which is not confirmed by statistical evidence, since trade between the Community and nonassociated developing countries has increased remarkably in the last few years.

Whether a similar arrangement could be devised on a worldwide basis as between all developed and all developing countries, is a question that involves the attitude and the political will of many governments and not only of the major ones. Nonetheless, I believe that one could venture to say that the Community, without reneging on its obligations, freely undertaken with the associated states, would not be opposed to any broader arrangement, as is evidenced by concrete proposals submitted by the Commission to the Council of Ministers at the beginning of the year 1967.

With regard to East-West trade, I should like to assure you that I am fully aware of the deep and serious policial implications which dominate the issue in your country, particularly at this juncture. May I be permitted to say that we in Europe recognized at an earlier stage the vital importance of establishing lively trade relations with the East, in the firm belief that we would be helping a positive political development. In taking this attitude, we had to accept the sometimes unpleasant fact that societies and economies in Western and Eastern Europe, including the U.S.S.R., were different, and that there was no use in our trying to convince the other side to follow our pattern, nor would it have been practical to wait for the other side to become more similar to us in structures, policies, and practices. To recognize this essential fact meant for us to introduce flexible adjustments in our own methods and approaches. To deal with Government agencies in those countries, for instance, rigid and cumbersome as they are sometimes, is certainly not so pleasant and congenial as to deal with our Western business counterparts. However, through time, we found that a certain evolution had taken place among the Eastern executives with whom we were dealing. They have come nearer to our point of view; they might rightly say that we have gone nearer to their point of view. In sum, we came to understand each other better.

We find that prospects for business in the U.S.S.R. and Eastern Europe are increasing and expanding continuously. There are, of course, severe limitations, besides mentality and methods. One main limitation is a very classical one; namely, that trade being by necessity a two-way avenue, we must, perforce, conceive of exports and, simultaneously, of imports. And there are not very many products manufactured in those countries which are readily acceptable to our markets. Furthermore, in order to accelerate economic development and actively participate in it, we are confronted with the expectation that we should extend ever longer credits. In this context, a rather unruly competition is taking place among Western suppliers. A sobering international action to bring this factor under reasonable control would be very helpful.

The United States has kept somewhat aloof so far, and in this connection I should like to express the view that a more active U.S. participation in trade with Eastern Europe not only would have positive political implications and would give momentum to the development process of that area, but also might help in establishing more acceptable rules. Personally, I regard the Soviet Union and Eastern Europe not as a hunting reserve for Western Europe, but rather as a promising ground in which international trade may expand profitably for the world at large. I feel sure that Europe would welcome a healthy competition there with the United States.

Of course, one must keep in mind that in Socialist countries a centralized procurement system prevails; therefore competition should take a very special connotation and be obviously different from the kind of competition that businessmen meet in market economies.

I am not a politician, and as a businessman I might have a slanted view. Nonetheless, permit me to say that through my contacts and transactions with East Europeans I have acquired a firm conviction; namely, that trading with them is an effective way to promote better political understanding. I would go as far as to say that the great political issues still dividing West and East would, per se, provide recurent incentives to perpetuate the cold wave, whereas sound trade relations have proved to be a thawing factor. The knowledge of reciprocal requirements and supplies, the comparison of each other's technological achievements, the prospect of a lively exchange, undoubtedly are solid prerequisites for the estabilshment of a psychological and political situation such as prevailed at Glassboro, and, hopefully, for its aftermath.

In this connection, Mr. Chairman, I have read with great interest your statement that this subcommittee's study is the long view of the U.S. foreign trade policy. But then we, the United States *and* Europe, should make up our mind as to what are our objectives during the next 10 to 12 years vis-a-vis the U.S.S.R. and Eastern Europe. If our objective is to bid for more time and defer any action likely to strengthen the Eastern economies, even at the risk of making it more difficult and costly to bring them over to our side in the future, then we may simply go ahead piecemeal as we have done so far, because the scattered agreements and contracts the European firms have entered or may enter into in the future with Soviet bloc organizations, however important some of these contracts may be, would not appreciably change the overall situation of these countries relative to our situation. If on the contrary our objective is to try and bring the vast markets, from the Iron Curtain to Vladivostok, into closer interdependence with the Altantic markets, and seek to influence through trade and economic cooperation the entire development of these nations, then we must be prepared to make a bold step forward. We must recognize that to help their economies move toward the mass consumption of more sophisticated goods is a rather long term proposition which will require a well-planned combined East-West effort. And the more clearly and the sooner the United States and Europe define their common policy in this respect, the better it is for both of them.

Finally, with regard to trade with developing countries, I should like to say that I am looking at the issues involved with no little concern. This is due to the fact that I am not satisfied that developed countries have made the necessary effort so far in order to devise agreed-upon solutions.

We have had a first round in the United Nations Conference on Trade and Development in Geneva in 1964, and now we are approaching the second round, which is scheduled in Delhi in early 1968. The first conference served undoubtedly the purpose of focusing on the myriad of problems. Solutions were also recommended more or less realistically. The second conference should serve the purpose of assessing achievements and suggesting further steps. But are we really in a position to do so? In my opinion we are not.

I will not use here the wealth of statistical information which has been produced in the meantime to prove that those underdeveloped remain such, and that in relative terms they are more underdeveloped than before. There has been a distinct lack of unity in the industrialized world in spite of the best intentions displayed and some efforts undertaken in various international fora. I would venture to say that perhaps too much emphasis has been placed on the expected cure-all implications of trade. If massive trade were possible purely through intergovernmental debates, then I should say that all the words which could be spent have been spent. But trade is above all a technical matter, which requires structures, know-how, competitive strength, distribution skill, quality, prices, and none of these factors can be expected to become real by a fiat. Developing countries have indulged in claims and recriminations; developed countries have indulged too much in lecturing. Unless we recognize that inducements are only the starting point of a long and painful process, I am afraid that we will get nowhere.

To promote trade to the benefit of developing countries, in the order of magnitude which would be required, we must accept in practice, not only in principle, the need for an international redistribution of labor and production. The principle has been heralded forcefully and insistently, but the practice has not yet been adopted, if not in a token measure.

This is an extremely unpalatable proposition, since it entails first of all a bold action within our own countries, and also a willingness to assume delicate political and economic consequences. It is in fact a double-edged blade, because we should decide gradually to eliminate within our own economies certain productions, even though the most elementary, and at the same time open our doors to the imports of the same products from abroad.

In the process, domestic production and import production will have to compete on an uneven basis, and instead of pursuing protectionist policies which would be called for according to classical patterns, we should extend a preferential treatment.

This is undoubtedly one of the hot issues which will be reiterated in Delhi after Geneva. Are we prepared to face it? I have singled out this problem and will not take any more of your subcommittee's time in elaborating on others. The question that this problem arouses is whether the road which has been taken by UNCTAD at Geneva is going in the right direction. At a time when aid is declining and is becoming increasingly unpopular, both in donor and in recipient countries, the question is whether enough groundwork has been done in order to have trade replace aid. My own view in this connection is that too little has been done to establish the necessary technical and structural prerequisites, and too much political theory has been thrown on the world's lap.

One important fact should be borne in mind, that is that international trade is no longer going to be governed by a purely mercantile basis. International trade requires a more complex and sophisticated approach: industrial and financial investments, consultative activities and technical assistance become part and parcel of the commercial activity at large. Trade demands nowadays a global participation in the challenging venture of economic development.

Turning now to the general situation of developing countries, as it appears to be in realistic terms, I should like to emphasize another conviction of mine. To lump together Africa, Asia, and Latin America, and to label them as all underdeveloped, provides one of the greatest misconceptions of which the international community suffers nowadays. You, gentlemen, know, as I do, that the countries within these wide areas are much more different than similar in very many ways. Their level of development is a widely apart among them as in certain cases it is apart from us. We must use a different yardstick. We must rationalize our interventions and our contributions.

I may add that, if the Atlantic nations want, as I hope, to adopt a long-term trade policy with respect to the less-developed countries, they should (*a*) realize that the issues of trade are strictly intertwined with those of aid, technical assistance, and development at large, and cannot be shred from the fundamental and increasingly serious worldwide problems of population growth and education; and (*b*) be prepared to define priorities because their resources, however great, are not enough to do everything everywhere.

They must also objectively assess which of the great world regions is more likely to reach, with our help, self-sustained development in the near future.

In this context, in my opinion, we should concentrate a great part of our efforts in Latin America.

I have particularly in mind that Latin America provides the most mature economies to be positively helped by our interventions and contributions. Speaking to Americans, I know that they are fully aware of this incontrovertible fact. I see in this area of Latin America not only the prospect for a further and bold American aid and trade activities, but even more a fertile ground for an imaginative American-European cooperation.

Thank you.

Chairman BOGGS. Thank you very much, Doctor Peccei, for a very fine statement.

Now, we will hear from the Right Honorable Kenneth Younger.

Mr. Younger.

STATEMENT OF RT. HON. KENNETH YOUNGER, DIRECTOR, ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS, LONDON, ENGLAND

Mr. YOUNGER. Thank you, Mr. Chairman.

I believe that the statement which I put in has been circulated to members, and I don't wish to take up the time of the committee in going through it in much detail. But I would like to pick out some of the main points that I wish to bring to the committee's notice.

I would like, first of all, like Mr. Peccei, to thank you very much for having given me the opportunity of coming here. I am all the more honored by it since your subcommittee already has an international reputation for looking far ahead and for taking a very wide view of your country's trading policies.

Some of the witnesses who have already appeared before you have drawn attention to the many uncertainties immediately following the end of the Kennedy Round negotiations. I think perhaps your committee will wish me to say something about the major uncertainty which affects my country, namely, the question of whether we are or are not going to become a part of the European Economic Community.

Chairman BOGGS. We would be very interested in hearing about that.

Mr. YOUNGER. As you know, we had to go through these negotiations from outside the Community. It is very ironical that some of our continent friends who are among those who do not wish to see us inside, nevertheless criticized our negotiators because during the negotiations they didn't behave as though they were entirely inside. This seems to me an unreasonable proposition. But it illustrates the dilemma that we are in.

The point which I wish to make to you is that although there is a great uncertainty about the time at which we might join the Community, and in particular about the fate of the present application, I would put it to you, Mr. Chairman, that the correct calculation is that sooner or later Britain will be in, and with her one or two of the other countries of Western Europe.

I say this because I think that the opposition to Britain's entry is of a more temporary kind than the determination which she has now reached to get in.

She has reached this determination as a result of looking at all the alternatives, and has not found any alternative which appeals so much.

I don't believe this opinion is going to change, whereas it seems to me that the opposition to her entry has been limited largely to the Government of France. And we know that even within France there are several opinions on this matter. I think that French opinion is more likely to change than the British one.

Nobody can presume to talk for all sectors of opinion, because there are still differences. And some people believe that if this application were to be blocked, Britain might feel a revulsion against Europe and turn elsewhere. But my judgment is clearly against that. I believe that the concept of the organization of the Western World to which my country is likely to adhere with a great deal of determination is what you might call the grand design of two communities, one on each side of the Atlantic, with Britain being a part of the European Community. I believe very strongly that that is the sanest pattern that has as yet been put forward at any time. And just because it has run into difficulties I don't think we ought to give it up.

I would like to make a brief comment on the proposal which is talked about nowadays for the North Atlantic Free Trade Area. As I understand it, this is being propounded in this country largely by people whose first preference would be for seeing Britain inside the Community, and they think of the free trade area as an alternative only if Britain is excluded. They see it to some extent as a tactic for persuading the members of the present Community to allow their Community to be enlarged.

I don't myself feel a strong appeal in this. I think it is significant that in Britain it is supported almost entirely by those who do not in any case wish Britain to join Europe. There is a fear among the majority in Britain who do wish to join the Community that a proposal of this kind would not bring any pressure on Britain's friends to help them into the Community, but on the other hand would cast doubt upon her continuing determination to become a part of Europe.

The second point about our relations with the Community is that if, as I believe, we do eventually join it, this will, of course, change our attitude to certain particular tariffs in tariff negotiations, because we would then be inside the common tariff barrier instead of outside it. But I do not believe it would change the general attiude of my country toward what your Trade Expansion Act called open and nondiscriminatory trading in the free world.

We would, of course, from the time we got in, be negotiating as part of the Community. And therefore it is of great importance to us to assess what the attitude of the Community in general has been determined to be in these negotiations.

The first point, which is of great significance to the whole world trading community, is that the European Commission succeeded in negotiating for the whole body of six countries, despite the fact that they started with many differences of policy. And I think that this is an indication that the Community today has the lasting power to go forward.

Moreover, it emerged from a very difficult period of internal dispute and conflicts strong enough to be able to show considerable flexibility, and a degree of liberalism toward the end of the negotiations. I feel that the fear that many people had 3 or 4 years ago, which continued during much of the negotiating period, namely, that we might be faced with an inward looking, highly protectionist European Community, this fear, is much less likely to be realized than was then thought. I do not believe that great differences of doctrine about trade have been thrown up in these negotiations either between Britain and Europe, or Britain and the United States, or the United States and the Community. I think there has been a high degree of doctrinal agreement, and most of the difficulties have arisen out of the pull and push of sectional interests.

I would like to say a few things about the less-developed countries, realizing, as we all do, that the United Nations Conference on Trade and Development is due to assemble next year, and that we shall not be allowed simply to sit back and forget that the less-developed countries were not so satisfied as they might have been with the outcome of the Kennedy Round.

So far as preferences are concerned, I would hope that the more-developed countries may be a little nearer together than they were in the Conference in 1964. At that time, as I understand it, the United States was opposed to preferences of all kinds on the ground that they were a legacy of imperialism which was no longer appropriate. The Community upheld its preferences because it said that this protection was required by the struggling economies of what had been formerly the dependent territories. While Britain at the end put forward a proposal generalizing these various systems, giving preferences to all less-developed countries alike.

I would hope that that proposal might be seen now to have made some progress.

I have seen many references in your statement, Mr. Chairman, to President Johnson's speech at Punta del Este in which he seemed to be accepting the idea of some temporary arrangement which would enable preferential treatment to be given, not to the regions based on old imperial systems, but to all underdeveloped countries by all developed countries.

I have some reason, though it is not a very firm one, for thinking that the European Community might be moving in the same direction, at least so far as thinking in the Commission in Brussels is concerned, though I understand that no decisions have been taken which would enable the Community to negotiate on this basis at the present time.

I would hope that the U.S. policy might begin to move in the direction of a concept of this kind. And in this connection I would like to mention the proposal of the Director General of GATT that the concepts we agreed on in the Kennedy Round might be applied more rapidly to the developing countries. I realize that there are difficulties about that, not least, perhaps, the difficulties of new legislation. But I would hope that this might have favorable consideration in this country.

Of course, it is not only preferences that are of interest to the developing world; indeed other questions are of greater importance. I think perhaps in my paper I have rather underplayed the interest of less developed countries in having better access to the markets of developed countries for their manufactured and semimanufactured goods. They say, not without reason, that we are always telling them that they must diversify their economies, that they must not depend on exports of agricultural products, particularly one special crop in the case of many countries, and that they must therefore begin to industrialize. But the structure of tariffs applied by most of our countries in the developed world makes it exceptionally difficult to do this. And from the moment they begin to try to export semiprocessed goods they meet a higher tariff, and fully manufactured goods, a higher one still. This is something I think which very urgent attention should be given.

The other great issue for them is the question of commodity agreements. And here there has been, I think, a considerable resistance in the developed world, not only because of what one might call doctrinal grounds, but because it is intrinsically a very difficult thing to regulate prices in a reasonable way, if you once start interfering with the market.

The point here that I would like to make is that, particularly so far as agricultural produce is concerned, since virtually no country is prepared to apply the principle of free trade to its own agriculture, it is not plausible to object to the organization and regulation of the international market in agricultural produce on any kind of theoretical ground. I think the pressures that prevent it being done are very largely against interests. I hope that we may see a more active support in the future, certainly from my country and from other countries, but perhaps particularly from the United States, and the U.S. Congress, which has a very powerful influence in these matters.

Mention has already been made of the nontariff barriers to trade, which are rapidly becoming the most important issue, more important than further reduction of tariffs.

I don't know whether it is true, it may well be quite untrue, but I think it is fair to say that there is a general impression outside the United States that the protection offered by nontariff barriers to U.S. producers is somewhat more marked than it is in the case of other countries. This may only be because you have explicit expressions of this, such as the Buy American Act. All of our countries, of course, adopt practices of one kind or another, often very subtle, and often very hard to identify, which have the same effect. And they all affect particular business interests, and they are therefore particularly hard for us to change.

The famous instance of the American Selling Price, which is the most prominent one which has come up in the Kennedy Round, is a good example of this. But it is, of course, by no means the only one. Indeed, these nontariff barriers are so varied and so numerous that one's heart quails at the thought of a round of negotiations on a multinational basis which are directed to this particular problem.

One aspect to which I would like particularly to call your attention is that the removal of nontariff barriers nearly always takes one directly into what have previously been considered purely domestic matters. There is therefore a specially strong resistance to what seems to be foreign interference.

Here again I would like to come back to what I understand to be the approach of the European Economic Community.

It is generally assumed that the most important aspect of the Community's policy directed to creating future unity among the six has been the common external tariff. This was probably so at the beginning. But I have been assured by well-informed officials of the Community that this importance has been decreasing. It is still important, of course, that they have a common external tariff. But the level of it, whether it is high or low, has become much less important from this particular point of view. What has become more important has been the efforts which they have made, with varying success, to coordinate their policies in a whole range of other matters, bringing them nearer to the concept of an economic union.

I don't think that we can doubt that this has been their experience. But I think we ought to give our mind rather carefully to the implications of this sort of doctrine, if it is applied to wider groupings of countries which have little prospect in the near future of becoming an economic community.

How far can one, in fact, hope to go beyond the point that we have now reached in eliminating tariffs among a group of countries which are not contemplating economic union? It may be that the limiting factor will turn out to be precisely what we can achieve in the field of nontariff barriers, in the field of harmonizing and coordinating policies on taxation, on governmental procurements, on various industrial practices, and so on.

Whereas few doctrinal differences emerged in the Kennedy Round, because the target for reducing tariffs was limited to 50 percent, had the target been 100 percent, that is to say complete free trade in these products, at once some of the discussions on whether this could be achieved without a much higher degree of harmonization in other fields would have become important.

Here again, if I may revert for one moment to the North Atlantic Free Trade Area, if I am right in what I have said about the Community's attitude over this, it seems to me almost inconceivable that the Community would be willing to become a member of a free trade area which was not accepting economic discipline in a wide range of other fields. Therefore this free trade area has to be seen as something which excludes the European Economic Community.

In that event I would think that it would be likely to remain a rather unacceptable concept to Britain, and I think to her EFTA partners, too, because if they were to join in the free trade area this would have a tendency to separate them, perhaps, forever, or at least for a long time, from the Community. I do not think that they would be prepared to envisage that. I think they would feel it more realistic and worthwhile to wait, even if they have to wait for some years, in order to become a part of the European Community.

The lowering of tariffs in the Kennedy Round of negotiations would make that period rather less difficult for them than it would otherwise have been.

I would like to say a word about East-West trade which Mr. Peccei mentioned. And here I want to make what is primarily a political point. I realize that East-West trade is not quantitatively of great importance in the trade of most countries, and probably very unimportant in the trade of the United States. But it is becoming politically important in Europe for two reasons. First, because improved relations with Eastern Europe have begun to take a very high priority in the policy of the leading Western European countries, particularly France and Germany. Indeed, this is one of the few major policies at the moment in which the Federal Republic and the present Government of France are at one. While everyone realizes that the limit to East-West trade is broadly set by the limited capability of the Eastern countries to produce the right kind of goods, there nevertheless are a number of Western restrictions which limit this trade.

Some of these are either not applied at all or are somewhat resented in Europe. I am thinking particularly of the regulations which prohibit the export to Eastern European countries of a range of goods outside the strategic field, which happen to incorporate certain U.S. patented items. In my paper I cite the rather ridiculous example of my own institute, which was anxious to buy a rather modest, secondhand office calculating machine, one with no special modernity. But it found that it could do so only if it undertook not to export it to a wide range of Communist countries or to the British Colony of Hong Kong. This didn't prevent it from buying the calculator. But this extension of restrictions over a wide range of items which are not normally considered of direct strategic importance does cause a certain resentment. And I think it is important to have a fresh look to see how far these export regulations still fulfill an important American purpose.

The second aspect of political importance is that there is clearly great concern felt in a number of Eastern European countries to increase their trade with the West. There are many signs that in order to do this they are prepared to modify their trading systems. Some of them see this quite specifically as a development through which they will also be able to liberalize their internal systems. Since this has always been something to which the West has attached importance, I think this is a political motive which should not be ignored.

What we have to get away from is the assumption which grew up at the worst period of the "cold war" that our policy should be directed to impeding the progress, or perhaps even weakening Communist countries. This is not generally thought in Europe to be an objective of policy today. There is still an acquiescence, of course, in certain strategic controls, but of a much narrower kind than our present practice. I think that the doctrine that Western Europe ought to be trying to impede the progress of countries in Eastern Europe runs directly contrary to the present trends. And it is very important that it should not be thought in Wesern Europe that, because in general Western trade has an orientation to the West and across the Atlantic, this is going to be an impediment to improving their relations with the East. It is one of the arguments that is most frequently used by those who wish to see Western Europe separated from the United States. I believe it to be a false argument, and I would hope that in our future policy we should see that no color is lent to it.

Mr. Chairman, there are not many other comments that I would wish to make. If I have said certain things to suggest that the old concept of free trade has its limitations, this is not because I think that we should therefore do less to achieve the freeing of trade, but simply to point out that we need to do many more things as well, that we cannot stick to the old simplicity of the idea of freeing such things as tariffs, and that we have got to take the matter much further. We have become quite accustomed to the idea that in order to help the less developed territories we must be prepared to depart from pure free trading doctrine in order to help the weaker parties.

And I think it is worth mentioning that something of the same issue arises between industrialized countries in the so-called technological gap which there is between the United States and Western Europe.

This again is one of the arguments most frequently used by those who are urging Western Europe to separate itself from the United States. I am not going to spend much time on it. It is not strictly, I suppose, a question of trading policy. It is more a question of investment policy. And it largely concerns the great American corporations which engage in international investment on a large scale.

The only point I would like to leave with you on this is that it seems to me that there are many great American corporations highly experienced in the field of overseas investment which have realized that in order to avoid political resentments against American power, against the taking over of local industries by American companies, they have to adjust their policies. They have to accept something which in the purely commercial sense may be less than the best solution for them. I think it would be very wise of them to do so, because unless this does happen—and perhaps in particular unless rather special steps are taken to see that a substantial amount of advanced research is done in countries outside the United States—I am afraid there may be a tendency to put up certain barriers to the free interchange of technology and investment between Europe and the United States just at a time when we would like to see the opposite happen. The fact that this situation is no fault of the United States, indeed it is precisely due to the fact that they are technologically excellent, and that their industrial management is normally better than that of other people, doesn't affect the fact that there are political disadvantages which may result unless the problem is fully recognized.

In conclusion, I would like to say that it is well realized, certainly in my country, and I think in most other countries of the Western World, that we owe a great deal to U.S. policies in recent decades for the liberalization which has occurred. If the United States had taken a different line, we would be very much more sharply separated from each other technically and politically than we in fact are. It is of enormous importance to all of us that the United States should maintain this attitude of wishing to see trade on a multilateral basis and freer so far as it can be made freer.

We are encouraged to think that this will go on by our experience of U.S. policy in the past, which has shown that, even at the cost of short-term inconvenience, the United States is often prepared to take the long view.

(The prepared statement of Mr. Younger follows:)

PREPARED STATEMENT OF KENNETH YOUNGER

I am grateful to you, Mr. Chairman and to this subcommittee for the honour you have done to me in inviting me as a non-American to participate in your hearings on future United States Foreign Trade Policy. Now that the Kennedy

Round, with whose initiation five years ago many members of this subcommittee were so closely associated, has just been brought to a much more successful conclusion than had at one time seemed possible, it is good that we should all be reminded by you that this is a moment not only for congratulating ourselves on what has been achieved, but also for giving our minds to the next steps which we have to take in the promotion of world trade.

The moment is of course a difficult one for forecasters, since it is still too early to feel sure what effect the agreements reached in Geneva will actually have upon the flow of trade. It will be several years before the negotiators will know for certain whether their calculations were sound; and until this becomes clearer, governments are unlikely to commit themselves to fresh policies. For that very reason there may be a chance to influence future thinking by free discussion.

There is one uncertainty in the present situation which particularly affects Britain, her exclusion up to the present time from the European Economic Community and the doubt whether her second application for membership is going to succeed. It may be appropriate for me to start by saying something on this issue.

Britain and the E.E.C.

Contrary to the hope entertained in 1962, Britain had to participate in the Kennedy Round negotiations, from start to finish, on the assumption that she would be outside the Community at least for several years to come. From January 1963 until the end, negotiations for her entry were not even in progress and there was no certainty about their renewal. In these conditions the British negotiators could hardly be expected to adopt all the positions which they might have done had British membership of the Community seemed imminent. The fact that some continental critics have blamed Britain for having shown herself insufficiently European in these talks illustrates the dilemma in which she is at present placed.

It is still impossible to name a date when Britain might join E.E.C., but on the issue of whether she will join at some time or other, I would suggest that calculations should now be based on the strong probability that she will. Although it is clearer now than in 1962 that President de Gaulle will keep Britain out if he can, he has obtained virtually no support for this policy among his five partners in the Community, and even in France there is a substantial body of opinion which does not share his view. The opposition to British entry has thus a temporary look; whereas the conversion of Britain to the policy of joining E.E.C. seems more durable. It has occurred as a result of serious examination of available alternatives over a period of more than five years, and this has produced unanimity among political leaders of all the main parties, solidly backed by an overwhelming consensus of industrial opinion. The British drive for entry therefore seems less likely to change than the French opposition to it.

It is true that the question is still being asked whether, if the British application were to be blocked again, the British government and people would undergo a revulsion against Europe and look elsewhere. I do not think this likely, if only because Britain has already considered all other possibilities and found them wanting. I believe that she will cling to the concept of a partnership between Europe and North America, in which she will be an integral part of a growingly united European component. This concept, which used to be called the Grand Design, has suffered some setbacks in the last five years. Its realisation may now seem a longer business business than was once hoped. But it is still the sanest pattern that has been proposed for the Western world and it should not be lightly given up, nor should anything be done for tactical reasons which might make it harder to resume an advance towards it.

In this connection I should like to make a comment on the proposal for a North Atlantic Free Trade Area. As I understand it, those on this side of the Atlantic who have promoted it are, broadly, those who favour the entry of Britain into E.E.C. as part of a wider Atlantic grouping, but feel that, if this course is blocked, an immediate alternative should be envisaged, which does not require the Community's co-operation. The Free Trade Area could leave room for the Community to join in at a later stage, but in the meantime would proceed separately. There is the further idea that the mere formulation of this alternative may in itself be a useful tactic in bringing pressure upon the Community to agree to Britain's entry.

This proposal has not met a ready response in Britain where, in contrast to the United States, its supporters are to be found wholly among those who have been either hostile or at best lukewarm towards British entry into the Community. As a tactic, it is seen as being unlikely to bring pressure upon Britain's friends in the Community to help Britain join and more likely to cast doubt upon the firmness of Britain's newly-accepted commitment to Europe.

I shall return to the NAFTA proposal in another context. For the moment I only want to say that it does not affect my belief that Britain will now pursue her objective of joining E.E.C. with persistence and that she will succeed, only the date of success being in doubt.

By the time that governmental decisions have to be taken about new trading policies, this uncertainly may or may not have been resolved. In any event, I do not anticipate that British entry into E.E.C., though it would inevitably affect her attitude on particular tariffs, would alter her fundamental attitude to what your Trade Expansion Act called "open and nondiscriminatory trading in the free world". From the time of her entry, Britain would of course be negotiating through the E.E.C. and would have to adopt as her own the common attitudes which had been agreed within that body. I now turn therefore to consider what the attitudes of the E.E.C. have been shown to be in the course of the Kennedy Round.

The Evolving Attitude of E.E.C.

It is of great significance for the Community and for the world that these gruelling negotiations were carried through to success on behalf of the Six member nations by the European Commission as their sole spokesman. There could hardly have been a stiffer test of the Community's ability to represent a common interest among countries whose national attitudes were widely divergent at the start. It will be remembered that the negotiations were seriously held up for many months while the Community sorted out its sharpest internal conflicts. Frustrating as this was for the other partners, encouragement can be drawn from the fact that, once the internal difficulties were resolved, the Community emerged strong enough to negotiate as a single whole and, in the closing stages, proved capable of greater flexibility than would have been attributed to it only a few months before.

I have already referred to the fact that, on a number of important points, Britain came into conflict with the Community. As examples, our attitude over steel disappointed them; their attitude over heavy trucks disappointed us. But on the wider issue of the approach to the structure of industrial tariffs among the advanced nations, no serious differences of philosophy or principle emerged.

Indeed the fact that, in a field where the target had been set at a 50% across-the-board cut in tariffs, an average cut of 35% was actually achieved is surely strong evidence that really serious differences of principle cannot have existed among any of the main trading nations represented at Geneva. It was not doctrinal differences which caused the greatest difficulty, but rather the power of sectional interests to exert pressure upon governments. Whether a different situation might have been revealed if, as had been hoped in 1962, the enlargement of the Community had led to the raising of the target for many of the cuts from 50% to 100%, we cannot know. For the difference between lower tariffs and no tariffs at all is a qualitative as well as a quantitative one and raises some new issues on which there might have been more fundamental disagreement.

All that one can confidently state about the attitudes of E.E.C., as demonstrated in the negotiations, is that within the limits which were set by the actual course of events, the earlier fear that we might be faced with a determinedly inward-looking and protectionist Community was not borne out. At the end of the Kennedy Round a split between the Community and her Western trading partners on this score seems much less probable than it once did.

The Less Developed Countries and UNCTAD, 1968

It has been widely noted that the success of the Kennedy Round in satisfying the wishes of the more advanced countries in respect of industrial tariffs was by no means matched by successes on the issues of primary concern to the less developed countries. To some extent, this is a reflection of the fact that the efforts of the negotiators had to be concentrated on avoiding a failure of the whole Kennedy Round, which seemed all too likely during the greater part of the period, and that the necessary time and energy for dealing adequately with the problems of developing countries simply could not be found. This is one of the big pieces of unfinished business to which attention must now be turned. The prospect of the second United Nations Conference on Trade and Development, due to be held next year in Delhi, is sufficient to ensure that we shall not be allowed to ignore it.

We all remember how, at the first UNCTAD in 1964, the impressive solidarity of the less developed countries was matched by almost total disarray among the leading industrial nations—including incidentally the Soviet Union. On the issue of preferences, the differences within the Western world at that time could be crudely stated in these terms; the United States maintained its traditional opposition to preferences, as a legency of dying imperialist systems; the Community, in upholding its association agreement with former colonial territories, maintained that though this might be a legacy of colonialism, it was nevertheless an essential prop for these struggling economies; while Britain, at the end of the Conference, proposed to generalise the various preferential systems, giving preferences to all the less-developed countries alike.

Various events which have occurred since then encourage me to believe that something on the lines of the British proposal of 1964 may now be more generally acceptable that it then was. I base my optimism partly on President Johnson's statement to the Inter-American Summit Conference at Punta del Este last April, when he said that the temporary tariff advantages for all developing countries by all industrialised countries would be one way of increasing the export earnings of the less developed countries. I base it also on the belief that the thinking of the E.E.C. on this issue, though not yet crystallised in any decisions, has been moving in the same direction, and that it too might now be willing to consider generalising to all developing countries the preferences at present given only to its associated states. The amount of tariff protection given to these states on their main tropical products was in any case substantially lowered by the Yaounde Convention of Association of December 1962 in return for increased financial aid for development. Moreover, the importance of preferences, as opposed to other aids to development, will diminish as tariffs are generally lowered, and this should make it easier to secure the acceptance by the Community and its Associated States, of a change in the system.

So far as United States policy is concerned, I would hope that President Johnson's willingness to consider giving temporary tariff advantages to developing countries might lead to the United States adopting a more positive attitude to the recent proposal of the Director-General of the GATT, that the Kennedy Round cuts might be implemented in full in a single installment for the developing countries, or at least at an accelerated rate. It seems to me that this, by giving them an advantage that would diminish to zero at the end of 5 years would exactly correspond to the President's thought. I understand that legislation would be needed before such a scheme could be implemented in the United States, but I would suppose that this might seem a less formidable obstacle to a Committee of Congress than to the Administration.

If I am right in thinking that doctrinal differences among the major trading nations on this question are beginning to lose their sharpness, I would hope that UNCTAD might produce an agreement to pursue the question of generalised preferences being given to the less-developed world by the more developed world, and that serious negotiations in the GATT might follow the UNCTAD Conference. Something of this kind is surely going to be needed, if the tendency to favour regional preference systems is to be checked; for the abolition of the present systems without anything being put in their place would be fiercely resisted. In contrast, a generalised system would enable both the Community and Britain to reconcile their concern for the interests of their former dependencies with the desire, which they share, to give some satisfaction to other trading areas, particularly Latin America.

There are other questions which are of even more concern to the less developed countries. One of these, which admittedly only affects a limited number of them, mainly in Asia, is access for their manufactured and semi-manufactured goods to the markets of industrial countries. Of more general concern to a wider range of countries is the question of commodity agreements for raw materials and food stuffs. I believe that the United States accepts in principle the need for agreements to establish stable and reasonable prices for at least some of the staple commodity exports of developing countries and to avoid continuing surpluses. But in practice progress has so far been exceedingly limited, partly no doubt be-

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cause of a built-in tradition in Western trading countries, and especially in the United States, against interference with market forces.

The main point which I wish to make on this is that it is now tacitly recognised that the concept of free trade does not include free trade in agriculture—in circumstances in which virtually every country insists on regulating its own agriculture and protecting its producers, it is not plausible to object on theoretical grounds to the organisation of international markets. Here again the main obstacle, apart from the intrinsic difficulty of establishing what are reasonable minimum prices, levels of production, and so on, is not the doctrinal one, but quite simply the strong pressure exerted by special interests.

These pressures are particularly strong in the United States, whose negotiators have, in general, felt able to work towards commodity agreements only where there is an American export interest, as in cereals.

I would not feel myself well-qualified to dispute with you the details affecting particular commodities, but I think it important to stress that the general issue of commodity agreements is of the greatest significance to the developing countries and that full American co-operation is going to be indispensible if progress is to be made. In some cases, such as cocoa and sugar, the problem is already urgent and is bound to be a main topic at the UNCTAD in 1968. It is very much to be hoped that, when the time comes, it will be possible for Congress to give its support to a more active policy in this aspect of international trade.

Nontariff Barriers

One thought which seems to have imposed itself forcefully upon all those who participated in the Kennedy Round is the growing importance of non-tariff barriers to the free flow of trade. As tariff barriers are lowered, the relative importance of the non-tariff barriers increases.

This issue arose from time to time during the Kennedy Round and in a few cases some practical progress was made, but it did not occupy the centre of the stage. It was, however, identified by almost everyone as being one of the next and hardest items for inclusion in any future agenda. Indeed, it is not at all certain that agreement on a further round of substantial tariff cuts will be even worth attempting unless it can be preceded or accompanied by progress in this more intractable field. Some tidying up of the results of the Kennedy Round will no doubt be possible and perhaps some further attempt to "harmonise" tariffs which are seriously out of line with average practice. But measures of this kind would be the completion of the past phase rather than a step forward into the new.

Some of the more obvious non-tariff barriers, such as discriminatory customs definitions, attracted attention during the Kennedy Round, but many others have hardly begun to come under discussion in the GATT. I am thinking of such devices as differing tax provisions, or discriminatory arrangements for tendering and purchasing by governments and public authorities. These often cover a wide range of capital goods and equipment and are by no means limited to the defence field.

There is a fairly wide-spread impression that, although all governments engage in these practices to some extent, non-tariff protection given to producers is more extensive in the United States than elsewhere and that, in consequence, there will have to be active co-operation from the United States if this thorny subject is to be adequately tackled. It is well recognised that this may pose difficult problems for the United States Government.

Many of these practices are deeply engrained in the business thinking. Any attack upon them is fiercely resisted by the industries affected, a current example being the agitation in some parts of the chemical industry against the undertaking given by American negotiators at Geneva to reconsider the American Selling Price. Since American exports only account for about 3% of the Gross National Product and imports for even less, it is harder than it would be in some other countries to argue for reducing protection on grounds of the national economic interest. It is instructive to note that the corresponding figure for Britain in 1966 was 22% of Gross National Product for exports and slightly more for imports.

If this particular difficulty applies to the United States in special measure, other difficulties apply to everyone. In the first place, whereas an exchange of tariff concessions can be quantified and its fairness made apparent, in non-tariff negotiations like is not being traded against like. Nor is the effect of a concession similar as between different countries. A round of non-tariff bargaining on a multilateral basis is therefore something of a nightmare to contemplate. Nevertheless its possibilities and limitations must be explored if any further freeing of trade is to be attempted. In the second place, most of the practices involved are widely regarded as matters of domestic policy and pressure from foreign countries to alter them is consequently resented as interference.

The approach of the E.E.C. to this question is of very special interest. Although in the early days of the Community the common external tariff was seen as the essential instrument for forging future unity, as the work has proceeded, the task of reaching common economic policies and of harmonising such things as tax systems and transport arrangements has come to seem more important still. Indeed it is sometimes said that the elimination of internal tariffs could never have been accepted by the member states had the Community not also begun to secure greater standardisation over a wide range of economic activity. There is nothing surprising in this when one remembers that the object of the Six in coming together was always to form an economic community, the Common Market bein gonly one of the means for achieving it.

In the light of its experience so far, the Community looks with growing disfavour on any policy which aims simply to abolish tariffs without imposing any form of common economic discipline. A Free Trade Area, it is contended, is a nineteenth century concept. The concept appropriate to the twentieth century is economic union, which permits the taking of responsibility not just for foreign trade but for such purposes as stability, growth, currency strength and full employment.

So far as E.E.C. itself is concerned, it is hard to challenge this doctrine or to deny that, whatever may have been the case at the start, other things are now more important than the common external tariff in holding the Community together at least in the sense that it is only the existence of the common tariff and not any particular level of tariff that now matters from this point of view. But in applying this to wider groupings, such as the Atlantic nations or the members of O.E.C.D., for whom common political and economic institutions are either impossible or a rather distant dream, the implications require careful thought.

What limitations, for instance, does this doctrine place upon the elimination of tariffs among a group of countries which are not contemplating economic union? May it be that the willingness of the constituent parts to work towards conformity over a wide range of essentially domestic matters is the limiting factor which determines how far the group can usefully attempt to go in abolishing external barriers to trade? I had this in mind when I reflected earlier that if the target for the Kennedy Round had been a tariff reduction of 100% instead of 50%, differences of fundamental doctrine might well have been exposed.

North Atlantic Free Trade Area

It is in this context that I wish to revert briefly to the proposal for a N.A.F.T.A. In view of the E.E.C.'s attitude which I have attempted to describe, it is inconceivable that the Community would join such a body, either initially or at a later stage. For Britain and some or all the members of EFTA, to join the NAFTA would be the surest way of making permanent the present division of the Six and the Seven within Western Europe, and of inviting the very separation of E.E.C. from North America which it is one of the objects of Western trading policy to prevent.

It will be, in my view, much wiser and more realistic to cling to the concept embodied in the Old Grand Design, namely that there should be a genuine community on each side of the Atlantic, and that the economic relationship between the two should be as free and non-discriminatory as persistent negotiations can make it. Britain should form part of the European Community and if at first she cannot get in, it is nevertheless worth her while to wait. The lowering of tariffs as a result of the Kennedy round will make the waiting period less difficult for Britain than it would otherwise have been.

I can imagine a pattern of this kind creating in due course a genuine, if institutionally limited, unity within the Atlantic world, whereas the NAFTA solution, if it were to be accepted by governments, which at present I do not expect, would in my view lead only to a dangerous fragmentation and would risk a lasting estrangement of Britain from the Community.

TRADE WITH COMMUNIST COUNTRIES

Before I close I want to call to your attention one other topic upon which European and British views have been changing fast in the years since the Kennedy Round began.

I refer to trade between the West and the Communist countries, especially those of Eastern Europe. This has been, I know, a relatively small part of the trade of all Western countries and an almost negligible part of United States trade. Although there are Communist governments in the GATT, the work of GATT has had little relevance to what has come to be called East-West trade.

The point which I wish to make is that the importance of this trade has been rising fast in Europe and that great efforts are being made, on both sides of the divide, to accelerate this trend. Over a 9-year period the exports of the Eastern bloc to E.E.C. have gone up by 125%, starting, it is true, from a very modest base.

Though quantitatively this trade may still be of only secondary importance, its political significance is increasing in two ways. In the first place, improved relations with Eastern Europe have become one of the major political objectives of both France and the Federal Republic of Germany. In the new atmosphere in Europe, it is important that the Atlantic orientation of western trade should not seem to be an obstacle to simultaneous increase in trade with the East. While the limit of trade with Eastern Europe is still set principally by the capacity of the Eastern countries to produce goods which are acceptable in Western markets, there are various forms of Western discrimination or quota restriction which add to the difficulties. For instance, in so far as restrictions are imposed upon the export by Western Europe to Communist countries of goods which incorporate American patented processes, this is now counter-productive in relations between Western Europe and North America. I had a rather ludicrous example of this in my own Institute recently, where we found that we could acquire a second hand American calculating machine, worth some $450 only if we signed an undertaking not to export it to a long list of Communist controlled countries and even the British colony of Hong Kong. It may be timely to consider how far these regulations still fulfill any important American purpose.

The second way in which East-West trade is acquiring new significance lies in the keen wish of several East European countries, notably Czechoslovakia, Poland, Hungary and Romania, to maximise their Western trade. There are growing signs that they may be willing to make adjustments in their own industrial and commercial practices in order to facilitate this trade and that these adjustments in turn contribute to the general process of liberalisation and to the decentralisation of authority within the Communist world, which the West has long professed to welcome.

What is being suggested here is not any drastic re-orientation of the trade of the United States itself with Communist countries, which seems likely to remain marginal. It is rather a further shift away from the spirit of the old policy, which deliberately discouraged the growth of trade between the countries of East and West Europe, presumably on the assumption that, even apart from strictly strategic issues, it was a Western objective to impede wherever possible the economic advance of the countries of the Communist bloc. This is not a doctrine which any longer commands support in Western Europe.

CONCLUSION

I would emphasize in conclusion, how decisive it has been for the stability and prosperity of the Western world that the United States has given the lead since the Second World War in working towards a free system of multilateral trade. Had she pursued a contrary course—and there must have been many temptations to do so—we should today be faced with much sharper divisions among the Western countries, especially between the United States and Europe; while the large number of newly independent countries, whose need is for the diversification of their foreign trade, would now be tightly encased within much more rigid discriminatory preferential systems than they are today.

For much of the period since 1945, strategic arguments for keeping the Atlantic countries together in the economic as well as the military sphere have been persuasive. I have indicated my view that these particular arguments have lost much of their force in Europe in recent years, though they have not yet entirely vanished. But, quite independently of these arguments, there will continue to be an enormous advantage, both for the developed and for the less developed world in keeping international trade upon a multilateral and, so far as possible, a free basis. We do not want to see another retreat into national or regional economic defensiveness such as the world experienced in the inter-war slump.

It is true that we are not likely to achieve the objective of complete free trade, in the sense in which we inherited this idea from the 19th century. The responsibilities which modern governments have to accept for a wide range of economic policies virtually rule out any such simple solution. Moreover, when trading partners are at widely different levels of economic and industrial development, unregulated, free trading relationships tend to favour the stronger partner, so that special arrangements designed to facilitate the development of the weaker have to be envisaged.

We have become accustomed to this notion in considering the arrangements to be made between the developed and the less developed world, though, as I have said, we have not yet gone far enough in carrying it into practice and are under pressure to go further. We are less accustomed to recognise that a similar kind of tension may also arise between industrialised countries, as it has in the current argument about the technological gap which has opened up between the United States and Europe.

I have not spoken of this because it is not strictly a question of trade policy, but it is one of the causes of a certain defensiveness in the European attitude to its economic relations with the United States and it would be unwise to ignore it.

An improvement in European performance in both technology and industrial management is, no doubt, the indispensible remedy for this situation and one may hope that the evolution of a larger and more integrated community in Europe will contribute to this end. But this is bound to take time. In so far as American policy can help, perhaps attention should be paid to some modification of the attitude of American Corporations in the modalities of their overseas investment. The reluctance to share ownership of the equity of overseas subsidiaries with non-Americans and the difficulty of decentralising advanced research so that an undue share of it is not concentrated in the United States is already giving rise to defensive reactions in some European countries, both against American domination of whole industries and against the prospect of advanced technology becoming increasingly an American prerogative.

The fact that this situation arises from American excellence rather than from errors of policy does not make it less disruptive in American-European relations. It is in fact one of the most powerful arguments used at the present time in Europe by those who, for a variety of reasons, wish to see Europe maintain a certain distance and aloofness in all her dealings with the United States. There would be political and, in the long run, economic dividends to be earned if American investors could be persuaded to content themselves with less complete control and to permit a larger amount of research and development to take place in Europe. This is a serious problem which if it cannot be handled in co-operation with American business, is likely to result in the erection at the European end of new barriers between the United States and Europe at a time when in the general interest, we should be moving in the opposite direction.

I will not pursue further this question of the technological gap, only remarking that it provides an example of the extent to which United States policies are of direct concern to her trading partners in Europe and elsewhere. These partners have reason to be grateful for the attitudes adopted by the United States in recent decades. If they seem to Americans to be constantly asking for more, this is a tribute both to United States strength, which carries inescapable obligations with it, and to past American policies which have shown that the United States is capable, even at some cost in short-term inconvenience, of taking a long view of world trading problems.

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

Mr. Rumsfeld was here first, so I will call on him first.

Representative RUMSFELD. Thank you, Mr. Chairman.

I would be interested in having a comment from both of these distinguished gentlemen, concerning the procedures used within their respective governments, to the proposal to create an international department of economic affairs in our Government. Unquestionably this proposal is a result of Mr. Curtis' feeling of dissatisfaction with the procedure of handling these matters through a variety of different agencies and segments of our Government. As I understand it, in Great Britain there is a procedure that is not dissimilar to this proposal. And I would be curious to know how you in your respective countries do handle the problem.

Mr. PECCEI. Thank you, Mr. Rumsfeld.

I suggest we should look at Europe, not at Italy or France or Germany, or at least at the EEC in Brussels. In Brussels there was a start at institutionalizing a common economic policy by delegating a member of the commission to represent the EEC in external affairs. It was M. Jean Rey, who is now president of the EEC. And I think that more and more the external economic policy of the six would be made or inspired by joint decisions taken in Brussels. We are going toward economic integration in Europe, though at a slower pace than we would like. And that will mean that we will have a unified organization of the Community for foreign economic affairs.

Mr. RUMSFELD. In Italy, if I might ask, are the foreign trade and monetary policy aspects combined within a single division of government?

Mr. PECCEI. No. In our country, as in most European countries, the Foreign Ministry has a kind of overall supervision of foreign economic relations. In addition, we have a Foreign Trade Ministry. And we have the Treasury, which deals with monetary affairs.

Mr. RUMSFELD. Mr. Younger?

Mr. YOUNGER. We have a number of ministries concerned with a matter of such great breadth as the Kennedy Round negotiations. I am not myself in Government and I may not be up to date on this. I think I am right in saying that the primacy of the Foreign Office for coordinating all of these aspects of overseas policy is still maintained at least insofar as political issue may be at stake. But in practice, of course, it depends very much on the content of the particular thing that is being dealt with. And the board of trade would be, and indeed was, during the Kennedy Round, the leading agency for coordinating the trading policies of the Government. There are so many ministries involved that I don't think it would be possible to see it as being wholly centralized under one agency. All one can hope to do is to have an adequate system of interdepartmental consultation and good representation on various ministries on the delegation which is actually doing the negotiating. And it should be possible to do it that way. You have to bring in, for instance, the Ministry of Agriculture on some issues. I think that to attempt to centralize all the work in one ministry would only be lifting the problem of coordination to a slightly different level. You couldn't release yourself of the obligation to consult all of the different interests in your government at some point or other.

I am not aware, incidentally—although I think here you would have to ask somebody who has been personally concerned at the official level with these negotiations—I am not aware that we in Britain suffered any very grave difficulties from a lack of coordination among the different agencies during the Kennedy Round.

Mr. RUMSFELD. I would like to have some clarification on the question of East-West trade from each of you, also.

Doctor, in your statement you mention the firm belief that we would be helping a positive political development with respect to East-West trade. On page 10 you said it would have positive political implications. On page 11 you said it would be an effective way to promote better political understanding, and added that, whereas sound trade relations may prove to be a thawing factor. This is, of course, a point of view. And as you know, this country engages in modest East-West trade. And as each of you has suggested, it is well to say we should have East-West trade, but the cold facts are that there has to be an economic advantage to trade and a need, and a pressure within the economic communities of the various countries to trade. Can you expand on any of these three statements?

And Mr. Younger, you also referred to this. Can you think of any instances where you can point out positive political developments, or could you possibly enlighten the committee by giving some examples where it hasn't really accomplished very much? One example might be Cuba, where the United States did over a long period of time have close economic ties. And our current situation with respect to Cuba certainly couldn't be described as that trade having resulted from positive political development or a thaw. I think that this question needs to be more precisely discussed, if you could provide me with some insight.

Mr. PECCEI. If I may, Mr Rumsfeld, first of all, I would like to tell you one, I believe that I have. And I think it is substantiated by facts. And that is, the economies of Eastern Europe and the Soviet Union are very weak economies. When they are exposed to contacts with Western Europe, and more especially when they will be exposed to contacts with the United States, they see that many of their procedures and many of their ways and methods of organization are not a match for those that we have in the West. And there are more and more technocrats, or leaders in their countries who wish to adopt our methods of organization in manufacturing of motor cars, or data processing and handling, and many others. I might cite the situation in Yugoslavia and Rumania, where we see people of high standing from the Ministers downward who are prepared to do practically everything that they can and to influence the organizations of their States to come very much our way, because it is the only possible way for them to manufacture at cost and in quality acceptable to their markets, and to export new goods as their markets are widening.

I think that this has an impact. Let's take the motor car, the boom on which is going on in practically every Eastern European country. The motor car will change ways of life of those countries. Roads, service stations, repair shops, and the possibility of moving within their national boundaries and outside—this is a new outlook that they have. If they had had no motor cars, they would have been much more inward looking, restrained.

Mr. RUMSFELD. My time is up, I am afraid. Let me just see if you would say that this is correct. From your response is it safe to say that your suggestions concerning the desirability of East-West trade are restricted to instances wherein the United States could be trading with a country that did not have a strong economy because the advantages that would accrue from encouraging that country to evolve to a system that, as you say, would encourage consumer products, automobiles and so forth, would not be applicable if the economy were already strong. The argument that you have given is an interesting one, and has some merit, but it would not apply to a country that already had a strong economy, and where there was already emphasis on consumer products, according to your definition. Is that correct?

Mr. PECCEI. Yes, sir. But I don't know of any Eastern European economy which is strong.

Mr. RUMSFELD. I am just trying to pin down the argument.

Mr. PECCEI. And it would take a very long time before they became stronger than they are now.

Mr. RUMSFELD. Thank you very much.

Chairman BOGGS. Thank you very much.

Senator Miller?

Senator MILLER. Thank you, Mr. Chairman. I have just a couple of questions.

Mr. Younger, you referred to a narrowing strategic goods policy. Would you elaborate on that?

Mr. YOUNGER. Mr. Chairman, I think it is probably fair to say that the importance of this particular issue, the strategic list as it used to be called, has already diminished a good deal; that is to say, the range of goods covered by the strategic list is already substantially less than it once was. But I think that it would not be felt in Europe that it is yet as narrow as it really should be. At the back of this dispute lies a question almost of philosophy, which I tried to raise at the end of my remarks, as to whether it is still part of the background to our policy that we are aiming to weaken Communist countries wherever we can, as opposed to merely seeking to deprive them of direct strategic material and weapons.

I have no doubt at all that there was a time when the doctrine went much beyond the strictest strategic argument, and where it was felt in some Western circles that to hold up economic development, and to make things difficult for the Communist countries, was in itself a legitimate objective of Western policy.

What I am saying is that in Europe, at any rate, I feel sure that this is no longer the case.

I think the trivial example that I gave of my own institute shows that the American list—which is, I think, still considerably wider than the list applied by other countries to their own trade—must be quite wide. This instrument that I was referring to was a rather ordinary office calculating machine. Of course, you can argue that it can be used like anything else, as part of a war effort. But to include it in a list of strategic goods is stretching the term strategic very wide indeed. This is the sort of thing I had in mind. I am afraid I don't know in detail what are the particular items to which objection would now be taken on the American list, but I do know that there are items which are considered to fall within altogether too wide a definition.

Senator MILLER. Do you think the European attitude on this has altered at all in the light of the Middle East situation, and especially if it is true that the Soviet Union and the bloc nations are resupplying the Arab States with fighter aircraft and war armaments?

Mr. YOUNGER. I wouldn't have thought it made any difference. I am not suggesting that European countries would wish to see all limitations on strictly strategic goods and weapons removed. But I don't think it would be felt in Europe that what has happened in the Middle East was particularly relevant to the withholding of marginally strategic goods, the sort of hardware that could conceivably be used in some military connection, but would be more normally used in civilian affairs. I wouldn't think that Europeans would feel that that was at all relevant when you are considering trade with a country like Poland or Rumania. It would be thought to have nothing to do with it at all.

Senator MILLER. Well, suppose that Czechoslovakia were providing tanks for Egypt, and other war armaments, and there were a danger that this could result in a closing of the Suez Canal to the European nations. Do you think that under those circumstances that it would be prudent to expand trade between Britain and Poland and Czechoslovakia?

Mr. YOUNGER. I would very much like to know from Dr. Peccei if I am misrepresenting the European point of view on this, but I would think that in most countries of Europe, and I am sure in Britain, people are looking to a continuation of closer relations and of detente, which after all has been going on between the Communist world and the Western world at least for the last 3 or 4 years, at least since the Cuban crisis. They are not thinking of reverting to the earlier situation which existed, say, in the late 1940's or 1950's, because there was never believed to be a military danger. The object then was to weaken the adversary without any discrimination. Whether it was the Soviet Union or Poland or Yugoslavia or Czechoslovakia, the object was to weaken them. I do not believe that this philosophy holds anywhere in Europe at the present time.

Senator MILLER. But if the philosophy moves from a philosophy of weakening to one of strengthening, or to one of a timing, the opportunity for expansion of East-West trade would be a factor in causing certain actions which Europe does not like to stop. What I am getting at is that it seems to me that a closing of the Suez Canal, possibly the withholding of petroleum shipments from Arab States, is of great importance to Europe, and that with a view to enabling that situation to cease, there is the opportunity for East-West trade to be expanded which could be used as a bargaining point to mediate the situation in the Middle East. In other words, it doesn't necessarily come down to widening an economy, I don't think that is putting it realistically. It gets down to a matter of the negotiating propositions.

Mr. YOUNGER. I would go this far, that if one is trying to get improved relations between the East and West there is an element of diplomatic bargaining over a situation like the Middle East, in the sense that you can say, well, if you are wishing us to be more friendly in this or that sphere of policy, you can't expect to be free to conduct wholly hostile policies in another area. This, of course, is generally true, I suppose, as a diplomatic proposition. The whole world in that sense is one, when you are dealing between great powers. But I would have thought the connection between the closing of the Suez Canal, possibly as a result of some Soviet moral or material backing for Egypt, and the provision of more or less normal civilian goods, capital equipment to, say, Rumania or Hungary would be thought in Europe to be very slight and, indeed, virtually nonexistent. I don't think people would see this as a possible bargaining element of any importance.

Senator MILLER. But certainly this must be a two-way street. If the bloc nations looked upon the expansion of East-West trade with great hope and expectancy, I can't understand why you say that this is a rather slim or marginal factor. I would think it would be a very great factor. And certainly, as you point out, their economies are weakening. If they have a hope to strengthen them, I would think it would be a very big factor. I can't understand why you would play that factor down in the diplomatic bargaining arena.

Mr. YOUNGER. I think there are rather important differences, if I may say so, between us on this. I suppose one of them is perhaps the assumption that by withholding some commodity from Rumania one can thereby bring direct pressure on the Soviet Union because of these other matters. It is much more the Soviet Union that is involved in the Middle East than it is Rumania, Hungary, or Poland. We don't regard the bloc, to use the old out-of-date phrase, as being very much of a bloc any more. And the danger that I see in what you have been saying is that this sort of doctrine can be used in Europe to support the proposition that Western Europe and Eastern Europe can never get back on reasonable terms so long as they have to follow an American policy of the kind which you have outlined. If the United States is always going to suggest holding back on East-West trade with Hungary or Poland because of annoyance with the Soviet Union in the Far East or Middle East or somewhere, this is precisely the argument that is used in Europe for separating Europe from the United States. I always combat that argument.

Senator MILLER. I don't think you have precisely stated the American policy as I understand it. And the American policy is certainly not this at all. It is a temporary matter hoping that in time it can develop into a genuine trading partnership. But it is a matter of timing. It is not an always, forevermore negative proposition at all. So, I think we ought to make that clear. But it just seemed to me—and I appreciate your frank comments about the attitudes, the European attitudes—and I was trying to point something that might be timely, because I know petroleum is of great concern to free Europe, and if Europe received the impression that the bloc nations were contributing to the difficulty of petroleum, I would say that from an American standpoint it would not appear to be a proper and prudent time to start expanding the trade. It would be a proper and prudent time to hold out the opportunity for expanding trade when the petroleum problem is diminishing.

Now, there is another point, too. I don't think that we ought to say that the American viewpoint toward the Soviet Union is identical with the American viewpoint toward the so-called bloc nations. I would like to ask you whether you feel that the trade approach ought to be identical vis-a-vis the Soviet Union and the bloc nations or whether you would recommend perhaps a more relaxed trade position with some of the bloc nations as against the position toward the Soviet Union at this time.

Mr. YOUNGER. I don't know that I really can conceive of any practical way of distinguishing between the Soviet Union and the other Communist countries in terms of discrimination against their goods. I wouldn't have thought that one would want to have any specifically separate policies. But of course I can see that on the other level that you were referring to; namely, diplomatic negotiation over certain situations unconnected with trade, like the attitude toward such areas as the Middle East or Southeast Asia, there might be a different diplomatic situation between the United States and the Soviet Union from what there would be between the United States and one of the small countries of Eastern Europe, whose say in those matters would obviously be minimal. These are matters which it would hardly be relevant to talk about in the smaller capitals, but it would be relevant to talk about them in Moscow. To that extent I can see that there is a distinction to be made.

Senator MILLER. And then that would lead you to conclude that there could be a difference in the trade basis as between one or more of those countries, and the Soviet Union? Would you go that far?

Mr. YOUNGER. I would expect that there probably would be as far as the United States is concerned. I think I am right in saying that there are distinctions made by the United States as between, for instance, the Soviet Union and China, or the Soviet Union and Cuba. These countries are not on an absolutely equal footing in U.S. policy at the present time, as I understand. So, I expect that for political reasons this distinction would probably be maintained. I don't know whether it would have much relevance except as regards the United States own trade. So far as the trade of, shall we say, Belgium with Poland, or with the Soviet Union, I doubt if the distinction would have much relevance.

Senator MILLER. As far as you are concerned, you can see no particular difference in the trade basis that should exist between Poland, Czechoslovakia, Rumania, and the Soviet Union?

Mr. YOUNGER. As regards the regulations one made for it, I would think probably not, no.

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

Chairman BOGGS. Thank you, Senator.

Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

Dr. Peccei, Mr. Younger, we certainly appreciate your coming before the committee this morning and giving your statements. I am sure you have made a fine contribution to the discussion we have at hand.

I want to express my regret that I was unable to be here at the time you gave your statement. But I had advanced copies, and I read them last night, and I prepared questions.

Dr. Peccei, you mentioned the need for a sobering international action to bring under reasonable control the tendency toward the extending of longer credits to Eastern Europe and the Soviet Union. Would you say that in the technological position that Eastern Europe finds herself today that there is an opportunity beyond which long-term credit becomes, in actuality, a form of economic assistance?

Mr. PECCEI. Yes, sir. Very substantial and long-term credits to any of these countries will in the end result in economic assistance. I think that what we should have for the United States and Europe is a common yardstick, and that we should not compete with each other in extending more favorable terms, either for long-term or short-term credits, to the Soviet Union and Eastern Europe.

Representative WIDNALL. Would 15-year credit terms on a million dollar industrial plant incorporating the latest Western technology constitute a form of assistance not generally available to normal trading partners? I think you know what I have in mind when I am talking about that.

Mr. PECCEI. Yes, sir.

Representative WIDNALL. We have, as you know, the Berne Union, which was a multilateral agreement reached by Western Europe and the United States in 1934. This informal agreement discouraged credit terms beyond, I believe, 5 years. The Berne Union limitations, are they still realistic, or should they be renegotiated?

Mr. PECCEI. The provision for the limit of 5 years in the European agreements has been in fact disregarded by all exporting countries with respect to all the developing nations and also in the case of Eastern Europe. Europeans have extended credits to India, Argentina, Brazil, and others on much longer terms than those. As to Eastern Europe I think we should come to a certain understanding among us that the rule should be for instance, 8, 9, or 10 years, and then stick to the agreed terms. The terms you mentioned a while ago should be considered as a very exceptional case.

Representative WIDNALL. What are the terms?

Mr. PECCEI. Payment will begin after completion of delivery and will take place from 1971 to 1979.

Representative WIDNALL. What interest rate is charged?

Mr. PECCEI. 5.6 percent.

Representative WIDNALL. Is it not a fact that sometimes reckless extension of credit to the East was one of the prime sources of trouble for the Krupp industries in West Germany?

Mr. PECCEI. Would you repeat that?

Representative WIDNALL. Is it not a fact that reckless extension of credit to Eastern Europe was one of the prime sources of trouble for Krupp Industries in Western Germany?

Mr. PECCEI. I am not sure of that, because I think the credit extended was not in very big amounts. I think in the case of Krupp the trouble had something to do with management.

Representative WIDNALL. I don't have the figures here, but I thought it was quite sizable. With regard to the proposed Fiat deal with the U.S.S.R. have any orders for machine tools been placed with U.S. firms yet?

Mr. PECCEI. To my knowledge no, because the necessary credit arrangements have not yet been approved. If they will eventually be approved, there is a long list of machines which will be ordered by the Soviet Union on the recommendation of our technical people.

Representative WIDNALL. Would Export-Import Bank participation in the U.S.S.R.-Fiat arrangement be an absolute necessity or consummation?

Mr. PECCEI. I am not in a position to give you a lucid answer.

Representative WIDNALL. Is Fiat prepared to move ahead without U.S. machine tools?

Mr. PECCEI. In all likelihood, yes, because there surely are other machine tools, which can be obtained from England, Germany, and perhaps Italy, and which can be a substitute for the U.S. machine tools which are considered now.

Representative WIDNALL. I have been very interested in looking over some trade figures which I obtained from the Library of Congress on the balance of trade of Western European countries and the Soviet Union and Eastern European countries in 1965, and the first half of 1966. These figures show a considerable deficit in trade with the Soviet Union for both 1965 and 1966, and a deficit changed to a surplus with Eastern Europe in 1965 and 1966. Now, given the change between 1965 and 1966 from a deficit to a surplus intrade with Eastern Europe as opposed to the Soviet Union, what has been the reason for this?

Mr. PECCEI. I think in the case of the Soviet Union they are buying presently more than they are selling in Western Europe; and they are buying on credit terms and selling mostly cash.

Representative WIDNALL. Actually, the balance is in favor of the Soviet Union for both 1965 and 1966 in the trading with Western Europe?

Mr. PECCEI. It might be that they stepped up their sales to Western Europe to offset the adverse trade balances.

Representative WIDNALL. I would like to ask both of you, should we really be talking of East-West trade as a whole, or rather trade with particular countries?

Mr. PECCEI. I think that if we consider our long-term policies, that is, what are we going to do as far as trade is concerned with that part of the world during the next 10 years, we should devise an overall harmonious policy for the whole area, which then may have different implementations as to different countries. For instance, already now in the case of Yugoslavia, many European countries are following different practices than those applied to Eastern Germany. But I believe that we must come to an overall decision as to what to do on the long run for Eastern Europe and the U.S.S.R. as far as trade is concerned.

Representative WIDNALL. Mr. Younger, would you answer that, please?

Mr. YOUNGER. I don't know that I am very well qualified in this field to say more than I have already said. What my original remarks were aimed at was an over-all discrimination in Western trade against trade with Communist countries as such. And my view there was that one would wish to see that discrimination diminished or abolished, except in a purely strategic aspect, for all alike. Obviously, the application of this might work out differently in the case of different countries. They have very different capabilities of trade with the West.

Some of them would probably not be able to take much advantage of any relaxation.

But I would agree with Mr. Peccei that in the long run one has to treat the whole of Eastern Europe as one in this regard. East Germany has been an obvious exception up to the present time on political grounds. I don't know myself whether this exceptional position is going to survive another 10 or event 5 years. I think that the future problem is going to be one of the attitude toward Communist countries in Eastern Europe as a whole rather than of discriminating in each case, at least as far as legal discrimination is concerned.

Representative WIDNALL. It would seem to me that there is more opportunity for economic and political benefits for trade with particular European countries rather than just in general East-West trade. Don't you think that that might be the best approach?

Mr. PECCEI. No doubt, and practically that is a reality already. Also, in the near future it will be much easier to deal individually with the Rumanians or the Hungarians, the Czechs or the Eastern Germans. But that will be the practical side of an overall policy which should be considered, having in mind the whole of the area.

And if I may add one comment, I think that we must try to assess accurately which would be the results of much greater trade with that whole area, say, in the next 15 years. Because much greater trade with the West would probably mean a greater diversification of their economies. And this diversification will probably reduce the efforts they are doing now, say, in the military or paramilitary fields, increase the importance in their societies and economies of the civilian sector and divert resources and energies towards the production of consumer goods; that is, toward more peaceful ends. And that study is something that I think has not been really done yet, but is worth doing on the part of the United States and of Europe, too. In this connection I would like to add to the records of this subcommittee if you allow me. Mr. Chairman, a paper I prepared on this subject and which was published in the spring issue of the Atlantic Community Quarterly.

Chairman BOGGS. We will include it in the record.

(The report supplied by Mr. Peccei's follows:)

DEVELOPED-UNDERDEVELOPED AND EAST-WEST RELATIONS*

[By Aurelio Peccei]

To place in perspective the growing world problems during the next ten or 20 years requires far more understanding and imagination, wisdom and capacity for synthesis than we are accustomed to demand of ourselves.

In modern society the issues are so broad, complex and global, and the speed of change has become so rapid, that man's very qualities and his capacity to meet them will certainly be put to test.

To start with, he must realize where he is in the world and what his assets and liabilities are; then he must consider in what direction he is actually heading; and finally, decide where he wants to go and can go, using which means and at what price.

What in the past was only abstract design or moral commitment we are now in a position to consider in more positive, operational terms. And this we must

*A paper presented at the Business International Bermuda Roundtable on Corporate Planning Today for Tomorrow's World Market, December 15–18, 1966. Reprinted by permission, from The Atlantic Community Quarterly of the Atlantic Council of the United States, Inc. Spring 1967.

do, for our own sake, for now we control forces which match those of nature itself and produce machines capable of multiplying the power of our arms and brain. For the first time we may decisively influence our future, create a great society or totally destroy it.

Therefore our thinking has to acquire a new dimension, in keeping with human expectations and the dangers and opportunities of our various societies at this point of history; failing which we may all too easily lose control of the shrinking arena of growing contrasts which is our world.

I will attempt to give some indications as to what kind of thinking in my opinion we should produce not only to keep this explosive arena manageable during the next decade, but also to insure that life therein can be lived in a way befitting our quality as civilized human beings.

Above all, the new relation between man and his future poses problems of leadership.

If we take our macrocosm, the world as a whole, the first-choice first-refusal right to leadership should be in the hands of peoples and countries capable of taking up the main challenge of our times. I am convinced that West and West alone can, at the present time, muster the intellectual and organizational capacities in order to marshal and guide the tremendous pace of the technological revolution and to provide thereby means and rules for the progress and prosperity of all mankind.

Furthermore, Western culture can greatly contribute, in a joint effort with the other new and older cultures of the world, to the solution of the supreme dilemma of how to reconcile man with the world which he himself is progressively de-humanizing.

However, at the present reading the West has not yet picked up this leadership option. Although in the race for progress it is way out ahead, this hardly means that it is offering guidance to the others. It is not even clear if the West knows itself where it is going.

The Western nations in fact are not united. And lack of unity has so far prevented them from taking a constructive long-range lead in world affairs.

Moreover, their unprecedented riches and the protection of the U.S. nuclear umbrella are lulling them into the illusion that they can live permanently in a privileged position.

This is another reason why we should wake up to the complexities of our world and think well ahead.

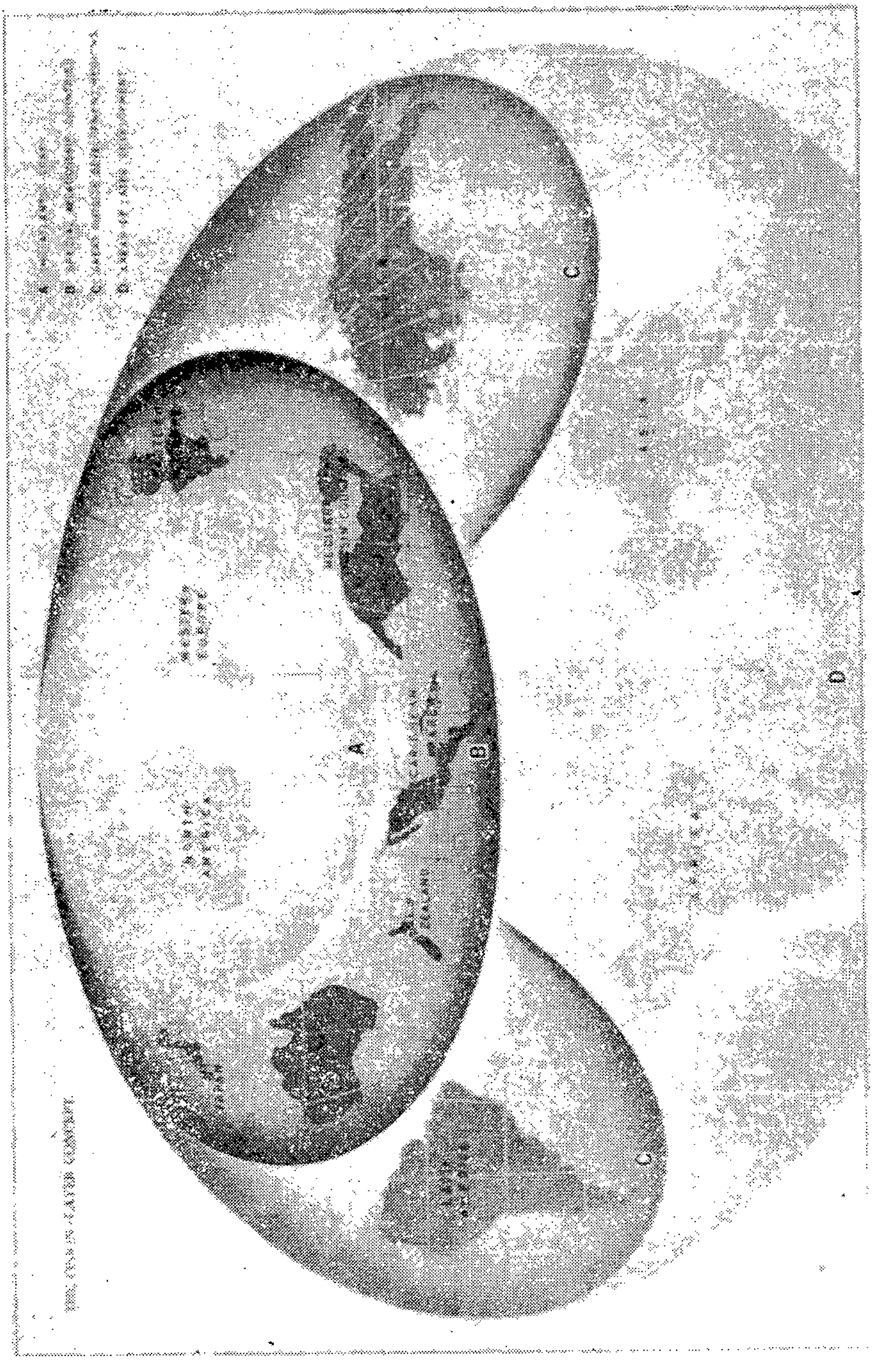
THE ONION LAYERS CONCEPT

It is not only a question of updating our mental approach. The necessity of forecasting and planning for the future will have to be profoundly rethought and the supersonic and superhuman speed of our time gives us very little respite.

Looking ahead, the first question is what new and convenient reference framework can be devised to replace the now obsolete and misleading North-South, East-West schematization.

Let me then sketch a unitary view of the world, a kind of model for the next decade, although I have to concede that it is an optimist's view. I hope it may help formulate our forward thinking and systematize our approach to this complex world of ours.

The world is represented by a strong core where the main forces of progress are centered and which exerts leadership; and that is in fact the Atlantic Community. Around this great Atlantic center, irradiating force and support, are concentric belts of countries linked to the core itself by a variety of bonds and interests which gradually diminish from the center towards the periphery. (See map.)



This image may be compared to the layers of an onion, and there are three principal layers around the Atlantic core:

The special relationship countries; the great outside development regions; and areas of later development.

This concept of the world of the seventies, is again geopolitical. But it makes sense, not least when we consider it from the socio-economic development angle and understand that development, though it be a global issue, cannot be promoted everywhere at the same time nor at an equal rate and with equal success.

In the first layer there are groups of countries which, for different reasons, such as tradition, culture, geographical position and level of development are in a special relation with the Atlantic countries.

We should not spare any effort nor leave any stone unturned in order to have them develop as rapidly and as homogenously as possible with respect to the Atlantic area during the next decade.

OPERATION EASTERN EUROPE

First among them is Eastern Europe. We can foresee that these countries will tend to gravitate ever more toward Western Europe as they gradually develop and increase their foreign trade and also because of the consequences of peaceful engagement policies towards the East. Operation Eastern Europe should, however, be geared to Operation USSR of which we will speak in a moment.

This new rapprochement between two groups of European peoples which have been historically engaged in trade, alliances and wars, and which are bound by a common culture, may represent a basic feature of the coming decade. Furthermore, it represents a sine qua non condition for the coming together of the two Germanies with a view towards a later reunification; it is therefore the keystone for resolving one of the great problems which has remained unsolved so far.

A second group consists of the non-European countries of the Mediterranean basin which are linked to Europe more than to any other region or country. The reciprocal attraction between them and Europe is likely to increase in the near future, again under the spur of growing trade, coupled with investment and tourism and the complementary nature of the two areas in terms of demand and supply of manpower.

Europe should see that it is not only to her advantage but also her mission to develop these countries, which in any case cannot do the job themselves. The concept that the Mediterranean basin—as a development area—is a prolongation of Europe serves the interests of all the peoples around its shores and by extension the interests of the Atlantic Community itself. Probably the thorny problem concerning Israel and the Arabs could, with strong United States backing, find a solution in this enlarged European framework.

A similar special relationship is that linking the United States with the peoples living in the great continental and insular expanse immediately to her South.

THE CENTRAL AMERICAN AREA

This is an area to which the United States is obviously rather sensitive. It includes the Caribbean countries (Cuba as well, in due course), those grouped in the Central American Common Market, and Mexico although she is a member of LAFTA and deserves a position of her own. It is of prime interest to all these countries that one of the main objectives of the Atlantic Community, and the United States for sure, should be that of helping them draw up and implement a long-term growth and modernization plan.

Finally, the developed countries of the Pacific: Australia, New Zealand and Japan, also participate in the Atlantic area of progress and prosperity although they do not directly belong to it. The same is probably true for the Philippines.

All countries belonging to this first layer are in one way or another a logical extension of the Atlantic Community and should be considered as such. They can receive immense benefits from their integration into or association with the Atlantic Community, while keeping their own national characteristics and their own political philosophy and institutions.

If these achievements and developments are feasible, it would be unforgivable if the Western countries did not plan ahead this way. The urgency is such that from this very moment the United States and the European nations should consult on how to cooperate and lead these first layer countries towards a future of progress within the Atlantic framework.

The second layer is represented by two great regions: the Soviet Union and South America. It will depend on their amalgamation into the Atlantic area of progress and prosperity whether history will see the next decade as a decade of great development or as a time of growing dangers for mankind.

The peaceful and constructive engagement of these external areas should be contemporaneous to the consolidation of the inner layer of countries more tightly linked to the Atlantic Community.

As far as the USSR is concerned, it is difficult indeed to forecast her political, economic and organizational development in the next ten years.

The Soviet leaders have repeatedly declared that the Soviet Union must make an all-out industrial effort, and that this effort is essential to her future. However, the giant bureaucratic apparatus of the country has yet to prove that it can undertake it.

At the beginning of this century a Russian historian pointed out that his country's progress was barred by the enormous weight of the state administration. Presently there is no great change in this situation. Furthermore, the USSR must also overcome great internal difficulties before attaining such essential goals as self-sufficiency in the production of agricultural and consumer goods, increasing the quality and variety of industrial products, and diversifying exports.

A NEW SOVIET COURSE OF ACTION

The Soviet Government is making an agonizing reappraisal. They have come to accept that their industrial economy and their administrative apparatus are entirely inadequate. Hence the new course of action based on profit and automation.

The new Five Year Plan approved last spring embodies these directives, and its objectives seems much sounder and more coherent than those of the previous Plans during the last 30 years. Its nonvoluntaristic character, as they call it now in the USSR, means that it should be more reliable, less bent on propaganda. In this respect it goes somewhat back to the earlier Soviet tradition which is at the root of the technique of modern planning.

The five-year period covered by the present Plan may represent a crucial turning point for the second world power. After the galling and costly setbacks in agriculture, the system has a second chance to prove its validity by successfully modernizing industry and substantially increasing overall productivity.

On the basis of the present situation in Russia some observers have considered various possible developments in their forecast. In our analysis we shall consider two opposite and extreme alternatives whose seeds are apparently already present in Soviet society.

According to the first alternative, whose plausibility is to some extent borne out by some attitudes of the present Soviet leadership, the Party and the Government will go all the way with the new course, courageously devoting their energies and capacities to devising and trying new measures to bring about all the necessary structural and economic reforms. For the top echelons in the Soviet Union this will also represent a dramatic form of self-criticism.

Apart from the expected results in the economic field, important political consequences may ensue. The inevitable social and psychological crises which will be caused by such reforms may lead to a partial democratization of the political system and an alliance of the establishment of the top echlons with the intelligentsia permitting better use to be made of the country's intellectual capacities.

Accurate balance of these reforms will be necessary within the USSR to avoid a sharp downturn in the standard of living, thereby igniting social explosions. As to external conditions, peaceful coexistence alone will probably not suffice. Only extensive cooperation extended to the USSR by the Western countries can put at her disposal the vast resources of foreign exchange and the managerial techniques which only the West possess and which are indispensable for this historic transformation of the Soviet economic system.

If this perspective is not altogether unrealistic, new opportunities undreamed of during the '50s and early '60s open up before us. Can we let them pass us by? Is it possible for us to cautiously foster their appearance?

The other extreme alternative is that reactionary elements will block renovation so that the status quo will continue within the USSR; and the present international situation of bare co-existence will go on, interspersed with recurrent crises of the Vietnam type.

DISRUPTIVE FORCES IN THE USSR

If this occurs, the economic vicious circle of low standard of living-low productivity will in all likelihood be perpetuated. Under the spur of increasing demands from the population the situation may one day become untenable. The disruptive forces still present in Soviet society would then emerge. The efforts to marshal events by a drastic return to stalinist methods would inevitably result in a worsening of the domestic and international situations, without solving the problem altogether.

The result might be a progressive disruption of the country with the possible break-up of Soviet society into forms we cannot anticipate. This occurrence would spell suffering and grave risk, not only for the USSR. And the development of such a disruptive process could result in the Soviet leaders pursuing aggressive policies abroad.

In any case, the break-up of a country which has a world position such as the USSR would create a power vacuum and a chain reaction of unpredictable but extremely dangerous crises in international relations, thereby increasing once again the effective dangers of war.

In conclusion, the Soviet Union may shortly find herself at the crossroads. The decisions she will take may powerfully affect our lives. Ours may advance hers, and greatly influence her course. They may represent the decisive factor for the East-West and world relationships in the years to come.

When the chips are down, the United States is bound to accord first place to her own hemisphere and to the risks and opportunities which lie on her own doorstep. Europe as a whole, not only Latin Europe, is linked to Latin America by a variety of bonds: bonds of culture, bonds of tradition, and complementary economies, unique in comparison to other regions of the world. There are other objective reasons why Latin America comes first and these are illustrated by the case of Adela.

THE CASE FOR LATIN AMERICA

Adela was devised for Latin America; it could not have been launched for any other developing area. When this novel undertaking was decided upon, the case for Latin America was stated as follows:

The continent has been independent for 140 years, whereas in Africa, non-Communist Asia, and most of the Middle East countries independence is new or quite new. Latin America has had decades of experience with various forms of self-government, or at least local government, and in most of the countries there is deeply-held popular allegiance to the concept of government by the people. There is a great deal of illiteracy, but there is also a great deal of literacy. The cadres are made up of reasonably well-trained and responsible people. It will be a miracle if Africa, for example, manages to have comparable cadres two decades from now.

Latin America is also more fully prepared than the other developing areas in the growing validity and strength of its regional institutions, such as IADB, OAS, ICAP, LAFTA and CACM.

Another basic difference characterizes the problem of development in Latin America, where there are fundamental contrasts between regions and within economic sectors. Underdevelopment in Asia and Africa, on the contrary, is much more even. These contrasts, which are the reflection of bottlenecks and obstacles to development, are also the symptoms of ferments and vitality which are not to be found in the stagnating areas. They also mean that the forces of organization are beginning their process of polarization.

LATIN AMERICAN TESTING GROUND

Finally, Latin America has had extensive experience with a system of economic activity based primarily upon private endeavor. The bulk of activities which Americans or Europeans would consider to be normally in the private sector, are in the private sector in Latin America.

Latin America therefore is presently the great testing ground as to whether a system substantially based upon poltical freedom and private economic endeavor can work in an underdeveloped region. And the world work has to be interpreted not only economically but also socially and politically.

It depends on Latin American decisions whether an adequate and combined policy for Latin America can be started by Europe and the United States, or whether Europe and the United States will be inclined to indulge in their present uncoordinated and sometimes antagonistic policies with little benefit to Latin America.

Another question was raised some months ago by a prominent American political leader: "whether or not Latin America can successfully walk the razor's edge across the development threshold depends to a large extent on whether or not civilian, democratically elected governments there can provide sufficient satisfaction."

But the progress and prosperity of 200 million Latin Americans will greatly depend on the vision and on the action taken by the Atlantic countries as well.

If the Atlantic countries will accept their prominent responsibilities towards Latin America as a basic feature of their long-term policies, and not only as an extemporaneous posture in times of political and financial emergency, another sound basis will have been established for tackling the problems of the '70s.

The third and last layer comprises the remaining countires of the world, namely Africa south of the desert belt from the Sahara to the Red Sea (except the Union of South Africa, which I am at a loss to categorize), China and that part of Asia which does not belong to the first two layers.

With respect to these really underdeveloped countries (including China, some day) we should—during the next decade—expand trade with them and extend trade facilities; step up economic aid, technical assistance and credit support; and help them exploit their natural resources; jointly devise how they should industrialize, increase agricultural productivity and organize their markets; and do as many other things for their benefit as we can.

We should, and do doubt will, also adopt emergency aid measures, expressing our solidarity in case of calamity.

But in our global appraisal and planning we must be clear in our mind.

Whatever we do, these countries by and large will not mature towards anything approaching our standards of organization and growth capacity. Their philosophy of life, their beliefs, values, motivations and attitudes—in some cases the heritage of a great culture older than ours—their total approach to what we call modern civilization, all these fundamental elements on which the future rests are not homogeneous with ours.

THE WEST'S ROLE IN UNDERDEVELOPMENT

Whatever we do, these countries will remain areas of later development as we understand it, and a matter for our thoughts during the '80s under this aspect.

As we realize this situation and try to map out the future globally, we are led to make a most painful reappraisal, that of redimensioning and timing the West's role with regard to underdevelopment.

It is quite obvious that we are facing here a most critical contradiction.

In fact, on the one side, interdependence is growing and modern communication systems make it possible for any point on the globe to be reached speedily and promptly, and for any people to reach other people, no matter how far apart they are geographically, culturally or politically. Yet, on the other side, the technological revolution, which has reached such momentum in the last few years, is creating at the same time a gap in this shrinking world among countries which were by and large considered to be at a compatible level of development until not too long ago.

This gap becomes immense and awesome when it is considered with regard to underdeveloped peoples. It is a gap in development level. The less endowed countries are not in a condition to absorb aid and the new technology, and therefore sink further in relative terms. In its turn, this causes a greater quality gap. As time posses the acquisitive capacity of these countries becomes weaker and weaker as technology becomes ever more complex. The gap widens to unbridgeable proportions: a gap in per-capita income, in growth capacity, in understanding, in everything which characterizes societies nowadays.

In fact Asia encompasses societies permeated with ancient traditions and cultures, which under present conditions can hardly be expected to be influenced from outside to the point of accepting radical change. Their customs are such that many aspects of modern life appear to be totally uncongenial to them.

Suffice it to consider the tragic struggle in India between the need of modernizing agriculture and the religious belief which makes cows and monkeys sacred, when the sancity of cows and monkeys perpetuates starvation among men. Suffice it to consider the turmoil incomprehensible to Western minds which is the torment of China.

As to Africa, the last continent affected by the hurricane of political independence, it is still trying to weather the transition from a highly divided tribal society, to a nationhood in many cases difficult to trace and define. There is very little chance of planning ahead there. The economic and political viability of too many of the new African states is questionable at best.

In the face of this situation, we must also recognize that there are definite limitations with regard to both our human and material resources. We may feel deeply the human urge, but it would be unrealistic for us to plan a massive and decisive contribution toward solving the problem of underdevelopment in Asia and Africa.

It follows necessarily that the West will have to give priority to the countries we have already mentioned, and postpone consideration of this massive commitment in Asia and Africa by ten years or so. In the meantime, present technical and financial aid should be continued and possibly increased for humanitarian reasons, irrespective of the fact that we do not expect that it will in the least change the situation for the time being.

THE ATLANTIC CORE

In the meantime we will hopefully also have set our Western house and its adjoining areas in order, and gained more strength. From that expanded and consolidated platform the problems besetting the vast human masses of Asia and Africa can then be systematically tackled with some better chance of success.

Advancing this conclusion, I realize that ten years is rather a long time for a human being, and even more so for a suffering human being. But it is not a long time in history.

The contrary solution would be self-defeating. The world, East-West-South-North all together, would be doomed to bankruptcy, should large (and yet insufficient) resources be prematurely drawn into the blotting paper named Asia and Africa. And probably none of the other objectives we have indicated for the next decade would be accomplished.

The unitary concept of the world we have expounded as a basis for our thoughts for the future rests on the assumption that the Atlantic core be there, and that it will exude vitality and guidance.

Although the Atlantic Community of the United States, Canada and Europe is our foremost concern and hope, I will not deal with it here, beyond saying that I believe it represents quite an attainable objective for the early seventies.

Let me, however, make a few observations about Europe, the old yet respectable continent with traditions, vested interests, divisions, contrasts and contradictions, and which represents the crux of the matter.

It is much harder to correct and amend rather than create anew, and Europe is an example. Europe has already caused two world wars; the germ is still latent, fortunately inactive and perhaps rendered innocuous. There is also the danger that new affluence may soften its societies, dampen the driving force and imagination its best spirits must possess at the present juncture.

DISARRAY IN EUROPE

Moreover, Europe is presently at low ebb. Disarray in the EEC, difficulties in the ECSC, gloomy economic outlook for England, uncertainty in Germany, Scandinavia going through a recession, Spain still reluctant to adopt modern institutions, Italy slow in reforming and modernizing her structures, Gaullism rampant not only in France.

In spite of these real dangers, these shortcomings and these psychological obstacles, there is, in my opinion, room for optimism. Within 18 months from now all internal custom barriers will be abandoned in the EEC; and the great majority of people want the United Kingdom in. Most European corporations and many American ones, too, plan ahead with an integrated European market, not against it. Public opinion is mature. Many other instances may be offered that European unity-economic integration at least—is not too far off.

The day the Europeans find themselves free from their present divisions and inhibitions, and realize the marvelous adventure they are about to embark upon, all of them together, a new Europe will emerge and the stage will be set, I believe, for another Renaissance.

But in the context of the world situation, Europeans cannot consider Europe merely as a new continent-state whose birth is nothing more than the integration of an array of nation-states. They must conceive it as Europe-plus. They must form it with the objective of marching towards an Atlantic Community, with a keen sense of their responsibilities and chances at this juncture in history.

And in this process the influence of the United States on Europe will be enormous. The major burden of steering the future course of humanity and shaping our destinies certainly resides with the United States of America, at least pending the creation of the Community.

There are the authentic and effective levers of power. There a new society is growing out of its continental confinement, out of its obsolete inclination for isolationism, a society evermore aware of its worldwide responsibilities. There are the most advanced technological achievements, effectively and unceasingly conceived and utilized.

There the Atlantic Community must be prepared while Europe evolves towards unity.

Because of all these formidable assets, the world, and Europe in particular until it has reached its unity, rightly expect the United States to take decisive, bold and enlightened initiatives toward a new world.

SECURITY IS DEVELOPMENT

In this survey I have not touched upon the military aspect, firstly because I am utterly unqualified to speak on this matter, and secondly because I am naive enough to believe that if we succeed imaginatively and courageously in mapping out our objectives and in intelligently charting our way towards them, the world will be immensely more secure, and military problems will become less and less relevant.

For Americans and Europeans alike, let me quote a top-flight expect, Secretary McNamara, hoping that his words really have the high moral meaning I read in them:

"In a modernizing society, security means development. Security is not military hardware—though it may include it. Security is not military force—though it may involve it. Security is not traditional military activity—though it may encompass it. Security is development.

"Without development, there can be no security. A developing nation that does not in fact develop simply cannot remain secure. It cannot remain secure for the intractable reason that its own citizenry cannot shed its human nature. If security implies anything, it implies a minimal measure of order and stability. Without internal development of at least a minimal degree, order and stability are simply not possible. They are not possible, because human nature cannot be frustrated beyond intrinsic limits. It reacts—because it must."

I am afraid that what I have been saying will stir controversy more than arouse consensus.

If, however, some merit is to be seen in the concepts and the study program which I have outlined, practical questions will follow.

Let me suggest that three steps may be considered in this respect.

Firstly, that the program for the seventies be sponsored by the highest political authorities who should lend it their prestige and maximize the impact on international public opinion of this nonpartisan endeavor to penetrate into the future.

A PRAGMATIC APPROACH NEEDED

Secondly, that the program be entrusted in fact to a non-political non-controversial institution such as a foundation of high repute, whose task should be to prepare the terms of reference and then to mobilize and co-opt the most qualified institutions, research centers, academies and individual experts from all over the world. A pragmatic approach should be adopted to carry it out and use should be made of studies by other bodies; assignments should be given to ad hoc groups in the various fields, political, social, economic, technical, scientific, and so on; specific investigations, appraisals and model simulations should be made in areas and sectors of special interest; alternative assumptions and trends should be considered and their effects discussed; and finally the entire documentation should be reviewed for coordination and harmonization and with a view to making possible recommendations.

Thirdly, that a report be prepared on what is expected to be the shape of the world during the next ten years according to various alternative groups of assumptions, objectives and policies; and on which strategies could make it a better world to live in. The report should be made public, save for those recommendations which by their very nature would be submitted for consideration only to centers of power.

Business cannot progress if society and the world do not progress. Corporate planning is meaningless if North-South, East-West relationships go unplanned. Corporate long-range international programs require that the future world environment, conditions and consequently business climate be reasonably assured.

However, I am fully aware that it is unthinkable that a program of the nature and magnitude I have outlined should be conceived, formulated and enacted without the determinant participation of the International Corporation which, inasmuch as it is international, is certainly world aware, and inasmuch as it is a corporation, represents the highest expression of modern efficiency, drive and capacity to deliever.

For these reasons, I believe not only that large banks and big industrial concerns have a great stake in our society setting its course towards systematically striving for a more secure and developing world; but also that all of them should combine and commit their unequalled organizing and planning capacity towards decisively contributing to this objective.

Representative WIDNALL. Mr. Chairman, I have two unanimous consent requests, one to include to my remarks today the Library of Congress report from the Legislative Reference Service on the "Balance of Trade in Western European Countries with the Soviet Union and East-West for 1965 and the First Half of 1966."

Chairman BOGGS. Without objection.

(The report follows:)

LIBRARY OF CONGRESS

LEGISLATIVE REFERENCE SERVICE

Balance of Trade of Western European Countries With the Soviet Union and East Europe,* 1965 and 1st Half of 1966

[In thousands of dollars]

Country	1965			January-June 1966		
	U.S.S.R.	East Europe	Total	U.S.S.R.	East Europe	Total
Austria	+4,383	+13,765	+18,148	+6,641	+11,044	+17,685
Belgium-Luxemburg	−23,492	−3,612	−27,104	−7,900	+4,378	−3,522
Denmark	−3,759	−14,243	−18,002	−6,876	+808	−6,068
Finland	−4,620	−1,924	−6,544	−31,843	+1,051	−30,792
France	−73,993	+102,647	+28,654	−47,902	+87,312	+39,410
Germany, West	−63,973	+48,951	−15,022	−52,560	+98,450	+45,890
Greece	−9,620	−17,874	−27,494	+3,242	+3,200	+6,442
Iceland	−5,333	−1,705	−7,038	+849	+1,036	+1,885
Ireland	−1,025	−11,120	−12,145	−1,250	−5,553	−6,803
Italy	−83,178	−25,733	−108,911	−51,013	−23,785	−74,798
Netherlands	−23,632	−22,801	−46,433	−10,934	−558	−11,492
Norway	−9,640	+4,543	−5,097	−5,042	−1,026	−6,068
Portugal	−116	−5,673	−5,789	(1)	+642	+642
Spain	−19,058	−24,974	−44,032	−1,839	−764	−2,603
Sweden	−2,087	−3,201	−25,288	−20,489	+6,186	−14,303
Switzerland	+3,111	−59	+3,052	−3,003	+10,246	+7,243
Turkey	+2,019	+7,118	+9,137	−2,760	+4,648	+1,888
United Kingdom	−204,453	−89,351	−293,804	−50,964	−39,969	−90,933
Yugoslavia	+79,641	+10,792	+90,433	+18,226	−59,937	−41,711
Total	−458,825	−34,454	−493,279	−265,417	+97,409	−168,008

[1] Less than $500.

*Prepared by Vladimir N. Pregelj, analyst in international trade and finance, Economics Division, Legislative Reference Service, Library of Congress, Apr. 4, 1967.

Source: U.S. Bureau of International Commerce, International Trade Analysis Division, exports of free world countries to Communist areas and imports of free world countries from Communist areas, January–December 1965 and January–June 1966. All Western countries listed value exports f.o.b. and imports c.i.f.

Representative WIDNALL. And the second request is on behalf of Congressman Curtis. He would like to have placed in the record the European Free Trade Association Experience in Abolishing Barriers to Trade, a report issued from the Washington Information Office. This is a very able discusison of how the EFTA has adjusted to the reduction of trade barriers. I think it would be very helpful.

Chairman BOGGS. Without objection it will be incorporated in the record.

(The report referred to follows:)

The EFTA Experience in Abolishing Barriers to Trade

GEORGE R. YOUNG, DIRECTOR

JULY 10, 1967.

In the past ten years there have been two large-scale practical demonstrations in Western Europe of the effect of the adoption by industrial countries of liberal trade policies. In both cases the abolition of trade barriers has been accompanied by remarkable increases in trade and also in the economic growth of the participating countries. The fears of particular industries have been proved, almost without exception, to be without foundation in practice. The "escape clauses" which were incorporated into the agreements between countries to reduce tariffs have been little used, and then only for short periods. Perhaps most striking of all, as a result of these experiences the industrialists of Europe, with few exceptions, now have a much more relaxed attitude in regard to protection. They see a steady rate of economic growth as being much more important to their future prosperity than any measures to protect them from outside competition.

This recent European experience means that decisions on trade policy can now be made on a much sounder factual basis. In past years, decision-making on trade policy consisted of trying to choose between different hypotheses. The advocates of liberal policies expressed their confidence that all nations would greatly benefit from the reduction of barriers to international trade. Advocates of protection, on the other hand, sought to forecast the serious and possibly calamitous effects on particular industries, and on the economy as a whole, of a flood of foreign imports following the reduction of trade barriers. Government decisions on trade policy therefore inevitably represented a choice, or more often, a compromise between these different hypothetical possibilities.

The European experience of free trade in practice has vindicated those who analyzed U.S. prosperity as being very largely due to the existence of a huge single market without significant barriers to internal commerce. This example was accepted as the one for Western Europe to follow twenty years ago, when the OEEC was established to administer Marshall Aid and to liberalize trade and payments throughout the region. The effects of this liberalization were already apparent when decisions were made to embark on more intensive reduction of trade barriers in Europe, first by the formation of the European Economic Community and secondly by the creation early in 1960 of the European Free Trade Association (EFTA). This paper seeks only to analyze the economic effects produced by EFTA integration; it need only be said in passing that results in the EEC have been of the same type.

On the last day of 1966, trade in manufactured products between the EFTA countries—Austria, Denmark, Finland, Norway, Portugal, Sweden, Switzerland and the United Kingdom—became free of quota or tariff barriers, save for some minor temporary exceptions. EFTA became a single market, as is the United States, and industrial trade between its member countries became the equivalent of interstate commerce. Externally, of course, each EFTA country maintains its own tariff structure toward other countries. EFTA has no common external tariff.

For the largest member of EFTA, the United Kingdom, completion of the free trade area represented a doubling of her home market. For the smaller members of EFTA, their home market was enlarged between 10 and 25 times. In consequence, production and trade in the EFTA countries now operate in a quite different environment. The Swedish manufacturer, for example, now has a home market 12 times its previous size. It follows that his investment, production and marketing decisions must be set against a new background. It follows also that structural economic changes must be expected over future years. The tendency toward larger units of production and distribution is already very marked in EFTA and can confidently be expected to accelerate.

But the free trade area did not come into being overnight. The process of reducing trade barriers began in 1960 and proceeded by reductions of 10% to 20% a year until the end of 1966. In other words, the businessmen of the EFTA countries have had a new background for their decisions for several years past, based on the commitment by their governments to the timetable of tariff cuts. Even during the transition period, therefore, very encouraging results were obtained in terms of increased trade. Taking EFTA as a whole, commodity trade between its eight countries increased from $3.5 billion in 1959 to $7.5 billion in 1966, an increase of 110%, or an average growth of about 12% a year. In those years the trade of EFTA countries with each other grew at almost twice the rate of their trade with the outside world—and at twice the rate of growth of trade between the EFTA countries in the six years before the Association came into being. This development was certainly partly due to the stimulus of general world prosperity in those years and possibly partly due to some diversion of trade from non-EFTA countries to EFTA partners, but largely also a result of new trade created through EFTA tariff dismantling.

Within the overall figures for EFTA, however, there were even more striking trade increases between member countries. One of the difficulties of EFTA cooperation is the fact that its member countries lie in a sort of ring around Western Europe, so that the Association does not share the advantage of the EEC of being a geographically contiguous grouping. It happens, however, that the four Nordic countries are all in the Association, and they do represent a contiguous grouping with a relatively homogeneous structure and outlook—and intra-Nordic trade increased by 160% between 1959 and 1966.

This was a rate of growth which could not have been forecast. All four countries are competing industrial economies, and this fact prevented the realization in the '50s of the plans for a Nordic Common Market, due to the usual protectionist fears. The Nordic countries achieved their free trade area, however, under the wider umbrella of EFTA and found to their surprise and gratification that the enlargement of their markets more than compensated for their loss of protection. It should be noted that the great majority of the new trade between the Nordic countries is in manufactured goods, based on a high degree of specialization and producing a great extension of consumer choice.

Many more figures could be produced, if desired, to illustrate the successful effect of the adoption of free trade in EFTA, but what has been said above should suffice for the purposes of this paper. It may be noted, however, that the free trade argument is supported in reverse, so to speak, by what has recently been happening to trade between the EFTA countries and the six members of the EEC. This trade held up very well up to 1964, but thereafter the effect of the barrier between the two markets began increasingly to be felt, and trade between the two groups ceased to grow as fast as before. This is, of course, one of the main reasons why the majority of countries in both groupings are anxious to enlarge the Community and thereby to obtain the even greater advantages which would flow from a single Western European market of almost 300 million population.

It is recognized, of course. that certain safeguarding measures are necessary to make the process of trade liberalization as smooth as possible. One example is the special timetable which was given to Portugal in EFTA, based on the realization that many Portuguese industries are still at a very early stage of development and cannot be exposed too quickly te free competition from outside. Another necessary safeguard is that the generally accepted timetable for the reduction of trade barriers should be long enough to enable businessmen to make the necessary adjustments. In EFTA the total timetable was originally set at nine and a half years; it was later shortened without difficulty to six years. The essential thing is that sufficient time should be allowed for new investment and marketing decisions to come into operation. It is also necessary, of course, that provisions should exist for the retraining and relocation of work people who may be displaced by competition. It has not been found in EFTA in practice that this constitutes a serious problem, since most EFTA countries have been very short of labor in recent years. In any case, such factors as automation, new processes and new products seem to mean much greater structural changes in industry than a growth of imports. It is therefore a matter of seeing to it that arrangements for retraining and relocation can also cope with needs arising from free international competition. But it should be stressed again that, by and large, industries in EFTA have not encountered the difficulties which they feared at the outset. The number of complaints has been very small; the number of requests for special treatment has also been small and has been dealt with satisfactorily on the basis of common-sense compromises. Where exceptions have been allowed to the tariff reduction timetable, they have been limited in scope and in time.

It may be observed also that success in the abolition of the more obvious barriers to trade, tariffs and quota restrictions, has also caused the EFTA governments to tackle non-tariff barriers, whose effects might become more serious once tariffs and quotas are out of the way. As a result of a process of successful negotiation, agreement has already been reached in EFTA whereby the governments, when they are in agreement about the harmful effects of a restrictive business practice, will use the legislative and administrative means available to them in order to try to abolish the practice. In these circumstances EFTA governments will thus try to prevent their own nationals from impeding the growth of EFTA trade. Similarly, even though EFTA industries now enjoy no tariff protection from their EFTA competitors, their governments are also committed over a fairly wide area to ensure that government purchasing agencies and other public undertakings in EFTA should not discriminate against suppliers from other EFTA countries when they purchase goods for which tariffs have been abolished.

Work is now proceeding to make EFTA a complete free trade area by eliminating barriers arising from patents, compulsory and other standards, labeling and so on. It should be noted, however, that there is no tendency to seek purely EFTA solutions to most of these problems. The EFTA countries are trying to obtain and to subscribe to the widest possible international agreements, so that their trade with the rest of the world should not be impeded. There is also activity inside EFTA on the possibility of a multilateral double taxation agreement to cover all the EFTA countries.

Trade in agricultural goods and fish products is not covered by the rules for free trade in industrial goods, but is governed by special provisions in the Stockholm Convention. The EFTA objective in these two fields is to facilitate an expansion of EFTA trade in agricultural goods and fish products, and trade in them has as a result grown substantially.

The effects of economic integration on the prosperity of Western Europe and its citizens have been, of course, considerable. As a whole, the area has enjoyed a high rate of economic growth. The demand for labor over most of the period has been so high that large numbers of workers have been attracted from outside. As in other parts of the world, of course, the rapid rates of economic growth achieved have produced growing pains of varying severity, and governments have frequently had to step in to moderate growth in order to prevent too high a degree of inflation. By and large, prices have risen fairly steadily in Western Europe over the past twenty years, but not so rapidly as the rise in income; the rate of economic growth has been such as to take care of the amount of inflation generated. In these circumstances, it is difficult to give a simple answer to those who wish to know how the consumer has benefited from the process of tariff reduction. With all economic factors in motion, it is hard to analyze separately the effect of only one factor, the reduction of import duties. But a good deal of serious analytical work has been done in EFTA on this aspect and has led to the conclusion that the tariff cuts have in fact been passed on to importers and to consumers. It is clear that the prices of EFTA imported goods have tended to rise less rapidly than prices of similar goods of domestic production or from sources outside the Association, and also less rapidly than the general trend of prices in the member countries. In other words, the consumer is benefiting from free trade policies not only in terms of higher employment and wages but also in terms of greatly increased choice and more stable prices.

In drawing conclusions from EFTA's experience with free trade policies, it should be remembered that the total foreign trade of the group is as large as that of the United States. EFTA, with only 3% of the world's population, and 9% of the world's annual income, does 18% of the world's trade. The results are therefore those of a large-scale experiment.

And the conclusion seems obvious and clear. Free trade policies have shown themselves to be of great advantage to industry and trade, not only in the EFTA area but also for third countries. EFTA has been able to build its single market without erecting any new barriers to trade with countries outside the Association. Indeed, two-way trade between EFTA as a group and the rest of the world grew by 70% between 1959 and 1966. United States exports to EFTA almost doubled in the same period, from $1.8 billion to $3.5 billion.

The acceptance by EFTA that free trade pays was illustrated in the "exceptions lists" submitted by its member countries in the Kennedy Round. (These lists were of items on which the country concerned gave advance notice that it would not negotiate a 50% tariff cut, nor, perhaps, even any cut at all.) Five EFTA countries—Austria, Denmark, Norway, Sweden and Switzerland—made no exceptions. The United Kingdom submitted the shortest exceptions list of any major participant in the Kennedy Round, affecting only about 5% of her trade.

In short, the lesson of the EFTA experience is that advocates of liberal trading policies can now prove their case in practice. Advocates of protection by tariffs, quotas and levies have to face the fact that experience has proven their fears to be illusory, and even damaging in the long run to their own best interests.

Chairman BOGGS. Mr. Younger, why doesn't General deGaulle want the United Kingdom in the Community?

Mr. YOUNGER. Mr. Chairman, you are in danger of receiving a long speech from me on a question as wide as that.

I feel myself that if you are talking of President deGaulle himself, his whole philosophical concept of what Europe ought to be, and what France's place in that Europe ought to be makes it very hard for him to accept the enlargement of the European Community, particularly by Britain and other North European, non-Latin countries. I think this is partly a cultural matter, quite apart from political interests. It is partly a question of maintaining Latin culture, the predominance of the French language, and so on. I think this goes back very deeply into his political attitude throughout the whole of his life, and that of the generation of Frenchmen of a particular political tradition to which he belongs.

Therefore I am inclined to discount many of the contemporary economic arguments which he uses against our membership. When he says, with some plausability, that we ought to put our house economically in order, and that we ought to have a strong currency before we can be acceptable, I don't dispute that. But I feel fairly sure that if we did these things and became strong, he would like our entry even less.

Therefore, I have always taken a very pessimistic view of his personal attitude to British entry.

But I think that influence is bound in the nature of things to be more or less temporary.

Chairman BOGGS. In the light of that attitude, when do you think you will get in?

Mr. YOUNGER. Well, I must say that it is likely to be a year or two. I have been in the habit of saying 1970. But it could take a little longer.

Chairman BOGGS. If and when the United Kingdom comes in, will the other EFTA countries apply for admission?

Mr. YOUNGER. Certainly some of them will, and nearly all of them will want some kind of economic association, if they don't actually want to join. I don't think there is any doubt——

Chairman BOGGS. Which ones in your opinion will apply?

Mr. YOUNGER. Denmark and Norway. I am not quite so sure about what the Swedish attitude will be. It used to be said that Sweden couldn't possibly aim for more than association, but even that is not quite so certain as time goes by. It depends largely on the strategic issue.

And then, of course, apart from EFTA there are other countries, like Ireland, which is not in EFTA, but which would also wish to join.

So that the British entry would certainly bring with it an enlargement of three or four others, say, at least.

Chairman BOGGS. Do you envisage, with the growth of the Community, greater political strength in the Community?

Mr. YOUNGER. I think so, yes. I think the political aspects of the Community are likely to develop rather slowly. The emergence of common economic and foreign policy are slow growths. But I would think that a larger Community would have an inherently greater stability, probably from quite an early stage, even before the full economic benefits of a large Community had become obvious. I think from the point of view of the outside world that relationship with the Community should become easier with this country inside it, because there would be a larger element inside the Community than there now is with very widespread world trading ties. There are already very large and strong forces inside the Community that take a world view, but they would on the whole be strengthened by the enlargement of the Community.

Chairman BOGGS. Dr. Peccei, would you like to comment on that question?

Mr. PECCEI. I share Mr. Younger's view that by 1970 we may come to have the United Kingdom in the Community. I think that it will not be a much larger Community than six plus one, say seven, because of the difficulty adapting the Community mechanism to a larger number of participants. If there are more than seven or eight countries, they will have to be somehow associated with all the benefits, but not represented in Brussels, because it would be too cumbersome. The Community would benefit immensely from the United Kingdom entry, politically as well as in outlook, and I think, also, to balance more the Saxons and the Latins.

Chairman BOGGS. You will mix them up pretty good. Dr. Henderson, our staff economist, has a question for you, Dr. Peccei.

Mr. HENDERSON. Mr. Boggs has permitted me to address a question to you, Dr. Peccei.

I will be happy if you will comment on the role of the international corporation. As you know, the increasing share of world trade that is between affiliates must have some influence on trade policy. Does this influence go in the direction of making harmonization of national policies easier or more difficult? Does it go in the direction of making easier the policy that you mentioned of redistributing productive facilities?

Mr. PECCEI. First of all, I will answer that the international corporation is but one of many transnational movements.

There are so many transnational movements in Europe now going on, breaking through the State boundaries so that Europe may as well be built from below much earlier than might be expected. Some of these transnational movements may be found in the fields of culture entertainment, sport, and music; others are now appearing in entrepreneurship. In Europe we feel that we are at a disadvantage with respect to the U.S. corporations which operate in our continent, because it is easy for them to define a unified European policy, or devise a unified European organization; while companies in Italy or Germany cannot have that if they do not acquire some kind of European status.

Pending the approval of a European corporate statute, there will be more and more European arrangements on the line of the Agfa-Gevaret deal.

Looking at this issue in more general terms, I think that the international corporation is one of the forces for the future, and we may expect that a much greater part of the world production will be accounted for by a limited number of international companies.

I think that this is one of the features of the future, and that the international corporation will have a stabilizing effect on world markets, be a prime factor for moving technology from one country to the other, and be a means of creating a new kind of international managers and staffs recruited in many countries.

There is afoot a movement to create a kind of club of the international corporations to foster the spirit of cooperation and competition on the open markets of the world. Thus, I think that we will see much more of the international corporations in the next few years.

Chairman BOGGS. Thank you very much.

At Senator Javits' request we will insert in the record of today's hearing an address delivered by him in London.

On behalf of the subcommittee I would like to express our appreciation to both of you gentlemen for coming here and for the very splendid contributions you have made to our discussions.

The committee will now adjourn until Tuesday, July 18, We will meet at 10 a.m. in this same room. At that time we will have a panel of businesses executives.

The subcommittee will now adjourn.

(Whereupon, at 12 noon the subcommittee adjourned, to reconvene at 10 a.m., Tuesday, July 18, 1967.)

(The address of Senator Javits follows:)

BRITAIN AND THE FUTURE OF EUROPE*

The Middle East crisis which we are just passing through dramatizes a stark reality of the present world situation. The plain fact is that before hostilities began only the United States and the Soviet Union jointly could have prevented war and even thereafter a cease fire depended on agreement between them. By any standards—especially when possible nuclear confrontation between the two super-powers is always with us—this is hazarding too much for all mankind. Western Europe should be able to play a greater role than it does now in the maintenance of world peace outside of Europe. The world needs a Europe capable of playing its full role in world affairs; and the adherence of Britain to the European Economic Community is an essential element in bringing this about.

This, in my judgment does not call for a "third force" but rather for marshalling their full strength on the side of conditions that can bring peace by that group of nations which has a common tradition, a common state of society, and a generally common outlook on world conditions and the way to establish the rule of law to replace the rule of force.

It must also be frankly faced that many in the United States feel that the climate of policy now being created for Europe by President de Gaulle's France is hardly representative of Europe. We see a striking example of this in the tortured effort by President de Gaulle to make Israel the aggressor in the Middle East and to take the side of Arab leaders who have kept the Middle East a tinder box of war for 20 years. Nor can this be justified by strained and tautological reasoning regarding the struggle in Vietnam, as it relates to the Middle East. There is a world of difference between these two world crises. To suggest cause and effect simply ignores the fact that the Middle East has seen three wars in the last 20 years.

*Remarks of United States Senator Jacob K. Javits (Rep. N.Y.), at a dinner in his honor sponsored by The Pilgrims, Savoy Hotel, London, England, June 27, 1967, and released in London.

The presence of Britain in the European Economic Community and through it in Europe as a society, will, I believe, lend a far more European note to European world policy than the colouration General de Gaulle gives that policy now in a practically unchallenged way. The voice of Europe needs to be heard again, as such, and I doubt that this will happen unless Britain's European Economic Community application is successful. It is alarming for us in the United States to see one man, President de Gaulle, giving a twist to Europe on world policy as archaic as Metternich and as mischievous as de Gaulle. The rest of Europe wants Britain but President de Gaulle is unwilling to accept the competition of British leadership in policy-making with its wider vision and deeper insight.

But we, in the United States, I feel, have every interest in seeing Britain remain vigorous and becoming even more productive. The tremendous experience and skill which she has acquired during centuries in world affairs must continue to be utilised in the cause of peace and of regional and international co-operation. It dismays many Americans to see economic reasons compelling Britain to consider withdrawing from East of the Suez—and trimming back such of its responsibilities in Germany as it would otherwise carry. It is sad, too, that Western Europe is not playing its full part in co-operation with North America in providing needed assistance to the developing nations and in world trade, technology and science.

When will the people of Europe—and even the people of the United Kingdom—understand that my fellow countrymen do not glory in the responsibilities which they now carry so heavily in the world? When will they understand that we are more than anxious to share this responsibility—not only as to its burdens but also as to whatever benefits and glory it may bring? There is no imperial spirit in the United States. This should be clearly understood in Europe and in Britain.

By every measure Britain seems to me to have reached a crossroads of its national life. British industry needs modernisation both in terms of machinery and manpower. The requirements of maintaining a modern defence establishment and sustained domestic growth place a heavy burden on the British economy and Britain's balance of payments. It seems now to be widely accepted among the British people, whether Labour or Tory, that Britain must take steps to deal with the dangers of the erosion of British energies.

By taking the initiative to apply for Common Market membership, although long and difficult negotiations lay ahead, Britain signified its readiness to take the road that is more challenging. It is not every nation that invites competition to sharpen itself and enable it to compete in broader markets.

The American people, I feel, strongly support your government's decision to apply for Common Market membership and not only because British membership in the Common Market is vitally important to Britain in economic and political terms. In my judgment, the American people believe that this decision is vitally important to Europe as well, if Europe wishes to provide itself with the authority necessary to assume a significant share in the responsibilities of world leadership as well as to compete effectively in the world's markets.

Clearly, if Europe is to play a role commensurate with its traditions and combined power, the European Economic Community must include Britain and other European nations.

Beyond that, it is also my conviction that this greater Europe should eventually associate itself in some formal economic way with the other industrialised nations of the West. In our world, only these nations together possess the capital, the technical resources and manpower skills essential to the modernisation of the developing nations. Such modernisation, if accomplished in time, can win the race with the revolution of the have-nots, a revolution that often endangers world peace and is accompanied often by an erosion of freedom.

It should be kept clearly in mind, therefore, that the negotiations for United Kingdom membership in the European Economic Community are but one step in the process of forging closer links among Western European nations; and in turn, between Western Europe and the other industrialised nations of the free world, including the United States.

There will be those who will express serious doubt that under present conditions, Western economic unity can be established. I disagree. The successful conclusion of the Kennedy Round of trade negotiations in Geneva offers proof to the contrary. Here was a situation where the vital economic interests of the

EEC, the United States and the other industrialised nations were at stake. Yet when it was clear to these supposedly deadlocked negotiating trade partners that the price of failure was the unravelling of the entire painfully constructed fabric of Western multilateral trade co-operation, there was an agreement and an enormously significant one at that.

Europe (if it really wants to lay claim to the future), it seems to me, must work toward a single-minded objective. The development of a free trade area of the broadest possible grouping of the industrialised nations of the free world (International Free Trade Association) who have the capacity to compete with each other on relatively equal terms in brains and skill and equipment. An Atlantic Free Trade Area can lead to the broadest possible exchange of goods, people, and ideas, in order to stimulate maximum production and the maximum power in the interests of a free and prosperous world. Such a development is as inevitable as the tides, and I suggest it will be a reality in 10 to 15 years.

The next few months will determine whether the first step in that process—i.e., the UK joining Europe economically—will be taken. But even if this step should fail, Britain can stall leapfrog the stage of European Economic Community membership by the helping to form, and then joining an Atlantic Free Trade Area. Eventually, the European Economic Community will come along and accept Britain into membership or join such an Atlantic Free Trade Area itself.

It is for these reasons that I believe so deeply that whatever occurs within the coming months, a full examination must be made of the Atlantic Free Trade Area proposal. This is necessary to enable Britain to size up the Atlantic Free Trade Area as an alternative to joining the EEC, should an alternative become necessary. Such an examination would also serve to assess the costs and benefits to Britain involved in EEC membership, as the costs may very well be high indeed—if President de Gaulle has his way. Proper contingency planning may well strengthen Britain's bargaining position and therefore its chance of entry into the European Economic Community on favourable terms. And should admission be denied it—such planning would leave Britain in a much stronger position for facing the future. For, although an Atlantic Free Trade Area is not the preferred alternative, it is by no means without benefit to Britain for the same economic reasons for which it wishes to join the EEC.

What would be the principal benefits of an Atlantic Free Trade Area? It would create a single competitive market among the United States, Canada, and other industrialized countries of the West—not in the EEC—some from the European Free Trade Association, some from the Commonwealth—through gradually lower tariffs and other trade barriers on manufactured products and raw materials over a 15 to 20-year period. At the end of this period there would be substantially free trade within this area with special arrangements made to assure access to this market by developing countries which agree to the rules of the Atlantic Free Trade Area.

According to estimates I have seen, the principal benefits in trade terms would accrue to the United Kingdom and Canada rather than the United States. It would provide "a home market" for the UK certainly equal to that which would be offered by the EEC (the total trade of the UK with the EEC in 1966 was 2.1 billion pounds sterling as compared with a little over 2 billion pounds sterling with North America) and it is reasonable to expect that the UK's trade with North America would expand at least at the same rate as that with the EEC. It would free Britain of many of the obsessions and restraints incident to Britain's position now as an economic "loner". Indeed, the alternative might also have a salutory effect on the European Common Market, in enabling it to reject the counsels of those who seek to make it an exclusive protectionist trading area rather than an effective part of a liberal world trading system.

I don't agree with those who feel that in a situation of free competition, U.S. firms would drive British firms out of business or that they would take over key industrial sectors in the United Kingdom. To a large degree U.S. technical superiority in certain industries would be offset by lower wages in the United Kingdom, including the costs of scientists and research.

There would be new American investments in Britain and a new infusion of technology via joint ventures—but this would contribute to the increase of Britain's rate of economic growth. It is entirely possible, however, that the United States investments in the UK may in fact slow down from past trends. The relatively high UK tariff on manufactured goods may have caused some U.S. capital to "jump" this barrier to U.S. exports. The removal of this barrier might slow down the capital flow. On the other hand should the UK begin to grow at an accelerated rate, U.S. investors, especially by direct investment, may consider UK investment opportunities enhanced and the U.S capital inflow may increase.

An Atlantic Free Trade Area would also create conditions which would strengthen sterling as an important trading currency and as one of the two key reserve currencies. It would be important to the world economy to continue a significant role for sterling; at least until the international monetary system is reformed to relieve the heavy pressure on the dollar and sterling. Our interest in the continuation of a role for sterling is not entirely unselfish. Should there be any general movement to shift reserves away from sterling to dollars, the effect would be to place tremendous additional burdens on the dollar and thereby to challenge the ability of the United States to maintain the free convertability of a dollar into gold at $35 an ounce. In the absence of new sources of international liquidity, a crisis of confidence in the dollar could cause a serious economic crisis in the world economy.

I have heard much talk about a 51st state if Britain must accept an alternative to the EEC. This is an invention of Britain's isolationists or Europhiles and is demeaning to and contemptuous of Britain, its people and its history and the United States, its national identity and its honour. What is more to the front is that Britain should not wait to the eve of disaster before joining in integration of the Atlantic economy as did Churchill in his call for union with France on the eve of the blitz.

Every person on both sides of the Atlantic who is in authority and of mature years has a great stake in the current course of Britain. Will we be good trustees and hand on a better and more unified world to our successors or will we be enmeshed in our own inability to agree and hand on a poorer and more disorganised world? This is the question that we must ask ourselves at this critical moment in the history of Europe.

THE FUTURE OF U.S. FOREIGN TRADE POLICY

TUESDAY, JULY 18, 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 Symington 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.

This morning we are pleased to have with us a panel made up of Mr. S. M. McAshan, Jr., president, Anderson, Clayton & Co., Houston, Tex., who was so helpful to us when he was here some years ago; Carl Gilbert, chairman of the executive committee, Gillette Co., Boston, Mass.; Henry Balgooyen, executive vice president, American and Foreign Car Co., New York; and N. R. Danielian, president, International Economic Policy Association.

Mr. McAshan, we will be pleased to hear from you first.

STATEMENT OF S. M. McASHAN, JR., PRESIDENT, ANDERSON, CLAYTON & CO., HOUSTON, TEX.

Mr. MCASHAN. Thank you, Mr. Chairman. My name is S. M. McAshan. I am chairman of Anderson, Clayton & Co., of Houston, Tex.

None of us can foresee all the trade negotiations which will follow the recent Kennedy Round agreements, but I would like to mention briefly a few points which can arise as our long-range trade policies take shape.

FOLLOW UP ON KENNEDY ROUND

First, to follow up on the Kennedy Round, authority to continue negotiations is essential, if we are not to lose much of the good that has come from 5 years of hard trading.

Great accomplishment has come from these 5 years of tough negotiations in freeing up large parts of the international trade of the world's most important industrial trading nations. But it is inevitable that some industry or some country will try to make changes or renege for their own advantage. Mr. Roth, or his successors, will need to be empowered to negotiate adjustments to prevent such changes from becoming too one sided or too deep.

You gentlemen know how far such authorization can or should be the subject of legislation, but some form of continued authority will surely be needed to implement the recent agreements and to apply a fair interpretation to the many nonspecific clauses.

A National Trade Policy

We will need to clarify our long-range international trade policy.

We have such a hodgepodge of liberal thinking and special privileges that we cannot present a clear, united front in negotiating with any foreign country or group.

We need to decide whether we really believe in the mutual benefit of comparative advantage, allowed free play without tariffs or quotas, or whether we want to continue special privilege for a few at the expense of the whole.

If the former, and I think we must enjoy the efficiencies and benefits of trade expansion, we should make it clear to the rest of the world and require them to adopt similar treatment of our exports.

The EEC has proven to themselves the efficiencies of expanded trade, but unless we force them to come along with us on a worldwide free-trade basis, they are likely to try to retain petty restrictions for the benefit of certain industries, aimed primarily at us.

We must take the lead in establishing a world pattern.

The Hungry World

Unless populations are controlled more successfully than we have a right to expect, agriculture of a large part of the world must be modernized, mostly by private business, the success of which depends as much on trade as technological processes.

(*a*) Many of the less-developed countries cannot be expected to become fully self-sufficient in foods and fibers, since such a large part of the world's land best adapted to these products lies within the temperate zones of the developed Northern Hemisphere.

Self-sufficiency being too much to expect, the problem becomes so serious that the world cannot afford any waste of efficiency. Any sound solution to the problem of feeding the hungry millions of the presently underdeveloped countries must include provision for freer access to markets for their surplus products; not only to those of Western Europe, Japan, and North America, but to markets generally.

The needs of the hungry peoples are so great that the free world must be organized to assure maximum food and industrial productivity, organized so free trade will guide production into its most efficient channels.

(*b*) If, say, India can get more wheat by exporting textiles and buying wheat than by attempting to raise it, are we not reducing India's—and the world's—efficiency, if in the name of self-sufficiency we ask India to do otherwise? If, to come closer to home, we were to lift our restrictions upon the import of all minerals and raw materials, we would surely obtain more of what we need through trade than by our own production, while at the same time the countries better fitted for the production of these materials would not only be able to pay cash for our surplus grain, but to get more of it.

It is with productivity—world productivity—that we must all be concerned. I do not minimize the importance of the contributions that technical efficiency can make to productivity, but I wish to emphasize that economic efficiency is fully as important.

Not all developing countries must necessarily remain the hungry countries. Their basic need and hope lies in permitting the working of free economy, free business determination to guide the way to maximum productivity.

The first requirement is the wide opportunity to trade what they can best produce for what they need from others. This is too basic, too urgent, to debate it further.

Western Hemisphere Common Market

The time has come for us to start a Western Hemisphere Common Market by removing all tariffs and quotas on any products from Canada and Latin America.

In 1965, the so-called four wise men—Messrs. Herrera, Santamaria, Mayobre, and Prebisch—vigorously recommended a Latin American Common Market, but excluded the United States. They did not even offer us associate membership. Their proposal has been the basis for hemispheric discussions since April 1965, particularly at Punta del Este this year.

I do not know what President Johnson meant by "temporary preferential tariff advantages for developing countries" in his Punta del Este talks. But I hope it was a bid for U.S. participation on a more liberal basis in the beginning than would be required of less industrialized Latin American countries. The eventual effect could be disappearance of negotiated temporary preferential treatment, perhaps after some 10 years of graduated equalization.

One of your members, Senator Javits, has wisely helped develop this idea, and has made it clearly to be reckoned with in future trade negotiations.

Commodity Agreements

Several lesser developed countries are requesting us to back up international commodity agreements, particularly as a means of price stabilization of their major export items.

Our position in this respect will depend partly on our basic free-trade policy, and partly on what we are willing to do with some of our own protected commodities.

(1) Commodity agreements, such as the international coffee agreement and the international sugar agreement, have shown up as forums for attempted negotiation of special treatment.

To the extent that these become restrictive in their effect, and particularly to the extent that restrictions run in terms of production quotas, these agreements obviously violate the principle of maximum productivity. Particularly this is true when the product is affected by long-term adverse influences and when the effect of controls is to freeze production in increasingly obsolete patterns. Many of the products of the less-developed countries are, it is true, normally subject to substantial price fluctuation from year to year, and as a result their balances of trade and of payments are for the time being distorted. But when such distortions occur, the provision of "supplementary financing," as by the IMF and the World Bank, appears to be least disruptive of market principles.

And in that connection I would like to mention for the record an article by Dr. John A. Pincus entitled, "Commodity Agreements, Bonanza or Illusion?" printed in the Columbia University Journal of World Business, January–February 1967. I would like it made a part of this record.

Chairman BOGGS. Without objection, it is so ordered.

(The article follows:)

COMMODITY AGREEMENTS: BONANZA OR ILLUSION?

By JOHN A. PINCUS

Kwame Nkrumah loiters in Guinea, a solitary redeemer, savoring memories of former potency and dreaming of power as yet untasted. A protesting Sukarno slides inexorably down a pole greased by his cabinet ministers. Middle Eastern sheiks command without deftness a power that their fathers, in mud-walled isolation, could never aspire to, even in the most paranoid of reveries.

These vagaries, which help to shape the world's political destinies, all reflect in part the fluctuations of world markets for commodities—the foodstuffs and raw materials that enter world trade. Nkrumah suffered politically from the consequences of falling prices for cocoa; Sukarno from declining rubber prices and reductions in export volume for tin and rubber; while the Middle East rides a petroleum boom.

Each of these examples deals with underdeveloped countries. This is no accident, because only in the poor countries of the world is commodity production—farming, forestry, and mining—the principal source of income. Many of the rich nations, such as the United States, Canada, Australia, and the Scandinavian countries, are major producers and exporters of commodities. In fact, the rich countries export half of the world's primary commodities, but only a small part of their population is employed in commodity production, and only a small part of government revenues stem from commodity taxes. Even Australia, Canada, and New Zealand, which export mostly commodities, today produce much more manufactured goods than commodities.

No wonder therefore that the pressure for world commodity controls comes largely from poor countries allegedly seeking to stabilize, but really to increase, their export earnings. Commodity export earnings account for a large part of their total production, with most of the people living and working as farmers. Exports of commodities (or in some cases capital inflows) are the prime source for financing the capital imports that they need now in order to become rich later. Furthermore, when commodity exports are booming, export taxes and import duties offer the governments a ready source of revenue to finance the ambitions of a Sukarno or a Nkrumah, as well as the less flamboyant goals of an Eduardo Frei in Chile, or a Kenneth Kaunda in Zambia.

PLEA FOR INTERNATIONAL RESCUE

Most poor countries seek rapid economic growth, which inevitably generates inflationary pressures and the demand for imports. Increases in commodity export earnings are therefore seen as a key to development without excessive inflation. Large-scale export of manufactured products still seems remote, and accounts now for only one-tenth of underdeveloped countries' exports. Finally, the governments of most poor countries take it as an article of faith that the terms of trade of commodity exporting countries are in a long-term decline that can only be overcome by conscious international action. Otherwise, in their view, as expressed in the resolutions of the United Nations Conference on Trade And Development (UNCTAD), the normal operation of world trade will tend to make the rich nations richer and the poor nations poorer.

This pressure for higher commodity prices has generally been resisted by the industrial importing countries, despite their own widespread use of farm price supports as a means of transferring income to farmers. Their standard arguments against price control through international commodity agreements are:

(1) They interfere with normal operation of markets, and tend to build up surplus production in response to higher prices; pressure of these supplies leads to breakdown of agreements, or at least to erosion of their effects on price.

(2) Because commodity agreements are usually based on export quota systems, they tend to freeze historical production patterns, to the disadvantage of efficient producers.

(3) They require a complex apparatus for control of exports and supply, which is further complicated by the existence of different grades of each commodity, each of which has a submarket of its own with fluctuating prices.

(4) Price and output controls, as established in commodity agreements, are an inefficient way to redistribute world income, as compared to direct subsidy, because price controls lead to less efficient production and lesser satisfaction of consumer preference than subsidies do.

(5) The income-redistributing effects of higher commodity prices may mean in effect that low-income consumers in industrial countries are forced to pay for improvements in the living standards of high-income producers in the underveloped countries. * * *

The controversy between governments of rich and poor countries has been thoroughly confused because they are simultaneously discussing several different issues without necessarily recognizing it.

First of all, much of the discussion of commodity agreements stresses price stability as an objective at least coequal with higher prices. Thus the UNCTAD resolution on the subject calls for: "suitable international arrangements . . . designed to *increase and stabilize* primary commodity export earnings, particularly of developing countries, at equitable and remunerative prices. . . ."

In fact, stabilizing earnings as such (i.e., smoothing out periodic fluctuations around a trend) is a trivial goal in poor countries' eyes. It has been much stressed, however, for two reasons: (1) year-to-year commodity price fluctuations are dramatic, and the advantages of greater stability, in terms of central economic planning and private investment, seem both obvious and ideologically innocuous; and (2) the stabilization goal offers an acceptable argument for introducing international commodity agreements, which can then be used to raise prices to "remunerative" levels.

Stabilization Smokescreen

Statistical evidence indicates that short-term fluctuations in export earnings do not slow down economic development, as compared to steady annual receipts. Though this statement is the reverse of what is usually said by spokesmen of poor countries, the proof-of-the-pudding principle casts substantial doubt on their contentions. If a country wants to stabilize annual export revenues, it has only to set money aside in good years, and spend it in bad ones. Yet very few countries do this.[1] The obvious answer is that poor countries lack the reserves to finance such stabilization in light of their aspirations for development. While this proposition may be perfectly valid, those who offer it frequently fail to recognize that it amounts to a demand for more foreign exchange in the guise of stabilization goals. Alisdair MacBean's exhaustive study of this subject[2] demonstrates conclusively that there has been no correlation in recent decades between income growth in poor countries and export fluctuations. Indeed, MacBean's conclusion, based on extensive analysis, is that short-run fluctuations in national income bear very little relation to fluctuations in export earnings. To the extent that short-term balance-of-payments problems arise entirely as a result of short-term fluctuations around an earnings trend, IMF credits, bilateral loans, and suppliers' credits are readily available; poor countries appear to feel no urgent need for additional safeguards aimed solely at the objective of stabilizing year-to-year earnings. What poor countries do want is higher prices (or at least no decline in prices) for commodities; "stabilization" objectives are primarily a tactic toward that goal.

A second source of confusion is between fact and theory about underdeveloped countries' terms of trade (export prices divided by import prices). According to theories developed by the Argentinian economist, Raul Prebisch, who now serves as Secretary-General of UNCTAD, there are inexorable forces at work tending to reduce the prices of commodities relative to manufactured products. This tends to hurt poor countries, which export mostly commodities,

Footnotes at end of article, p. 184.

and to benefit rich countries, which import commodities and export manufactured products. In support of this view, Prebisch has argued that underdeveloped countries' terms of trade have in fact fallen since the latter part of the 19th century. He has been challenged by a number of economists, both as to theory and fact, but unfortunately the distinctions between logic and observation have not always been maintained. The theoretical objections point to a number of inconsistencies in his rather complex argument. The empirical ones question the data he has cited and argue that conclusions as to the long-term course of terms of trade depend on the choice of base period.

Primary Producer Can Bounce Back

No final conclusions about either fact or theory seem to be possible as yet. In recent years world demand for most major commodities other than petroleum has increased slowly compared to demand for goods and services in general, while commodity supplies have increased rather rapidly, thanks to the stimulus of high prices in the 1950's, the growth of synthetic output (particularly fiber and rubber) and protectionist policies in the rich countries. It may however be doubted whether world commodity prices will long continue sluggish or declining if world population continues to increase at current rates. * * *

A third source of confusion lies in the debate about what commodity agreements can accomplish. The poor countries, supported at UNCTAD by the government of France, sometimes appear to claim that higher commodity prices, secured by international agreement, are a source of instant prosperity. Most rich countries seem to argue that commodity agreements could not be effective in raising prices above market levels, but only in stabilizing prices over a cycle. This contention in its extreme form is obviously wrong, as witness the high prices paid to farmers in countries where agriculture is protected, or the high prices received for crude petroleum by low-cost exporters in the Middle East and Venezuela. The confusion lies both in the effort of rich countries to prove that because the policy is undesirable, or leads to administrative complications, it is therefore impossible; and in the effort of poor countries to show that because high commodity prices have often been beneficial in the past, they can therefore be legislated as a development panacea for the future.

This last dispute of course reflects the fact that each side assumes away the obstacles to its case and, thereby, simply sidesteps the central issues: What are the effects of commodity agreements on price? Who pays and who benefits from the higher prices? What commodities could be subject to effective international action in the interests of underdeveloped countries? Could the objectives of commodity agreements be met more easily by other devices that are both feasible technically *and* likely to be adopted?

The Trouble With Subsidies

It is clear that rich countries can pay poor countries any "price" they want for commodity exports. There is no logical, constitutional, or economic barrier to doubling or tripling the revenues that underdeveloped countries receive for commodity exports. This has nothing to do with whether demand is elastic (revenues declining in response to price rises) or inelastic (revenues rising in response to higher prices). If, for example, the governments of industrial countries want to pay some amount into an economic development fund for each pound of coffee they import, that sum can be as large as the generosity of governments allow. It is simply a subsidy to coffee-growing countries, and there is no limit to the amount of a subsidy.

But subsidies are not a popular technique for supporting farmers' incomes. The technique of operating through market prices via supply control is universally preferred by farmers and governments, because the consequent income transfer takes on the status of an impersonal market transaction rather than a gift, and does not enter as an item in the government budget. Furthermore, there is no particular reason to tie direct subsidy into commodity production. If rich countries want to subsidize poor ones, they can do it by foreign aid appropriations rather than subsidies to commodity exporters.

Long List, But Many Hitches

Therefore the income-increasing objectives of international commodity agreements are expected to operate through supply restriction. These techniques can normally succeed in raising producers' incomes only if demand for their output is inelastic.[3] Demand for a number of the major commodities in world trade is quite inelastic. The principal traded commodities are, in order of trade value: petroleum, meat, wheat, fats and vegetable oils, cotton, coffee, copper, wool, sugar, rubber, dairy products, tobacco, rice, corn, tea, cocoa, tin, jute, zinc, lead, bananas, and citrus fruit. The combined annual value of trade in these products is about $35 billion.

There are, however, a few hitches that would cause a number of these products to be dropped from any list of candidates for price-fixing agreements aimed at benefiting underdeveloped countries. Petroleum, accounting for nearly $10 billion of exports, is already subject to international price fixing by private agreements between oil companies and governments of the major petroleum-exporting countries. Meat, wheat, wool, dairy products and corn, amounting to an additional $5 billion, are primarily exported by rich countries, so that price-fixing schemes would hurt poor countries more as consumers than it would benefit them as exporters. Of the remaining sixteen products, six (oils and fats, citrus fruits, tobacco, copper, lead and zinc) are exported in substantial quantities by both rich and poor countries, so that the United States, Canada, Australia, Spain, and South Africa would be major beneficiaries of price-fixing schemes. This difficulty is not necessarily crippling, because these countries could presumably agree to pay their "profits" into a fund for the benefit of developing countries. However, these products present other problems for regulation. Nonferrous metals substitute for each other (and for plastics in some uses), so that the price of each would have to be regulated in light of all others. Vegetable and animal fats and oils also substitute for each other (and for synthetic detergents), so that the problems created by control efforts would be even more complex than for metals. Citrus fruits substitute for other fruits in the consumer budget. Finally, since each of these products, or a close substitute, is produced in a number of the major importing countries, a rise in the world price might lead to substitution of home production for imports, unless importers agreed to maintain home production at preexisting levels.

This leaves 10 major traded commodities for initial consideration under price-fixing schemes aimed at benefiting underdeveloped areas: cotton, coffee, sugar, rubber, rice, tea, cocoa, tin, jute, and bananas. All of these products are primarily exported by poor countries.

Jute and rubber are ruled out from the start, unless other textile fibers and synthetic rubber prices are also controlled. General control of world fiber prices seems out of the question, and while joint control of natural and synthetic rubber prices is theoretically possible, the countries that produce synthetic rubber show no interest in such a program.

AND THEN THERE WERE SIX

Cotton and rice are special cases in that the United States is a major exporter. Even if the United States renounced its potential profits under price-fixing schemes, other difficulties would arise. Raising cotton prices again implies control of other fiber prices, both natural and synthetic. The problem with rice is that underdeveloped countries are the principal importers, so that raising the price simply helps producers in some underdeveloped countries at the expense of consumers in poor countries. Furthermore, such a price rise would simply stimulate production in the importing countries.

The 10 products therefore reduce to six. The following table shows the average value of trade in each for the years 1959–61.

Product	*Value of exports (millions)*
Coffee	$1,878
Tea	616
Cocoa	521
Sugar	1,498
Tin	392
Bananas	334
Total	5,239

Two of these products, coffee and tin, are now organized under international commodity agreements. Tea was marketed under a commodity agreement from

Footnotes at end of article, p. 184.

1933 to 1939, as was sugar intermittently from 1931 to 1961. Negotiations for an international cocoa agreement have been proceeding without success since 1958. Bananas, produced exclusively in the tropics, are probably ruled out because of competition with other fruits, both imported and domestic.

More From the Laggards

I have indicated elsewhere [4] that establishment of effective price-fixing agreements for these products, excluding tin, might have succeeded in raising underdeveloped countries' export earnings by $450–$900 million in 1961. The United States would currently pay about 35% to 40% of this total, and the other major industrial nations the following percent shares: United Kingdom, 11–12; France, 7–8; Japan, 6–9; Germany, 8–10. These percentages are based on estimates of each country's elasticity of demand for each of these products at monopoly price levels.

If these monopoly prices were in effect, the upshot would be to increase the relative share of western foreign aid now paid by some of the laggard donors—U.K., Japan, and Germany—and decrease the shares of the major donors, United States and France. United States and France now provide respectively about 60% and 17% of western foreign aid. If their aid through commodity pricing were respectively 35–40% and 7–8% of total western costs under a system of commodity agreements, then their relative share of total official aid would be reduced.

But the most important point to note from these figures is not their effects on the distribution of foreign-aid costs, but their total amount: $450–$900 million in 1961, rising to more than $1 billion by 1970, and nearly $2 billion by 1975. This compares with 1965 capital flows from rich to poor countries of about $9 billion, and poor countries' total merchandise exports of $36 billion. By 1970, capital flows may not have changed substantially from 1961 levels, while export values will have risen to about $45 billion if current trends are followed.

The effects of monopoly pricing on export earnings would therefore be modest, but far from insignificant. This after all is what we would expect. The price of coffee (and the earnings of coffee exporters) has risen about 20% since the International Coffee Agreement was negotiated in 1962. Meanwhile, the world price of sugar has fallen to record low levels since the breakup of the Sugar Agreement in 1961, with disastrous effects on those exporters who depend heavily on world market sales. There is obviously a relation between prices of these products and exporters' foreign exchange earnings.

Five Ingredients

But signing agreements is no guarantee of high prices, high export earnings, or favorable effects on economic development. For the agreements to work effectively as agents of development goals, several conditions are required, in addition to inelastic long-run demand:

(1) Effective provisions for control over supply (not only export control, because when supply builds up, the pressures for breakup of the agreement become strong).

(2) Effective capacity on the part of existing governments to channel the increased earnings into economic development, rather than into higher profits for plantation owners.

(3) Less generally recognized, a market organization in which one or two producing countries dominate world supply, so that they are willing to practice restraint in the face of the inevitable supply control violations by smaller producers.

(4) A large number of producing countries, in order to assure a fairly wide distribution of gains from higher prices.

(5) Agreement to limit domestic production in those importing countries that can or do produce the commodity.

Let us take a look at existing and proposed commodity agreements in light of these criteria. First of all, it should be noted that the impetus behind most of them was the desire to stem price erosion rather than to achieve some maximum long-run level of earnings for producers. However, in terms of development goals, the issues listed above are nonetheless predominant.

Footnotes at end of article, p. 184.

Tea, with Sugar

The Tea Agreement (1933–1939) clearly succeeded in stabilizing world prices during the depression, but its impact on development may be doubted. Most of India's and Ceylon's tea gardens were under British control, and the benefits of earnings' stabilization largely accrued to the plantation owners. Furthermore, with tea production then largely concentrated in four Asian countries, the benefits were also concentrated geographically. These very limitations made it relatively easy to control tea supplies. With a small number of large producers and a very inelastic demand for the product, each could see his advantage in cooperating in export control. Furthermore, tea can be "stored" on the bush, so that control can be exercised up to a point by picking more or fewer leaves at any time.

The Sugar Agreement (1931–1961) was a completely different matter. In the first place, the agreement covered only the so-called "free market," accounting for perhaps two-fifths of world trade. The rest of the world's imports are controlled by national legislation, notably British, American, and French import systems, under which each country imports from preferred suppliers at a premium price. The essence of the Sugar Agreement, as operated from 1954 to 1961, was a bargain by which Cuba, as the dominant free market supplier, agreed to manage its supplies and stocks, in exchange for its large quota in the high-priced U.S. market. The objective was to maintain world prices between 3.25 and 4.25 cents per pound, through a system of export quotas. The system worked moderately well until 1960, when the United States first reduced and then abolished the Cuban quota. The agreement has not been renewed since 1961, when Cuba insisted on and was refused a large increase in its basic quota. It presumably will not be renewed until the underlying political issues are overcome.

Any effort to maintain very high prices for sugar (more than 5 or 6 cents a pound in the long run) is probably self-defeating, even though world demand for sugar is increasing steadily. Unlike tea, sugar can be produced almost anywhere, even if at high cost. Therefore if prices rise, and are expected to remain high under a system of export control, production in importing countries would tend to rise sharply. This puts sharp limits on the price objectives that exporting countries could aspire to. In these circumstances, it is arguable that developing countries would gain more from free trade in sugar than from price manipulation. However, the tendency seems to be for more rather than less agricultural protectionism in importing countries, so that a sugar agreement still retains considerably more luster in exporters' eyes than the unlikely alternative of free trade.

Tin Stays Buoyant

The Tin Agreement (1954 to date) operates under some of the same conditions as the earlier Tea Agreement. There are only five major signatory exporters (Malaya, Indonesia, Thailand, China, Bolivia), dominated by Malaya; there are a relatively small number of producing units. Tin, like tea, can be "stored" easily, either by mining less, or by stockpiling. The agreement provided for a buffer stock, in addition to export quotas, which helped to manage supply. The buffer stock manager bought tin when prices fell below a floor level and sold it when they rose above a given ceiling. After considerable price fluctuations in the 1950's, the world price of tin began to rise in 1960. By 1961, the buffer stock was sold out of tin, all export quotas were off, and world prices since have been consistently far above the pre-1961 levels. The agreement remains in effect inoperative today, because of continued strong demand. Both floor and ceiling prices were raised when the agreement was last renewed (1965). The presumption is that tin prices will therefore remain well above the levels that led to the original agreement.

As in the case of tea, it may be questioned whether international action in the world tin market is a significant force in promoting economic development. Concentration of production is great, and although Bolivian, Indonesian, and Chinese governments, with their nationalized tin industries, clearly benefit from the rise in price, Bolivia is the only one that is heavily dependent on tin exports as a source of income.

Coffee Is Successful; Or Is It?

The International Coffee Agreement, negotiated in 1962, has clearly succeeded in maintaining export earnings of coffee producers above equilibrium levels by a system of export quotas. As might be expected, its very success threatens the stability of the agreement. By providing high and stable prices for coffee, it tempts producers to evade export controls. It therefore places a great burden of self-restraint on the major producers, Brazil and Colombia, who face erosion of their market shares at the hands of Central American and African producers. These smaller producers are unwilling to establish close control over exports and production. Even though importing members are theoretically unable to take extra-quota imports from exporting members, there seems to be a good deal of evasion in the form of transshipments through nonmember countries or so-called "new markets" not subject to the quota provisions.

In terms of many of the criteria discussed—demand elasticity, substitution, widespread benefits—coffee is an appropriate product for price-fixing arrangements. But the willingness and ability of the smaller producers to control supply still remains an open question, and it may be doubted that Brazil will consent to continual reduction of her share of the world coffee market by what are in effect extra-legal methods of quota evasion on the part of small producers. Recent modifications of the Coffee Agreement are designed in part to solve this problem.

Changing the Rules

The agreement is administered by a Coffee Council, composed of representatives of importing and exporting countries. The council regularly receives pleas for export increases from members who are unable or unwilling to control production and exports. The agreement assigns fixed percentages of the export market to each exporter so that selective quota changes are theoretically forbidden. In practice, however, when the alternative is collapse of the agreement, the council has devised ways of changing the rules. The most recent set of rule changes, adopted in September, 1966, is worth reviewing in detail as the first consistent effort to deal with the obstacles to price-fixing objectives and economic development goals.

First, the council explicitly recognized that the world coffee market is composed of submarkets for the four main types of coffee: Brazilian arabica, Colombian and Central American arabica, and African robusta. In the future, export quotas will vary by coffee type. This will presumably allow the major robusta producers (Ivory Coast, Cameroons, Angola) to increase their exports faster than other growers, reflecting the steady growth of demand for the lower-priced robusta in instant coffee preparations. It also offers an additional advantage: robusta producers generally complain that their quotas are too small under the existing agreement, and these producers are also often the least able to control production and exports.

A second element of the revised agreement combines temporary quota increases of varying percentages (zero for Brazil and Colombia and up to 10% for some African producers) with use of the proceeds to promote production control. Each country receiving a quota increase agrees to put into a special fund either 20% of the increased sales proceeds, or an amount of coffee equal to the amount of the quota increase. Each country will use the fund, under rules established by the Coffee Council, to promote agricultural diversification. This provision is presumably aimed both at promoting the economic development of the exporting countries and at meeting the objections of Brazil and Colombia to the perpetual growth of uncontrolled supply in other countries.

The third element proposed in 1966 (but not yet adopted) was a tax of one dollar on each bag of coffee exported under the agreement, to be paid by the exporting country. This would produce a revenue of about $45 million during the current marketing year. The proceeds would be used to finance programs of agricultural diversification, under control of the Coffee Council.

Finally, the council took steps to limit evasion of export quotas. Importing members agreed to limit their imports from nonmembers. Beginning in 1967, exporting members cannot ship coffee unless the export documents bear a stamp obtained from the Coffee Council. These devices can also be viewed as efforts to satisfy Brazilian demands for more effective control over world supply.

Outlook on Cocoa

Among the major products discussed here, only cocoa and bananas have not yet been subject to international commodity controls. Cocoa qualifies on many of the same grounds as coffee, but is difficult to store in the tropics, and faces a greater threat of competition, either from vegetable oils (used in place of cocoa butter) or from other confectioneries. Efforts at agreement failed in both 1963 and 1966, because of disagreements between producers and consumers as to the price at which export quotas would become operative. More recently, it has been suggested that a cocoa agreement include provision for a buffer stock, along the lines of the tin agreement, in order to maintain price within agreed limits. A cocoa agreement would provide a number of the prerequisites: one or two major exporters (Ghana, Nigeria), large numbers of producers, inelastic demand, good possibility of devoting excess profits to development goals. It is less certain that the African countries can effectively control supplies. This is probably one major reason for their insistence on an international buffer stock. Unfortunately, the producing countries seem reluctant to recognize that buffer stocks exist not only to buy, but also to sell, so that the buffer stock cannot be relied on as a permanent siphon for excess production.

Is It All Worth the Effort?

This review of the major products suitable for conscious efforts at price fixing shows that the possibilities are limited, the complexities of production control great, and the technique essentially inefficient as compared to direct aid. Furthermore, as noted above, the export quota system offers little incentive to efficient new producers, because it freezes an historical production pattern, without much regard for changing cost and demand patterns (although it is theoretically possible to adjust export quotas selectively, no exporter wants his share reduced).

Coffee and cocoa are widely produced by individual farmers, so the allegation that high prices benefit only the plantation owner is clearly untrue for these crops. For sugar and tea, the charge may be closer to the mark, although there are many small producers and export taxes can be used to siphon off excess profits, unless the government is dominated by producer interests. Tin is a rather special case where demand has long been buoyant; half the world's output stems from nationalized industries (Bolivia, Indonesia, China, Russia) and most of the rest from Malaya. There seems no particular reason to believe that for these five products the distribution of gains from higher commodity earnings need be more inequitable than those stemming from other forms of aid (except food aid, which presumably benefits low-income groups most).

Recent developments in the Coffee Agreement indicate the commodity agreements may be a more flexible device for promoting economic adjustment than was previously supposed. It is obviously too early to judge the success of these measures in their dual objectives of controlling coffee supply and promoting the agricultural development of exporting countries. The most significant element is clearly the diversification fund. In embryo at least, it foreshadows a principle of international control of the proceeds of monopoly pricing in the interests of economic development. In that respect, the Coffee Agreement becomes, in part, an aspect of international economic assistance under the joint policy control of rich and poor countries. This novel organizational device may if successful, offer broad possibilities for application to other commodities and, for that matter, for other forms of economic aid.

However, this qualified support for a limited number of commodity agreements is, from another viewpoint, an admission of their weakness as answers to the world's commodity problems. Such agreements are only one element in a general policy to improve the trade position of commodity-exporting countries. The other elements include:

(1) Major efforts to increase the productivity of industries facing competition from synthetic substitutes or competing production in importing countries (rubber, fiber, sugar, rice, oilseeds).

(2) Reduction of protectionism in importing countries (petroleum, sugar, tobacco, nonferrous metals, fruits, meat, etc.). This is probably the largest potential source of increased exports for poor countries. Free trade in sugar alone might increase underdeveloped countries' exports earnings by nearly one billion dollars, at least as much as the amounts forthcoming from price-fixing agreements for coffee, cocoa, sugar, tea and tin combined.

(3) A system of international compensation for countries whose export earnings lag over a period of several years because of market factors beyond their policy control (e.g., Brazil from 1959 to 1963). This would be in addition to existing IMF loan facilities for countries facing short-term balance-of-payments problems that have arisen from commodity price fluctuations.

The excessive emphasis that the poor countries have placed on high prices reflects in part ignorance of the limitations of this technique; in part, the related belief that economic justice requires a fair price for exports; and, perhaps most important, pessimism about the likelihood of trade liberalization by the rich countries. But their confidence seems misplaced; the experience of the past five years makes it increasingly clear that no panacea will emerge. Each of the four elements—price objectives, higher productivity, trade liberalization, and balance-of-payments compensation—should play a part in a long-run adjustment effort for the nearly two billion people whose livelihoods now depend on commodity production. As long as the economic welfare of most people depends on markets for food and raw materials, the commodity problem will remain in the center stage of the world's political economy.

NOTES

1. The commodity marketing boards in West African countries were designed to operate in such a manner, and during the era of high commodity prices following the Korean War actually amassed considerable reserves. The combination of declining prices and pressures to spend reserves, stimulated by postindependence developmental goals, has largely succeeded in eliminating the income-stabilizing functions of the marketing boards.
2. *Export Fluctuations, Growth and Policy* (Harvard University Press; to be published this year).
3. Exporting governments can profit from higher prices even under elastic demand, if the labor and capital released from commodity production can be effectively used in other economic activities. But the mobility of labor and capital in poor countries is often quite limited.
4. John Pincus, *Trade, Aid, and Development*, New York, McGraw-Hill, 1967.

FOOD AID

Mr. McASHAN (continuing). American farmers can produce food as efficiently as any part of the world, due to their mechanization, cultural practices, sound infrastructure and marketing organizations, particularly if our farmers are not prevented from doing so by acreage restrictions or other controls.

In a shortly to become hungry world our ability to provide food aid will give us a strong negotiating tool to persuade the recipient nations to follow sound development programs of their own, and to take the lead among other developed countries who should share this burden proportionately with us.

Food for aid must be bought from our farmers by our Government, and partially processed in American plants, thus providing a measure of stabilization here at home with less market disturbance than recent price support programs.

PAYMENTS UNION

Just as the United States financed trade balances for and between European nations in the early days of the Marshall plan, and with very small financing loss to us in doing so, we can now provide backing for a payment union or clearing pool with the LAFTA countries or other free trade areas.

The advantages would be two:

(a) it would introduce more credit in a credit-hungry area, and

(b) it could encourage trade liberalization within the area by providing a cushion against any immediate adverse balances.

The value to new trade areas in the developing countries of such a clearing pool will be so great that it can become one of our strong bargaining points, at negligible cost to us.

Representative BOGGS. I thank you very much.

Mr. MCASHAN. Mr. Chairman, one other thing.

On the plane coming up last night I had a chance to read the papers submitted by Mr. Roth and Mr. Solomon, both of which I obviously endorse as basic parts of our future trade policy.

Representative BOGGS. Thank you very much for your very fine statement.

We will now hear from Mr. Gilbert.

We are very happy to have you with us, Mr. Gilbert.

STATEMENT OF CARL J. GILBERT, CHAIRMAN OF THE EXECUTIVE COMMITTEE, THE GILLETTE CO., BOSTON, MASS.

Mr. GILBERT. Thank you, Mr. Chairman. My name is Carl J. Gilbert. I am chairman of the executive committee of the Gillette Co., but I will testify in my individual capacity.

We are concerned here with future U.S. trade policy. In the light of what has occurred in the Kennedy Round, I would think that what we need immediately is an extension of the unused authority in the 1962 act for housekeeping purposes, as Ambassador Roth proposed, a liberalization of the adjustment assistance provisions of that act and the approval by Congress of the second package on chemicals (or ASP). This seems to me a minimum at this time. And I join with Mr. McAshan in endorsing the comments Mr. Roth made before this subcommittee last week.

It seems to me that the deliberations of this committee are very timely in view of the need for early action by the Congress on the course of action proposed by Ambassador Roth. Equally important, it seems to me, is the hope that your deliberations may help to focus national attention, both in the Government itself and on the part of the public, on the formulation and appreciation of a national commitment to a long-term trade policy as a part of a considered national foreign economic policy. I suppose that there is no other area of public affairs in which there is a greater need for consistency and stability than in the broad area of foreign economic policy. The day must come when every decision—legislative, executive, and private—must be tested against the standard of its consistency with the country's foreign economic policy before taking action. We cannot expect consistency or stability so long as our foreign economic policy remains obscure, unformulated, and ascertainable only by a process of deduction from a series of ad hoc actions in various areas of national concern. This need has gone unanswered for many, many years. Our involvements in the world scene are economic as well as political and equally so are irrevocable and call for long-term policy planning of a very high order.

The trade policy goal on which we should set our sights is freedom of international trade on the part of the world's economically advanced countries and regional instrumentalities, accomplished in accordance with a negotiated timetable and providing for appropriate differences in phasing to reflect the capabilities of specific countries and specific types of production. Setting our sights on this objective and identifying ourselves unmistakably with its implementation is the route of maximum effectiveness in overcoming the many obstacles that made the very real achievements of the Kennedy Round considerably less than the goals considered a few short years ago to be essential (and which are still essential) to our national interest. A clear national commitment to this long-term objective stands the best chance of overcoming the short-term impediments to continuing genuine progress in liberalizing world trade.

Pointing the way to this long-range goal in this vital area of both foreign and domestic policy is of great importance to all sectors of our highly productive economy, and not just in terms of their stake in export expansion. As entrepreneurs in manufacturing, mining, and agriculture make decisions that must continually be made with respect to investments, pricing, sales promotion, and design, and all the other decisions so essential to effective business planning, it is important for those who make these decisions to take appropriate account of their government's long-term policy with respect to our trade with the rest of the world. A policy tending toward trade restriction, or indicating a posture of even temporary uncertainty regarding future policy, will tend to encourage efforts to impose restrictions on trade and to rely on such restrictions, present or hoped for, instead of pursuing efforts to generate the best kinds of job opportunities and the highest levels of economic performance of which a free enterprise economy is capable.

Pointing the way to these new goals of freer world trade is also essential at this time to the scores of countries with which we trade, and whose economic strength and cooperation are essential to the achievement of our highest international objectives in the world at large. The message from America to nations at all levels of economic development should not reflect uncertainty regarding the future course of American policy, and it should certainly not indicate any possibility of this country returning to points of no return we wisely decided to pass so long ago.

The economically advanced countries should know where we stand and the direction we intend to take, as they proceed with their own policy planning, in some cases as part of regional free trade communities. The clear determination of the United States to continue to progress toward freer trade, and even to accelerate progress in this direction, will tend to influence private and governmental decisions in those areas in ways that accelerate sound economic growth, raise living standards, and expand markets for producers everywhere, including our own. Convincing evidence of our own determination to cooperate in reducing artificial barriers to world trade is the policy declaration best calculated to stimulate other economically advanced nations and regional instrumentalities to liberalize foreign access to their own internal markets. And, working together in this way, the economically advanced economies can proceed most effectively to carry their full share of the needed efforts to speed the development of the less-developed countries—both through foreign aid programs and through expanding the access of goods of all kinds from the less-developed countries to the world's best markets.

In declaring our readiness to pursue such a policy without delay in the years to come, we shall be reaffirming, in convincing action, to the world's less-developed countries and the millions of people who live there that there is a meaningful place for them in the world economy dominated by advanced nations of the northern hemisphere. By doing so, we shall also be serving our own enlightened self-interest.

I think it should be emphasized that trade policy initiatives are not the sole responsibility of the United States. We should, of course, seek the cooperation of other governments in implementing initiatives in which we have played a leadership role. We should also invite other governments to step forward with their own trade policy initiatives and to seek the cooperation of the United States in exploring new frontiers of freer world trade. We should invite other governments to assert themselves in this way, and promise them the earnest participation of the U.S. Government in exploring ways and means for successful international cooperation in this vital field.

The Federal Government itself should, it seems to me, pledge to the country its earnest efforts to help in the most constructive way to prepare the American economy both to adjust successfully to the higher degrees of international competition that lie just ahead and to capitalize fully on the higher degrees of export opportunity which are the other side of the same coin. The Federal Government should work closely with State and local governments to insure a domestic policy framework within which the American economy may achieve the pace of economic growth and adjustment-to-change that are so necessary to backstop the new efforts that will be made to remove artificial restraints on world commerce.

The private sectors of the American economy should reassess their operations across the board to make sure that everything possible is being done to secure for themselves a durable and highly productive place in an increasingly interdependent world economy—one that is moving resolutely toward freedom of international trade. All State and local governments should also undertake a fresh look at their own policies and practices affecting the prospects for durable competitive strength in this kind of world. The Federal Government should reassess its own policies with this objective in mind, and this includes devising ways in which the Federal Government can be helpful to State and local governments, and to the private sectors of the economy, as they prepare for the part they must play in building a brighter future for the American people, and in insuring the successful participation of their country in helping to build a brighter future for peoples throughout the world.

It seems to me clear that history tells us that world attitudes toward trade restrictions are never static. They are always in a state of flux. We led the world once down the path of trade restrictions via the Smoot-Hawley Tariff Act of 1930. By that action we triggered off a wave of severe trade restrictions which in a short period brought world trade to a virtual standstill and contributed in a major way toward converting a serious recession into the great depression from which we only emerged during the aftermath of World War II. We can't turn the clock back and retreat into a sort of fortress America in economic terms. The momentum toward freer trade must be maintained if this complicated world we live in is to continue to produce a constantly higher and higher standard of living for more and more of its population. In attaining this aim lies an exciting and satisfying future for our country. God alone knows what the result would be if we should fail.

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

We will now hear from Mr. Balgooyen.

STATEMENT OF HENRY W. BALGOOYEN, PRESIDENT, AMERICAN & FOREIGN POWER CO., NEW YORK, N.Y.

Mr. Balgooyen. My name is Henry W. Balgooyen. I am president of American & Foreign Power Co. and I recently completed a 3-year term as president of the Pan American Society of the United States.

My interest in foreign trade policy derives from more than 30 years of activity in the foreign investment field in Latin America with an American company having extensive investments in Latin American utilities, and, recently, in diversified industrial investments. My remarks, therefore, are directed toward those elements of foreign economic policy which have a direct bearing on inter-American trade and investment.

The interrelation of foreign trade and foreign investment is apparent to any participant in either activity. The foreign investments of American corporations are principally in the form of exports of capital goods and equipment of U.S. manufacture. The new industries which are created and fostered by American investors increase the productivity of the recipient or host countries, create new sources of employment and income, and stimulate new wants and desires which are rapidly translated into demand for imported products as well as goods of local origin. This is particularly true of our direct private investments in the developing countries; and among the developing countries, those of Latin America provide the largest and most productive market for American goods.

Foreign trade is vital to the success of the ventures of the millions of American citizens who invest in the securities of companies with foreign operations. It is largely by foreign trade that the host countries acquire the dollars to service these investments and pay for the imports of capital goods required for their industrial development. Dollars are provided, also, by the foreign expenditures of American tourists and other service transactions; by new dollar investments; or by loans and gifts from the U.S. Government and various lending agencies and institutions. Speaking from many years of experience in dealing with Latin Americans and their governments, I can assure you that they would rather earn these dollars than to be dependent upon loans which have to be repaid with interest, or upon largesse which deprives them of their pride and self-respect. I can assure you, also, that however important and necessary these government loans and gifts may be to the recipients, their needs for the capital, technology, skills, and administrative experience they obtain with private U.S. investments are even more vital to their economic development.

Now, how do we stand in our trade with Latin America? Do we buy sufficient Latin American products to enable our trading partners to import the capital goods required for industrial development to meet the growing demands for consumer products created by rising living standards, and to service the estimated 9 billion of the dollar debt of their governments and the $9½ billion our private investors have ventured in Latin America?

The answer, of course, is that we do not. In fact, we don't even come close. Last year, we spent $3,970 million on imports from Latin America and sold them goods in the amount of $4,235 million, leaving them with a deficit of $265 million in their trade with us. At the same time, our private investors earned and remitted $888 million, while the interest and amortization charges on their foreign debt—perhaps three-fourths of it in dollars—cost them well over $2 billion.

Latin America's foreign debt has been increasing so rapidly that its servicing now consumes one-sixth of its earnings from exports. It becomes pertinent, therefore, to ask how much more debt these countries can stand and remain reasonably solvent. Clearly, if our Latin American friends are to make any economic progress without becoming increasingly dependent upon U.S. aid, ways must be found to enable them to increase their export earnings—to replace their trade deficit with the United States, their principal trading partner, with a surplus. The unfortunate fact is that Latin American exports have been losing ground, not only as compared with exports from the industrial countries, but even when compared with exports from other less developed areas.

What avenues are open to us, in the area of foreign trade policy, by which we can assist the Latin American nations to increase their export earnings? The first and most obvious is by the removal of any remaining barriers, not absolutely essential to our national interest, which impede the entry of Latin American products to the United States.

One of the complaints most frequently heard in Latin America is that we exhibit great interest in our Latin American neighbors in time of national emergency but quickly forget them when the crisis is over and proceed to reimpose trade barriers of various kinds to keep out their exports. In an address delivered some years ago, Henry Holland, then Assistant Secretary of State for Inter-American Affairs, called attention to the fact that, except for coffee and bananas, which we don't produce, every one of the 10 principal export products of Latin America had been subjected to trade barriers of one kind or another. The situation has improved in the intervening years, but we still have restrictions of various kinds on such Latin American products as petroleum, sugar, cocoa, wool, beef, cotton, lead, and zinc.

European barriers to Latin American products are much more extensive than ours, and their discriminatory preferences in favor of other producing areas are a further handicap to Latin American exporters. Efforts were made by our negotiators during the Kennedy Round to have some of these barriers and preferences removed. It is generally conceded, however, that for the less developed countries, the results of the Kennedy Round were far from encouraging. Nevertheless, we should continue these efforts, along with a constant review and study of our own restrictive trade policies relating to products which, otherwise, could be imported advantageously from Latin America.

Looking to the future, we should be prepared for the emergence of the Latin American countries as exporters of semimanufactured and finished goods; and we should do all we can to encourage this development. Unhappily for Latin America, the incidence of tariff duties on products which they are in a most favorable position to process and manufacture increases with the degree of fabrication, thus creating a disincentive for industrialization. This is true of wool, cotton, rubber, wood, cocoa, leather, copper, and many other products.

I am not suggesting that the obstacles to Latin American industrialization and exports are all of our making or that they all are external in origin. The most difficult problems are the internal ones; the emphasis on import substitution behind tariff barriers rather than on efficient production for export; the formidable geographical barriers to internal trade and commerce; the limitations on economies of scale imposed by their small domestic markets; the prevalence of inflation, often self-inflicted as a result of overspending by governments on high-cost and inefficient industrial projects which might better be left to private enterprise; inexperience in producing for, and in cultivating foreign markets; and low productivity resulting from lack of education and industrial skills, and other factors. Nevertheless, despite these obstacles, such countries as Mexico, Brazil, and Argentina are developing significant export capacity in manufactured goods, and there are numerous opportunities in these and other countries for industrialization and exportation of indigenous raw materials, if the United States and other industrial countries are willing to open their doors just a little way so that some of these products can enter.

The Latin American nations, together with other less developed countries, have been urging for some time that the industrial countries should be willing to grant tariff and other trade concessions to them, without expecting reciprocity as a contribution to their economic growth and development. This was the dominant theme at the UNCTAD Conference in Geneva, and it was taken up by the Latin American nations at the recent Summit Conference at Punta del Este. President Johnson promised, at Punta del Este, to consider what might be done by the industrial countries in the way of providing such preferential treatment. Beyond this, there have been recurring suggestions by Latin Americans and their friends in the United States that our Government should extend such concessions or preferences on a Western Hemisphere basis, regardless of what other nations may do.

The principal argument against the granting of such preferential concessions is that this would violate the most-favored-nation principle and the commitments that the United States has undertaken as a leader in world trade, under the GATT agreements. As a matter of fact, however, the most-favored-nation principle is being violated every day by the entry of duty-free African products into the EEC countries, and by the longstanding system of British Commonwealth preferences. While it is understandable that the United States should take the position that preferences, if granted, should be extended to all the less developed nations on an equal basis, I suggest that, if this principle continues to be violated by the other industrial nations, we should be prepared to set up our own system of Western Hemisphere preferences and to seriously study the practicality of setting up a common market of the Western Hemisphere.

If Great Britain and the EEC countries have special interest in, and special responsibilities toward, the British Commonwealth and certain African countries, I submit that we have equal responsibilities toward, and greater interests where Latin America is concerned.

I would caution, however, that any trade preferences extended by the United States to the less developed countries in general, or to Latin America in particular, should not be unqualified or unlimited in duration. Rather, they should be granted in the form of incentives for adherence to specified standards of performance, and should be subject to continuing review. Performance in such matters as fiscal and monetary policy, treatment of domestic and foreign private investments, and removal of export taxes and other self-created impediments to export, and adherence to reasonable standards of efficient production and quality control should be considered in this connection.

In the case of Latin America, specifically, the granting of trade preferences or other export incentives should be related to Latin American efforts and progress toward the elimination of excessively nationalistic restrictions and the creation of a larger intra-American market through development of LAFTA, CACM and, ultimately, the proposed Latin American Common Market. The advantages to be gained through the creation of a free-trade area, or a common market, are well known to our Latin American friends, but a major effort, over an extended period of years, will be required to remove the economic, financial, psychological, and nationalistic obstacles that stand in the way of its accomplishment.

Another positive contribution that we might make to Latin American export expansion and economic development lies in the politically sensitive field of agricultural policy. Our protectionist policies in the form of domestic price supports, export subsidies, and disposition of farm surpluses abroad on noncommercial terms, are frequently in conflict with our proclaimed objective in the area of foreign economic policy, and in the Alliance for Progress. If we are sincere in our stated purpose of assisting our Latin American neighbors to be self-supporting and prosperous, we should subject our own policies, both domestic and foreign, to continuous review to be sure that they are consistent with these objectives.

One of the most serious of Latin America's economic problems is the failure of its agricultural production to expand in line with population growth and the increase in industrial production. Latin America needs financial and technical help to remedy this deficiency, but it makes little economic sense for us to extend this assistance and, at the same time, provide unfair competition for their producers by subsidizing our agriculture and undercutting their export markets. I am not suggesting that intelligent self-interest should bow to the dictates of foreign economic policy or good neighborliness, but we might be able to save some money, and do our own consumers a good turn, by providing incentives for our farmers to stop producing commodities which can be imported more economically from other countries.

At this point, I would like to make a brief comment on a related matter on which hearings were recently held by the Committee on Banking and Currency: whether we should condition our contribution to a projected increase in the capital of the Inter-American Development Bank—which has been called the bank of the Alliance for Progress—to an agreement that the dollars loaned by the Bank must be spent in the United States. It seems to me that, as a practical matter, the borrowers should be free to spend these funds in the most economic manner—to purchase at the lowest price consistent with quality and performance. Certainly, a Brazilian borrower should not be precluded from purchasing in Argentina, or vice versa, if we mean what we say about encouraging Latin American integration and industrial development.

I will readily concede that some of the suggestions I have made may seem to conflict with efforts to bring our international payments into better balance; but I don't think it behooves us, on the one hand, to try to improve our balance of payments at the expense of Latin American countries while, with the other hand, we are loaning them money to improve their payments position. I feel very strongly that, despite our global commitments as a world power, Latin America is our primary field of interest, and anything we can do to assist our good neighbors and trading partners to speed their economic development and social progress by helping them to help themselves not only will be a sound investment in inter-American relations but will be a real contribution to our own national welfare and security.

I thank you for giving me this opportunity to express my views on some of the elements of our foreign trade policy that have a bearing on our inter-American relations.

Representative BOGGS. Thank you very much, Mr. Balgooyen.

Senator Symington, do you have any questions?

Senator SYMINGTON. Thank you, Mr. Chairman. First, let me compliment the Chair for having these most constructive hearings.

Mr. Gilbert, I notice you represent one of the great corporations in this country, which excels in automation and has a strong position in foreign trade. I come from a State which is first in the shoe industry. It is difficult for my people to compete because of the tremendous difference in the standard of living, specifically, wages. The shoe business here is being steadily eroded due to foreign competition, primarily from Japan, secondarily from Italy. I am wondering how you feel about that, from the standpoint of the future of U.S. business?

Mr. GILBERT. I am not qualified, Senator, to talk about the shoe industry specifically. I think basically I have come to believe over the years that our country would be better off if we do the things we can do best and take advantage of corresponding skills in other parts of the world, and by this route our people will end up leading the best possible life. And if it requires a future negotiation, or future legislation, the problem comes up as to a specific industry. And I tried to point out in my short remarks the timing and phasing—how one arrives at a free trade goal depends upon problems in particular industries in particular countries.

I would like to differ with you just a second on the use of the term "automation." I don't know what it means. And in that sense I don't believe Gillette is characterized by automation in the sense that you put an IBM tape in a machine and it runs the machine alone. And what we have done, I think, is typical of industry in general since the beginning of the industrial revolution. We have tried to improve the productivity of men by intelligent application of proper tools for them. I am sure this has been done in shoes as well as in other things. Whether it has been done to the limit I have no opinion. And whether it has been done as much as it could be done if they were pressured by foreign competition, I don't know either.

But I think these are good questions. I think that our country will move toward a more efficient production the more competition they have, whether it be internal or external.

Senator SYMINGTON. I appreciate that. Much of foreign automation—the word was applied after World War II—we gave abroad many billions of dollars of our best equipment. As a result, foreign competition has the same machinery, the best in this country. It has been given or loaned.

Do you have a patent position in, say, Japan?

Mr. GILBERT. Not of any basic consequence.

Senator SYMINGTON. An interesting answer.

Mr. GILBERT. I would like to make a point, if I may, Senator. Looking at the growth and the development of our company—as you know, we are in many places abroad—I would have no qualification for my opinion that our company's strength comes from the fact that we are able to attract the best technology from everywhere in the world. There was a time at the end of the 1930's when, if it hadn't been for the fact that our British subsidiary was doing a better job of making blades than we were in this country, the company would have probably gone out of business. As you look around the company, in all of our machine shops you will find Cincinnati milling machines, Genevaire drill presses—we look to the best there is in the world, and get it, and combine them, and make them go to work for us. And I think this is where strength comes from industrially.

Senator SYMINGTON. Thank you, Mr. Gilbert.

Mr. Balgooyen, you say "we exhibit great interest in our Latin American neighbors in time of national emergency but quickly forget them when the crisis is over." To what are you referring?

Mr. BALGOOYEN. In am referring specifically to World War I, World War II, and even now when we are engaged in Vietnam, when we need to have the strategic materials that Latin America produces, materials such as copper, for example, and we remove the impediments to their exports. But after the emergency is over, then we hear from our own producers. The tendency has been in the past to reimpose these restrictions after the emergency is over. That was particularly apparent after World War II. I am not indicating that we forget them completely; but, in the matter of helping them to promote their export trade to this country, we do have a tendency to forget them.

Senator SYMINGTON. Thank you.

You mentioned that "the entry of duty-free African products into the EEC countries by the longstanding system of British Commonwealth preferences." But it is true, is it not, that the French have said to the Germans, you scratch our agricultural back, and we will scratch your industrial back, and together we will keep out as much Anglo Saxon trade as we can. If you take that as a premise, would you say it was more important for us to work with the countries of Central and South America, or with the countries in EFTA, including Great Britain and the Commonwealth countries outside of EFTA, in order to attempt to establish our own bloc as against the European bloc. Which do you think the more important?

Mr. BALGOOYEN. That is a very good question, and I wish I were qualified to give you an unqualified answer. But I am not.

Certainly, we have to maintain the very close relations that we have had traditionally with the Western European countries, Great Britain, France, and the other countries. But I feel very strongly that so far as the less-developed world is concerned our primary interest is in Latin America. In time of great national emergency we have always found that we can count upon the Latin American nations to supply us with the essential strategic raw materials and foodstuffs we need. And I think we have to protect our position in this hemisphere.

Right now the Latin American countries, as we know, are not making the progress that we hoped that they would make under the Alliance for Progress. The gap between their standard of living and ours is not narrowing. We are reaching a situation, as I indicated in my testimony, where it seems to be economically impossible for the Latin Americans to import the machinery and equipment that they need to speed their industrial development, and to service the investments and the loans that our Government and our citizens have extended to Latin America, unless they can export more of their products.

So, the matter of assisting Latin Americans to increase their exports, particularly in this market in the United States, which is their most important market, becomes a matter of prime importance. Latin America is a field of strategic interests as well as political interest, as is evidenced by the great efforts that the Communist world has made in getting a base in Cuba and exploiting it, which they are doing now by means of guerilla movements all over Latin America. By the end of this month an international meeting will be underway in Havana, a gathering of guerilla chieftains from Latin American countries, supported by the Russians, and of course promoted by the Russians, and their Castro Communist allies. And I am quite concerned with what may happen over the remainder of the year and next year in Latin America as a result of this conference.

This is a rather lengthy explanation, but my concern for Latin America is colored by the direction that I see that some of these political development as well as economic developments are taking in that part of the world.

Senator SYMINGTON. Thank you.

I have one more question, Mr. Chairman.

In your statement, where you discuss the question of contributions to increase the capital of the Inter-American Development Bank, are you talking there about hard loans or soft loans? Specifically, are you talking about loans of from 30 to 40 years, with no interest, and just a carrying charge, with a period of grace for the repayment of capital, or are you talking about a straight business transaction?

Mr. BALGOOYEN. During the hearings it developed that some of the Congressmen were considering proposals for tying the loans of the Inter-American Development Bank—and I am not sure whether they were only hard loans, or both hard loans and soft loans—to the purchase of materials and equipment in the United States with the proceeds of these loans. And during the course of the hearings an example was cited, I believe, of a Chilean borrower who might be able to buy his requirements in Peru cheaper than he could in the United States, and what did I think about that.

My answer was that, No. 1, I thought that in view of the limited borrowing capacity of all the Latin American countries, they should be able to use the funds they borrowed as economically as possible, and get as much for their money as they could. And No. 2, certainly if Chile can buy something in Peru, it assists the attempts that these countries are making toward economic integration. And since we have said that we are in favor of economic integration and industrialization, we certainly shouldn't try to preclude that kind of a transaction.

Senator SYMINGTON. If you make a hard loan, I couldn't agree more. But a soft loan, you might as well give them their money and forget it, don't you think, a 50-year loan, no interest, no repayment of principal, say, for 10 years? We have put a lot of money in that kind of a loan. If you don't specify the money has to be used in the United States, why not get rid of all the bureaucratic costs incident to following the loan, and just give it to them? You would be better off from the standpoint of overhead.

Mr. BALGOOYEN. I am psychologically opposed to soft loans. But you have a situation in Latin America of course, as I have indicated, where they are so far in debt, particularly in dollars, that it is a question of whether they can stand it. And so it becomes a matter of necessity, I am sure, in some cases, to grant this assistance on a soft loan basis. And I fully appreciate the arguments for spending the proceeds of these loans in the United States. Otherwise, as you say, they become gifts. And they are pretty close to gifts anyway and for all we know they may ultimately be gifts.

But at the same time, whether it is a soft loan or a hard loan, if $10 million is loaned to Chile, I would think that we would want the Chileans to buy as much of their necessities with that $10 million as they possibly could, even if they had to buy it in some other country.

Senator SYMINGTON. Thank you, Mr. Chairman.

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

Senator MILLER. Thank you, Mr. Chairman.

Mr. McAshan, in your statement you say, "many of the less-developed countries cannot be expected to become fully self-sufficient in foods and fibers." Would you include India in that category?

Mr. MCASHAN. Yes, certainly, I certainly would. India is probably less self-sufficient than many of the other countries.

Senator MILLER. I am not talking about what it is now, I am talking about what it can be. And your statement is that many of the less-developed countries cannot be expected to become fully self-sufficient.

Mr. McASHAN. Well, I should possibly have said, for many, many years, until they change their systems in India, and until they are willing to get rid of some of their prejudices that we are all familiar with. For example, India is one of the greatest producers of peanuts in the world. They extract the oil from those peanuts and use the oil for cooking purposes, but they will not allow the meal to be used for human food, although peanut meal is very high in protein, and is just exactly what their children ought to be fed. They have got to get rid of those kinds of prejudices first.

Senator MILLER. In our food aid program to India, as you probably know——

Chairman BOGGS. I am quite curious; why won't they?

Mr. McASHAN. As I understand it, it is a matter of their religion.

Chairman BOGGS. The meal for peanuts.

Mr. McASHAN. Yes, I don't know why. It is used for fertilizer only.

Senator MILLER. In our food aid program for India, as you probably know, we concentrate on wheat and other food grains. And under their new 5-year program they have, I think, a reasonable basis for hoping that by 1971 or 1972, with a reasonable amount of rainfall, and by breaking the fertilizer bottleneck, which they hope to do, that they can be self-sufficient in food grains. Now, this peanut matter may have some impact. But I would say that it would be very small compared to the food grains problem. And I was wondering whether or not you would accept that 5-year target. Or do you think that that is just a gesture of futility?

Mr. McASHAN. No, I wouldn't call it futile in any respect. I hope they do, but I don't know that they can.

Senator MILLER. We all hope that they do. But when you were talking about the fact that you expect many of these countries will not be able to become self-sufficient for many, many years, you included India in that category?

Mr. McASHAN. Yes. And the rate of their population increase will require a terrific improvement in their agriculture to keep pace with it.

Senator MILLER. There is no question but what it will require improvement. But with the hybrid seeds and with fertilizer, and with the tremendous amount of national effort with respect to irrigation and water wells, and with a reasonable degree of rainfall, why would you think it would be many, many years before India could become reasonably self-sufficient, certainly in food grains?

Mr. McASHAN. As much as anything from their past record.

But I certainly hope that they do, sir. It would be great if they do. The only point that I was making was that they could buy our wheat from our farmers with some of the other materials that they might do better with, that they might be better equipped to produce and export and pay for their wheat. That would be my only point.

Senator MILLER. Well, if they have the hybrid seeds and the fertilizer 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 possession 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	−1,085	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 matters 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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A more complete exposition of the argument of this article is to be published in a book tentatively titled "The Economics of Interdependence: National Economic Economic Policy in the Atlantic Community," by McGraw-Hill Co. for the Council on Foreign Relations. "Several paragraphs of this paper were included in a talk given at the University of Michigan and subsequently published in The Economic Outlook for 1965. I am grateful for permission to reprint them here."

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-

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[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,

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[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

[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 v^* 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 Chequers, 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

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[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

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[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 FOR 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.

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[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

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[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

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[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 suggested 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 percent 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-payments 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 operating 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 willing 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 before 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 hardheadely 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 anti-dumping 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 countries. 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 advantageous 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 manmade 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 [8]	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 con trol 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.
1 [1]	Eggs for brooding.
2 [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 cooked) 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 [6]	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
	Fabrics other than crepe, of artificial filaments:
5104 41 [9]	Gray or bleached.
	Dyed, with a width—
51	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.
	Printed, with a width—
61 [9]	Up to 115 cm.;
65 [9]	Exceeding 115 cm.
	Woven of dyed yarn, with a width—
71	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:
	Unbleached:
ex 11 [9]	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.
	Bleached, dyed, or printed:
51 [9]	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.
	Fabrics with warp—
21 [9]	Of synthetic filaments;
25 [10]	Of artificial filaments.
	Other fabrics, with a weight per square meter—
50 [10]	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;
	200 grams or less—
91 [10]	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 [illegible] grams.
	Fabrics with warp—
10 [10]	Of synthetic filaments;
	Of artificial filaments;
21 [10]	Unbleached or bleached dye;
	Dyed, with a width—
24 [10]	Up to 115 cm.;
25 [10]	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—
28 [9]	Up to 115 cm.,
29 [9]	Exceeding 115 cm.
	Other fabrics containing flax or ramie:
40	Linings for outer garments (padding).
	Other:
	Unbleached, with a weight—
51 [9]	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.
5507	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.
6‾03 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.:
	Of fine earthenware.
70 [9]	Of porcelain.
90 [9]	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 substantial 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 oill
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 outlined 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.

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[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

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

SITC	BTN	Products	Notifying countries
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

SITC	BTN	Products	Notifying countries
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

SITC	BTN	Products	Notifying countries
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 (testosterous, progesterone follic-ulin, 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

SITC	BTN	Products	Notifying countries
611.2	41. 10	Reconstituted and artificial leather containing leather.	ETI, GRC, TUR.
611. 3, 611.4	41. 02	Calf leather, bovine cattle leather, and equine leather.	ARC, BRZ, CHD, DR, ETI, GUA, GUI, IND, 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, batten-board, 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, boxes, 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	48.09	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 paper-board.	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, paper-board 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 to 652.29	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.
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.
653.52 653.62	ex 56.07	Rayon woven fabrics. Fabrics of synthetic Rfibers and spun glass.	CUB, GUA, IND, KRR, TUR, UGA.
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.
654.04 654.05	58.08 58.09	Tulle and other net fabrics	IND, KRR, MLT, PRT.
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.
656.61 656.62 656.69	62.01	Traveling rugs and blankets	ARG, CEY, CHL, COS, IND, NGA, NIR, TUR.
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.
662.44 662.45	ex 69.07 ex 69.08	Ceramic tiles	DR, GUA, MEX, PRT, SPN, TUR, UGA.
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.
678.2 678.3	73.18B 73.18C	Tubes and pipes and blanks therefor of iron or steel.	ARG, BRZ, ISR, MEX, TUR, UAR, YUG.
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.
682.11 682.12	74.01C 74.01D	Unwrought copper	CHL, COS, KRR, NEP, PER, TUR.
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

SITC	BTN	Products	Notifying countries
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	37.06	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	30.
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. Y/1.
112.13	22.06	Vermouths and other wines flavoured with armomatic extracts.	16–19[1] UA/hl			8–40	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;[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

SITC No.	BTN No.	Products	EEC	UK MFN	UK BPT	United States	Japan
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 rubb--er	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; 27 7/6	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.	⅚ 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
652.1 652.2	55.07 55.03 55.09 58.04A	Woven fabrics of cotton (not containing manmade fibers)	14–16; 19	17.5	do	7.75–33	10–25.
653.11	50.09	Woven fabrics of silk or of waste silk	14–17	22½÷2s, 3d, per pound.	⅚ 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.	⅚ 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 654.05 ex 654.06	ex 58.08 ex 58.09 ex 58.10	Tulle, lace, embroidery of cotton (not containing silk or manmade fibers.	15–23	25	do	19–60	15–35.
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: MFN	United Kingdom: BPT	United States	Japan
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	17.5–33¾	Free 20; 27	7–51	Free; 23.
656.61 656.62 656.69	ex 62.01	Blankets, etc. (not containing manmade or silk fibers)	19	20	Free	15–45	20.
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.
657.5 657.6	ex 58.01 ex 58.02	Carpets and rugs (not containing manmade or silk fibers)	24; 23	20	do	7–48.1	30.
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. kg.	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]	33⅛; 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; 14⅜; 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 821.02 ex 821.03 ex 821.09	ex 94.01 ex 94.02 ex 94.04 ex 94.03	Steel furniture	14; 17; 16	15; 20	do	10.5–35	20; 25; 30.
ex 831.0	ex 42.02	Luggage, handbags, purses	15; 17	15; 20	do	8.5–50	20–40.
ex 841.11 ex 841.12	ex 61.01 ex 61.02	Outergarments	18; 20	17.5–25	do	10–42.5	21; 25; 30; 40.
ex 841.13 ex 841.14	ex 61.03 ex 61.04	Undergarments	18; 24	20; 25	do	10–42.5	20; 30.
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

CONTENTS

[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

an element of protection for the agricultural component of the finished product and an element for protecting the industrial transformation process for the developing countries concerned. To eliminate only that part of the protection which covers the industrial transformation process would ensure for the imports of processed goods from developing countries equality of treatment as against domestically-produced processed goods. In cases where the protection of the processing industry is high, the resulting benefits for developing countries may not be negligible. On the other hand, whenever the agricultural inputs account for a high proportion of the value of the finished product, the full use of export potential of the developing countries for such products might still be severely inhibited if a part of the duty were allowed to remain.[1]

75. Questions might also arise on how to deal with products now under quantitative restrictions. When quantitative restrictions are imposed on imports of a product from all sources (developed and developing countries alike), the granting of preferences on such products might allow the developing countries to increase their exports and to obtain a larger share of the total imports within the quota. Where, however, quantitative restrictions are imposed only on imports from all or some developing countries, either in the form of global, bilateral or unilateral quotas, the granting of preferences might have only a limited positive effect on export earnings within the limits of the quota. Yet consideration must also be given to the possibility that if tariff preferences are granted on items under quantitative restrictions, domestic producers might experience additional pressure and thus be led to adduce additional arguments in favour of maintaining quantitative restrictions. Since a quantitative restriction is in most cases a much more effective barrier to imports than any tariff, it can be argued that nothing should be done that might in fact delay the relaxation or abolition of such restrictions. Accordingly, a relaxation of the restrictions might merit priority treatment, because even if the relaxation were only gradual, it would probably yield greater benefits than would an expansion within the quota of exports from developing countries.

(2) METHODS FOR DEFINING THE PRODUCTS SUBJECT TO PREFERENCES

76. The determination of the industrial products on which preferences should be granted presents difficulties also on account of the fact that there exists no internationally accepted definition of manufactures and semi-manufactures. Some treaties (e.g. in the case of EEC and EFTA) contain definitions of what may be regarded as agricultural products, so that they may be governed by different rules from those applicable to industrial products. But in the Kennedy Round negotiations, it was left to each country to draw a more or less clear line between mostly non-agricultural, i.e., industrial, products subject to the linear cut and agricultural products for which special arrangements were sought. From the formal and informal lists thus established, it emerges that there are products which are always regarded as industrial (particularly in Chapters 25 to 99 of the Brussels Tariff Nomenclature), others which are always regarded as agricultural (particularly in Chapters 1 to 24), while others again are treated by some groups or countries as industrial and by others as agricultural. Where attempts have been made to agree on a common list (as in EEC and EFTA), the negotiations have always been very difficult. These experiences have to be taken into account when defining semi-manufactures and manufactures for the purposes of drawing up a preferential system. Among the ways for solving the problem the following would appear to deserve special consideration.

77. One method would be to establish a common positive list of manufactures and semi-manufactures for which all developed countries would grant preferences without exclusions. Accordingly, no attempt would be made to agree on a definition of what are industrial products. The approach would rather be merely to pick out all items on which all developed countries could agree to grant preferences. However, this method is hardly to be recommended since even if one

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[1] The calculation of the element of industrial protection may sometime cause problems. These problems are, however, soluble, as has been shown by the experience in EFTA, where countries were obliged to eliminate the protective element embodied in fiscal duties. In EEC also, a distinction is made between the variable levy corresponding to the protection of the agricultural input and the additional fixed tariff corresponding to the protection of the industrial transformation process. For implementing a rule under which the element of industrial protection would be eliminated some provision for a review procedure would have to be allowed for.

country were to consider a given item as sensitive, it would be necessarily excluded from the list. If other developed countries were also to do likewise and exclude items which they regard as sensitive, the cumulative effect would be considerably to reduce the product coverage.

78. An entirely opposite method would be to abandon the endeavor to arrive at a common positive list and to leave it to each country to decide the items on which it would wish to grant preferences. This method would inevitably be unsatisfactory for it might lead to few effective preferences being granted, and this would also create problems from the burden-sharing point of view. It is true that an analogous method was employed in the Kennedy Round, because there was no common determination *a priori* of the list of products that would be subject to the linear cut. Yet, these negotiations were based on the principle of reciprocity, so that the equalization of the burdens of each country was allowed for by means of balancing the concessions granted. It was, therefore, unnecessary to ensure that the list of exceptions was more or less mutually equivalent. Clearly, the granting of preferences to developing countries cannot be based on the principle of reciprocity. Therefore, if some provision cannot be made for each developed country to exert a more or less equivalent effort as regards preferences, some developed countries might wish to grant preferences only on a restricted range of goods.

79. An intermediate method might consist in adopting a common definition of what are manufactures and semi-manufactures. but at the same time permitting each developed country to except certain items from the extension of preferences. An upper limit for such exclusions would have to be provided for (e.g. in terms of a percentage of each country's total imports of manufactures and semi-manufactures) to take account of the comparable contribution aspect dealt with under paragraph 78 above. This method might take it possible to arrive in principle at a reasonably wide product coverage; at the same time each country could within definite limits eliminate such items it regarded as sensitive, while other countries could nevertheless include them in the preferential sector. Provision for individual countries to exclude selected items would probably also tend to facilitate agreement on a common definition. It might then be possible to consider taking as a basis the rather extensive list of semi-manufactures and manufactures submitted by the UNCTAD secretariat in document TD/B/C.2/3.

80. It will in any case be necessary to provide for criteria regarding the origin of the products that would benefit from the preferential system. Consideration might be given to the practicability of adopting the rules of origin envisaged by Australia in respect of its preferential system for imports of manufactures and semi-manufactures from developing countries. Under such a system, a product would qualify for entry at the preferential rate of 50 percent or more if the labour and material cost of the product was chargeable in a developing country and if final processing before export took place in the exporting developing country. Here again, a complaint and review procedure would have to be provided for to ensure that the developed countries follow this generally-agreed guide-line.

(3) THE QUESTION OF SPECIAL ACTION REGARDING EXCLUDED ITEMS

81. As soon as the need for a list of individual country exclusions is admitted, the fact must be faced that the items which developed countries will wish to exclude would often be those which developing countries would be able to export at the present time. Many countries, for instance, may want to exclude cotton and other textiles. Other countries may exclude leather and similar products, but there will also be cases where only very few countries will utilize the opportunity of making an exclusion, while other countries would be ready to grant preferences on them. Some exclusions might even be motivated by an importing developed country's desire to maintain trade relations with other developed countries.

82. If the risk of such exclusions could be accepted, this should not imply that the mere maintenance of a *status quo* in their respect. On the contrary, it may be possible to lay down some guide-lines and fix certain specific targets for future negotiations regarding these products. Developed countries might wish, for instance, to consider declaring formally that they would between now and the third session of UNCTAD prepare a scheme to ensure that the protection granted to domestic producers should be adjusted in such a way as to enable developing countries to compete for any increase in the consumption of these goods. Alternatively, they might propose that each developed country should individually adopt trade policy measures (regarding tariffs and quantitative

restrictions) designed to prevent domestic industries from expanding their production beyond a fair share of the increase of consumption. In particular, with regard to the so-called residual quantitative restrictions, on which consultations have taken place over a great many years, it should now have become possible to aim at establishing a specific programme providing for their elimination within a reasonable period of time. With respect to the sensitive products, the developing countries may consider accepting the principle of an orderly expansion of markets. Action along the lines envisaged in this paragraph would at any rate have the advantage of emphasizing that the exclusion of products from preferences would not imply that there would be no obligations regarding them.

C. The Countries That Would Be Prepared To Grant Preferences

(1) THE OBJECTIVE

83. For a variety of reasons, the aim should be that all developed countries can come to participate in the preferential system. First, the greater the number of such countries participating, the larger will be the diversification opportunities for the industrial exports. Secondly, each developed country could afford to grant better conditions of access in proportion to the involvement of the developed countries as a whole: in relation to the possible adverse impact of imports from developing countries on the domestic producers of a particular developed country, the effect would be inversely proportional to the number of developed countries participating in the system. Thirdly, the more numerous the developed countries that participate, the more a general preferential system can function as a fully equivalent substitute for the existing systems. The non-participation of one of the important developed markets would make more difficult any suspension of the existing preferential systems.

84. On the other hand, of course, there may be some developed countries in which the process of decision-making with regard to preferences may be more protracted than in others. This need not be a reason why the other countries should hesitate to proceed independently, since past experience shows that trade liberalization action by some countries has in many cases had a catalytic effect on the action adopted by other countries. It would, however, be desirable if the system could enter into force at about the same time among all participating countries; for in deciding on the extent to which the various available safeguards can be applied and how the existing preferential systems are to be dealt with, each developed country will need to know which other developed countries will be associated in the same decisions.

(2) THE DEFINITION

85. There is no agreed definition concerning which countries are to be regarded as developed. For very many countries that may be classified in this category there is, however, no dispute about their eligibility. On the other hand, there are some countries which, while usually regarded as developed, may themselves feel that they have not yet advanced far enough in their own industrialization and still depend to a large extent upon exports of primary products. Such countries, for instance, in contrast to other developed countries, have been unwilling to offer linear reductions in the Kennedy Round. It must be considered whether similar considerations would apply not only in negotiations mainly with economically stronger countries (as in the Kennedy Round), but also in connexion with a preferential system in favour of weaker countries. At any rate, it would appear that the problems of these countries could be taken into account in a manner that would still enable them to participate in a general system of preferences. Consideration might perhaps be given to granting such countries a longer period in which to reach the target of duty abolition or reduction. Provision might also be made for them to make initial exclusions for a larger percentage of their imports.

(3) THE SAME SYSTEM APPLIED BY ALL DEVELOPED COUNTRIES?

86. To arrive at a system of preferences of which the detailed features and mechanisms would be identical for all developed countries would be no easy task. Yet, if the various developed countries were to apply different systems, it would be very difficult to ensure the undertaking of comparable efforts by all countries, to decide on how to deal with existing systems, or to review the operation of the

system. Arbitrary considerations might also prevail with respect to the selection of the beneficiary countries. Moreover, in order to enable developing countries and "third countries" to gain a clear picture of what they could count on in the future, the essential features of the preferential system applied by the various developed countries should be uniform.

87. Certain differences are, of course, unavoidable and have in fact been considered in the present report as a means for facilitating the acceptability of the system. Thus, in the event that provision is made for initial exclusions, the items excluded by the various countries may be different. There will also be differences as regards the extent to which the various developed countries may extend, on an m.f.n. basis, the tariff cuts granted to the developing countries. At any rate, as long as differences in the application of the preferential systems are marginal and do not compromise certain fundamental principles, it would appear that they would not be incompatible with the general system.

88. Another question arises in connexion with the participation of the socialist countries of eastern Europe in a system of preferences. The socialist countries applying customs tariffs have already taken tariff action in favour of the developing countries. Bulgaria and the USSR have abolished, through preferential action, customs duties on all goods imported from and originating in the developing countries, while Czechoslovakia has suspended on an m.f.n. basis, duties on products of export interest of the developing countries. Though customs duties play an increasingly important role in various socialist countries, in particular in connexion with current changes in the management system, it remains open to question whether tariff concessions granted by socialist countries have effects that can be regarded as equivalent to the establishment of a preferential system by market-economy countries. It may therefore be appropriate to consider additional means for increasing industrial exports from the developing countries to the socialist countries.

89. In order to obtain results that are comparable to those achieved by the market-economy countries in connexion with the establishment of a preferential system, the socialist countries might consider matching the rates of growth of imports from developing countries which the market-economy countries would attain by applying the preferential system. Another approach might consist in a declaration of intent to the effect that the socialist countries would be ready to take an increasing share of manufactures and semi-manufactures in their imports from the developing countries. Socialist countries may also consider aiming at other similar quantitative targets. They may agree to apply the trade policy instruments appropriate to their systems in a way that would achieve such results. Bearing in mind the growing importance of indirect instruments of management of foreign trade in some socialist countries, they might also consider applying these instruments in a way that would create preferential access to imports from the developing countries. Socialist countries might also wish to consider accepting international review of the efficacy of the methods suggested above after a reasonable period of time has elapsed.

D. The Countries That Would Be Eligible for the Benefits of the Preferential System

90. The notion of a preferential system for the developing countries implies that there would be some cut-off point beyond which a country will be considered as developed and therefore not qualifying for enjoyment of the benefits in question. It would, therefore, be ideal if it were possible to agree on objective economic criteria to determining which developing countries should benefit from the system. For reasons further examined below, it is however hardly practicable to arrive at an agreement on such criteria. Procedural solutions may therefore have to be considered as a means to determine the beneficiaries of the preferential system.

91. One possible method might be to take as the point of departure the fact that for a very large majority of potential beneficiaries of the preferential system, there is no dispute as to their belonging to the category of developing countries. The question is, indeed, not whether these countries are themselves developing, but whether other countries should not be added to the group. One might accordingly agree that the group of countries which in their mutual relationships regard themselves as developing should make an initial proposal for the list of beneficiaries and that the developed countries would have an opportunity of adding

certain countries which in their view belong also to the category of developing countries. If the developed countries cannot agree on which countries to add, there might be some differences in the list of beneficiaries, but this would, however, be marginal because the bulk of the beneficiaries would not be subject to any difference of opinion. While this method would have the disadvantage that non-economic criteria might enter into account when establishing the initial list, there would be a corrective in the form of the possible additions.

92. In approaching this matter, it may be recalled that there are only relatively few countries in respect of which their categorization as developing or not would be likely to raise any questions. But many of these potential borderline countries would seem to have a particularly important stake in being included or excluded from a preferential system. Indeed, they often produce goods that are generally furnished by developing countries. Therefore, if these countries are included among the beneficiaries of the system, they would be likely to gain considerable advantages, in particular since they are often geographically close to the developed countries' markets and sometimes already possess substantial industries. At the same time, if these countries were not included in the system, the similarity of their production lines with those in developing countries benefiting from the system might often lead to their suffering particularly from the resulting trade diversion. Solutions might be looked for in the following directions: if these countries were excluded from the system, the question of guarantees against trade diversion would be very important to them (see paragraphs 37, 48 and 60 above); special guarantees might even have to be envisaged for them in such an eventuality. On the other hand, to substantiate their desire to be included in the system, these countries might consider offering to the developing countries special guarantees with regard to control of their exports in cases where they would otherwise tend to take up a major share of preferential imports from developing countries. Taking into account such practical considerations, it should be possible to find mutually satisfactory solutions along pragmatic lines.

93. Some thought might also have to be given to what extent the participation of some borderline countries in integration schemes with developed countries could be reconciled with others benefiting from a preferential system for developing countries. On the one hand, they may possess, compared to the developing countries as a whole, considerable advantages on a multi-national market, but on the other hand they would have to share some of these advantages with the developing countries if a general preferential system were established. The considerations evoked with regard to the question of the suspension of existing preferential systems for manufactures and semi-manufactures (see Section G below) may have some bearing upon this problem. Similar questions will arise in connection with the non-independent territories of various developed countries which are often treated on a preferential basis or as if they belonged to the home market of the developed country concerned.

E. Provisions for the Less-Advanced Among the Developing Countries

(1) GENERAL CONSIDERATIONS

94. When attempting to evaluate the potential benefits of a preferential system for developing countries' industrial exports, there is the striking fact that at present some seventy-nine developing countries contributed only about 6 per cent of the over-all exports of manufactures from the developing countries. It would, therefore, appear that the establishment of a preferential system would, at least in the initial stages, bring immediate benefits only to a small minority of developing countries. These would be the countries that have already an industrial base and that may already be carrying out such exports to the developed world. The preoccupation with industrialization is, however, not only of concern to these few developing countries. The industrially less-advanced developing countries have a special need to escape from the consequences of an over-dependence on exports of primary goods and to avoid the risks of an industrialization process that would be based only on import substitution. The group of the developing countries has, therefore, put forward the idea that special measures should be envisaged to ensure that relatively less advanced developing countries can participate effectively in the expected benefits of a general system of preferences.

95. Before examining the special measures that might be adopted in this connexion, it is necessary to recall that the high present concentration of industrial

exports in a few developing countries in no way means that less-advanced developing countries could not take advantage of a preferential system if one were established. Certain industrial exports for instance in the field of further processing of raw materials (such as ores, bauxite, crude oil, woods), could take place from countries regardless of whether or not they have a broad industrial base. Similarly, canning industries, further processing of fishery products and even the production of certain chemical specialities may be located in less-advanced countries. Some may even find opportunities by importing the raw materials needed and processing it. Such possibilities may exist particularly for those less-advanced countries that are geographically close to developed countries or to transport routes toward them. Quite generally the less-advanced countries have a longer-term interest in building up a sound industrial pattern on the basis of the most effective utilization of their resources, which in turn requires an open access to the world markets. For such reasons it would be a mistake to believe in a general manner that the less-advanced countries have a lesser interest in the establishment of a preferential system than the more advanced ones.

(2) PITFALLS TO AVOID

96. While the need is evident for making a maximum effort in favour of the less-advanced developed countries in connexion with the setting up of a preferential system, the ways and means for doing so deserve special attention.

97. Particular care should be taken to ensure that the means chosen would not be such as to damage the usefulness of a preferential system for the developing world as a whole. A typically inadequate method would, for instance, consist in generally providing preferential free entry only to the imports from the less-advanced countries, and refusing it to the more-advanced developing countries. This might in fact mean that those developing countries that would have goods to export would not be able to compete on equal terms with domestic producers, whereas those which would be granted this equality of treatment would for some time have few goods to export.

98. Care should also be taken that the special measures for the less-advanced developing countries should not create considerable administrative complications in the developed countries. In the present period where the trend in some developed countries is toward a simplification of the formalities, unduly complicated mechanisms might increase the objections against the setting up of a system of preferences. The introduction of a three-column-tariff (one for m.f.n. treatment, one for the preferences for the more-advanced and one for the less-advanced countries) or the setting up of special quotas for the less-advanced and other quotas for the more-advanced countries might be regarded as such undesirable complications. Largely for practical reasons there seems to be an understanding in developed countries that trade policy measures, in contrast to financial aid which can be better directed, are instruments which by nature do not allow excessive differentiation between countries.

99. Lastly, the approach chosen for dealing with the question of the less-advanced countries should not be such as to complicate and delay the establishment of a system of preferences. This would probably be the case if there was an attempt to reach agreement on a definition or list of these countries. Of course, it would be ideal if objective criteria for determining which are the less-advanced developing countries could be established. One such criterion in defining developing countries might evidently be the level of *per capita* income. However, reliable data on national income are not available for a good number of countries. Moreover, the use of exchange rates to convert national accounts estimates frequently biases inter-country comparisons. Such limitations apart, it is clear that *per capita* income can hardly be the sole criterion of the level of development. In some cases high *per capita* income coincides with what might be considered a relatively low level of development, as measured by other indicators. Accordingly, *per capita* income would have to be combined with other indicators of development, such as the size of the manufacturing sector, the degree of export diversification, the level of infra-structure, etc. However, once several indicators are to be taken into account, weights have to be assigned to each, which is a far from easy task. In all cases a decision has to be taken as to the cut-off point in each indicator below which the country would qualify as developing. It would also be difficult to decide whether the more advanced category should include only those relatively few countries that presently account for the bulk of industrial exports from developing countries or whether it should include all countries,

with the exception only of those that, judged by every possible development indicator, come towards the very end of the list. Since there are arguments in favour of every possible categorization and since negotiating agreed definitions would considerably delay the setting-up of a system, it would be preferable to provide for special measures for the less-advanced developing countries without trying to define different categories. In the following paragraphs, measures are examined that do not presuppose such a definition.

(3) LIMITING THE PERIOD DURING WHICH PREFERENCES CAN BE ENJOYED ON A PARTICULAR ITEM

100. One measure that would turn out to favour the less-advanced countries could be based on the idea that no developing country should be able to take advantage of preferences with regard to a particular product for more than a certain pre-defined period: a ten-year entitlement is most often mentioned in this connexion. There are, however, some problems in implementing this idea of ensuring rotation in favour of the latecomers to industralization. For instance, it would be necessary with respect to every item to establish the date when a particular developing country has made its first significant export to a particular developed country. With regard to each item and developed country, one would soon have a different list of developing countries that would be entitled to preferences. This would complicate the task of the customs authorities and might also create problems with respect to the control of origin. It might, moreover, induce the exporting countries to take measures to ensure that exports take place only when there is a certainty that a steady stream of exports would be possible; otherwise, the exports by one plant might be the starting point for the calculaion of the ten-year period even if this plant produced only relatively insignificant exports.

101. Such disadvantages may, however, be overcome to a large extent if the verification of whether a particular export has been taking place for ten years is not carried out annually but only after a longer period of operation of the preferential system. In this case, the customs authorities would not have to change their lists with respect to the various items so frequently. Since the working of the preferential system will in any case be reviewed after a certain number of years (see Section F below) provision could be made as one of the guidelines for the review that the interests of the less-advanced developing countries are taken into account and that at the time of the review, counries will stop benefiting from preferential treatment on all those items for which exports have taken place over a ten-year period. For this method to be useful for the less-advanced developing countries, it would of course have to provide that the preferential system as such would not be terminated altogether after ten years.

(4) SUITABLE ADAPTATION OF THE CRITERIA FOR APPLYING THE ESCAPE CLAUSE OR THE TARIFF QUOTA

102. Advantageous results for the less-advanced developing countries can also be achieved in connexion with the application of the escape clause or the tariff quota, depending on which safeguard mechanism is provided for in the preferential system envisaged. When an escape clause or a tariff quota is being applied, the reason for doing so would usually not be the competition resulting from imports from all developing countries, but from some only. Accordingly, one could provide that the m.f.n. tariff that would be reimposed would apply only to the imports from those developing countries which are the most competitive with regard to the item concerned. Such a method would frequently be likely to result in granting more advantageous treatment for the less-advanced developing countries because in the majority of cases they can be presumed to be less competitive than the more advanced ones. This method would, however, have to be applied in a different manner in an escape-clause system on the one hand and in a tariff-quota system on the other. This question will be examined below.

103. In the case of an escape-clause system, it would simply have to be provided that the developed country would only suspend the preferential treatment for the imports from that country or those countries which are the cause of the injury. This would have to be made a mandatory guideline for the application of the escape clause and would be reviewed as part of the institutional framework of the system. This suspension of imports would work to the advantage of the less-advanced developing countries.

104. In case of a tariff-quota system, the effect on less-advanced countries would be different depending on the mode of operation chosen. (See paragraphs 39–43 above.) According to the variant examined under paragraphs 40 and 41 above, the country that would take up more than a certain uniform percentage of the tariff quota would be excluded from it, as soon as the tariff quota was filled. Since presumably for many items the less-advanced countries are unlikely to reach this percentage share of the tariff quota, this exclusion procedure might constitute an advantage for them. But the real question would be whether they could exploit this advantage by starting production lines with a view to exports. The automatic exclusion procedure presents, however, a particular problem because less-advanced developing countries usually have only very few potential industrial export products. Precisely these few industrial exports would risk exclusion, whereas countries with a broader industrial base could benefit from the quotas existing with respect to their other products. Automatic exclusion, even in the absence of a serious injury, when the tariff quota is reached, might therefore damage the interests of these developing countries which for some time to come will have to concentrate their export efforts upon a few products.

105. For these reasons, it may in actual fact be more advantageous to the less-advanced developing countries if the variants of the tariff quota system listed under paragraphs 42 and 43 above were considered. Provision that a certain percentage of the tariff quota would always be reserved for newcomers would ensure that the traditional suppliers do not take up the whole quota. This safeguard may be combined with the review procedure mentioned below.

(5) A PERMANENT MECHANISM FOR REVIEWING THE WORKING OF THE SYSTEM FROM THE POINT OF VIEW OF EQUITABLE SHARING OF BENEFITS

106. Provision may also be made for a permanent mechanism that would follow and review the workings of the preferential system and assess at regular intervals whether the system is yielding advantages to all developing countries or only to a few. The existence of such a permanent mechanism would ensure the less-advanced countries which would not have benefited from the system that their interests will not be lost sight of. It could constitute an instrument for adapting the system in accordance with the needs that may arise. In particular it could be provided that within UNCTAD the developed and developing countries would arrange for special measures to be taken in favour of those countries which after a given period of time would not have been able to take advantage of the preferential system for starting or intensifying industrial exports. These special measures should preferably consist in promoting and financing investments in the countries concerned (see paragraph 109 below).

(6) THE QUESTION OF PREFERENCES BY THE MORE-ADVANCED COUNTRIES FOR THE LESS-ADVANCED

107. The question also arises whether the responsibility for taking action in favour of the less-advanced countries should rest only on the developed countries or whether the more-advanced developing countries should also contribute to the benefits of the less-advanced ones in connexion with the scheme of preferences.

108. Among the forms of action that more-advanced countries might want to envisage would be to declare their willingess to grant preferences to less-advanced developing countries. In favour of such a declaration it may be argued that the more-advanced developing countries are likely to gain more from a system of preferences set up by the developed countries; by opening their own markets to the less-advanced countries, they might, however, help in attaining a more effective participation of the less-advanced countries in the benefits emerging as a result of the establishment of a preferential system. Moreover, it may be considered that in the case of some products, at least the less-advanced developing countries might have better chances of penetrating into the relatively less competitive markets of the more-advanced developing countries than into the markets of the developed world.

109. The practical implementation of this idea would, however, not be easy. The developing countries would have to face the difficult task of identifying the less advanced ones among them. Such an agreement may, however, be reached more

easily within the various regions than on a world scale, and the willingness to grant preferences may accordingly be limited to the less advanced countries of the same region. Moreover, the more advanced developing countries are very often in balance of payments' difficulties and may for this reason have considerable difficulties in granting preferences to their less advanced partners on a non-reciprocal and across-the-board basis. Their industries are often also still in a formative stage so that they may be hesitant to expose them to outside competition, even if it were to come from a less advanced country of the same region.

110. For these reasons, if the more advanced developing countries want to consider granting preferences to less advanced ones, these would probably have to be of a selective nature and might need to be complemented with provisions regarding licensing procedures. To allow for the balance of payments' considerations, it would furthermore, be advisable to put the preferential access which the more advanced countries would grant to their less advanced partners into some relation with the increase of the exports that they will have been able to achieve on the basis of the preferences that would be granted by the developed countries. The more additional sales these more advanced countries would be able to make in the developed countries, the more they might be expected to open their markets to the less advanced developing countries. If the problem could be approached in this way, the more advanced developing countries would not immediately grant preferences to the less advanced partners but only once their exports to the developed countries will have expanded in connexion with the preferential system. The more advanced countries might consider subscribing to a declaration of their intent to act accordingly in their trade relationships with less advanced countries. The action taken on the basis of this declaration might be reviewed in connexion with the review of the operation of the preferential system from the point of view of the less advanced developing countries. If the more advanced developing countries, by that time, would have failed to act accordingly, this may be a reason for taking additional special measures in favour of the less advanced countries.

(7) SPECIAL FINANCIAL AND TECHNICAL ASSISTANCE MEASURES

111. After examing the various trade policy methods for enabling the less-advanced countries to take better advantage of a general preferential system for manufactures and semi-manufactures, it must be recalled that measures of financial and technical assistance may even be more important for achieving results in this respect. Indeed, these countries have often not yet installed any productive capacity in goods that could be sold in the developed countries' markets. To make up for this handicap, these countries would need priority access to funds for undertaking feasibility studies, for training personnel, and eventually for financing such industries. Afterwards, a special effort would have to be made to assist these countries to improve the efficiency and quality of their production. In all these actions, the United Nations Industrial Development Organization and international and regional banking institutions would have to play an important role. For these institutions to give special attention to the problems of the industrially less-advanced countries in connection with a preferential system, the setting up of specific guidelines would be desirable. The less-advanced countries also suffer often from particular insufficiencies with respect to their infrastructure taken in the largest sense of the term, and it would, therefore, be necessary that the international institutions dealing with the various elements of infrastructure should pay particular attention to their needs so that these countries can become attractive for investments.

112. Lastly, the less-advanced developing countries are often those which possess a rather small domestic market. Yet, an internal market of sufficient size, has, in many cases, been a particularly useful and necessary basis of departure for industrialization efforts and particularly for subsequently undertaking exports to the developed world. A systematic effort towards the establishment of multinational markets would, therefore, appear to be of particular interest for the many small less-advanced developing countries. In this respect, a report (TD/B/85) has been submitted to the Trade and Development Board, in which it is suggested that the developing countries' own efforts in enlarging their markets might be supplemented by an international support policy for integration among developing countries. Such a support policy would be designed to assist the

developing countries and particularly the less-advanced of these in overcoming the many special difficulties which they face when undertaking trade liberalization and integration efforts. If it were possible to agree with some precision on a certain number of elements of such a support policy, the smaller and less-advanced developing countries would be the main beneficiaries of it. Specific provisions for the less-advanced developing countries that might be incorporated into a preferential system, together with other measures in their favour envisaged in the field of commodity trade, financial and technical assistance, support for integration, etc., would form a consistent programme facilitating the industrially less-advanced developing countries to start or intensify industrial exports.

F. The Duration of the Preferential System

(1) THE ARGUMENTS FOR LIMITING THE DURATION

113. Some of the arguments that can be put forward in favour of a limitation of the system are discussed below.

114. When a country ceases to be considered as a developing country, for instance, because it has succeeded in building up a diversified external trade and in achieving self-sustained growth, there would no longer be justification for it to enjoy special advantages as against exports from developed countries to other developed countries' markets.

115. When an industry in a particular developing country has become competitive in the markets of the developed world, it may be argued that it no longer needs advantages against similar industries in third developed countries. An industry can become competitive even if the country concerned must still be regarded as a developing country.

116. If they are able to benefit from preferences for an unlimited duration, producers in a developing country may be insufficiently induced to increase their efficiency and may thus acquire a vested interest against a further liberalization of world trade on an m.f.n. basis.

117. A preferential system such as the one envisaged in this report will need to be reviewed from the standpoint of whether it fulfils the expectations placed in it and whether the doubts raised before its establishment have been eliminated. The review could be carried out in a particularly effective way if the duration of the system were limited, and this might, therefore, increase the chances of ensuring a broad participation of developed countries in the system.

(2) ALTERNATIVE WAYS OF DEALING WITH THE PROBLEM OF DURATION

118. Some of these arguments in favour of a limited duration have already been taken care of in connexion with the provisions for limiting the impact of the system upon producers in developed countries and regarding the less-advanced countries. The question which will have to be considered in the present section is whether the duration of the system as a whole is to be limited in time and to what extent the various arguments in favour of limitation could be resolved by other means. The following means for ensuring the temporariness of the system may deserve further consideration.

119. One way to ensure the temporariness of the system would be to provide that the preferences granted to the developing countries would have to be extended on an m.f.n. basis to all countries after a certain period of time. This would mean linking the establishment of preferences in favour of developing countries with a formal undertaking to reduce or abolish duties on a world-wide basis. The preferences would then be merely in anticipation of already agreed future world-wide tariff concessions. This method would have the disadvantage that the preferences would in all likelihood be rather small because it is improbable that after the great effort of the Kennedy Round, the developed countries would be ready to commit themselves firmly to an elimination or new substantial reductions of tariffs on a world-wide basis. To ensure the temporariness of the system in this way would in actual fact mean that a preferential system of very limited scope would be set up and that the other purposes connected with it would be sacrificed to that of ensuring its temporariness.

120. On the other hand, while preferences should not be linked to the willingness of developed countries to grant the same concessions at a later stage on an m.f.n. basis, nothing should prevent the extension to the developed countries of the preferences granted to the developing countries (see paragraph 15 above).

The duration of the preferential treatment for the developing countries would therefore be the briefer the sooner the developed countries take the same action on an m.f.n. basis. If such a development could be counted on, there would be no need to fix rules as to the duration because indeed the system of preferences would automatically be phased out.

1221. Another method would be to provide from the beginning that the preferential system as a whole would be terminated after a number of years determined in advance. It would not be easy to choose an appropriate period to meet the various considerations arising from the need to limit the duration of the system. A period of ten years for the duration of the whole scheme would, for instance, be too short, particularly in the less advanced developing countries, to allow the building-up of new production capacity for exports and to permit the industries concerned to maintain themselves in foreign markets under m.f.n. conditions. Many developing countries might then never be able to enjoy the advantages of the system to any substantial extent. Industries established in the second part of the ten-year period would enjoy the benefits of the system for a few years only. On the other hand, to decide at once that the system as a whole would remain in force for a longer period might increase resistance against its adoption. Yet, if the objective is to build up diversified trade for all developing countries, the scheme of preferences would have to continue till most countries were able to effect significant changes in their trading patterns.

122. In order to take into account these partly conflicting considerations, an intermediate solution might deserve special consideration. Thus, provision might be made for review of the preferential system at the end of a ten-year period. Certain guidelines applicable to the review could be established at once. One of these could be to determine whether the beneficiary countries could continue to be regarded as belonging to the category of developing countries and whether the products benefiting from the preferences were still in need of them. The guidelines could also provide that the question of excluding the more advanced developing countries, or at least some of their sufficiently competitive products, would be considered. A developed country not satisfied with the results of the review could if it wished withdraw from the system. Its withdrawal would, however, have to be subject to certain conditions so as to ensure that no undue injury was suffered by newcomers among developing countries and to take into account the interests of those less-advanced developing countries that would have been unable to benefit from the system. It may, for instance, be provided that preferences which have been taken advantage of before the end of the ten-year period would continue in force for a certain additional period. This would facilitate the planning of investments in developing countries and would grant them a sufficient period during which they could count on free access to the developed world. At any rate, the longer the period for which the developed countries are ready to apply a preferential system, the greater advantages can be derived by the less-advanced developing countries, particularly if at the end of the ten-year period an effective review procedure is provided for.

G. The Relationship of a New Preferential System to the Preferential Arrangements Now Existing Between Some Developed and Some Developing Countries

(1) THE OBJECTIVE

123. It is generally recognized that when establishing a system of preferences for manufactures and semi-manufactures for all developing countries, account must be taken of the advantages which some developing countries already enjoy, with regard to these products, in certain developed countries. These latter developing countries can hardly be expected to consent to give up their advantages if the new preferential system does not grant them at least equivalent advantages compared to those which they presently possess. Any loss of trade in existing markets of manufactures and semi-manufactures would have to be outweighed or at least matched by the possible gains to be made from preferential entry into other markets. These considerations are of particular importance for the developing countries belonging to the Commonwealth preferential system, since they export substantial amounts of manufactures under preferential conditions. As to the countries associated with the European Economic Community, particularly under the Yaoundé and Lagos Conventions, the share of semi-manufactures and manufactures in the preferential imports of the Community is much smaller, but

they are still important for some countries, particularly if a wide definition of semi-manufactures and manufactures is adopted. If the existing preferential arrangements are to be suspended or absorbed as far as manufactures and semi-manufactures are concerned, special care would have to be taken that the new preferential system provides for equivalent advantages.

124. The same question of equivalent advantages may also play a role for those developing countries that presently do not benefit from any existing special preferential system. Some of these countries have indeed expressed an interest in obtaining such special preferences in some developed countries, including those that presently are not part of a preferential system with particular groups of developing countries. The establishment of a general system of preferences has the advantage of stopping the trend towards a proliferation of such preferential arrangements between some developed and some developing countries. The interest in such arrangements will, however, abate only if the general system is able to provide countries hitherto not enjoying preferences with advantages equivalent to those which they could hope to obtain under preferential arrangements with some developed countries only.

(2) THE PROBLEM OF MEASURING EQUIVALENCE

125. The appraisal of whether a new system brings equivalent advantages will depend on the number of developed countries that will participate in the system, on the products that will be covered by it, on the preferential margins that will result, and on the duration of the new system as compared with that of the old ones. The more numerous are the participating developed countries, the greater are the opportunities for compensation on other developed countries' markets for any losses that might occur in those developed countries which hitherto alone granted preferences. The more the products presently exported under existing preferential arrangements would be excluded by other countries from the benefits of a preferential scheme, the less likely would it be that the new system could grant equivalent advantages. It must also be considered that some of the existing systems are formally limited in time and have to be re-negotiated shortly (e.g. Yaoundé and Lagos Conventions), whereas other existing arrangements might be unfavourably affected by policy changes in the developed country concerned (e.g. the effects on Commonwealth arrangements in the case of an entry of the United Kingdom into the European Common Market). Such uncertainties with respect to the existing systems would also have to be duly weighed and compared to the duration of the new system.

126. Any appraisal of the new system as compared to the old ones would thus have to take into account a great many variables. Yet, it is indispensable to make such an approximate appraisal. For countries already enjoying preferences would want to share the advantages of the existing systems with other countries only if they conclude that there is a very fair chance of at least equivalent opportunities. In this situation, it appears that the most suitable method would be to make at the outset a *prima facie* judgement about the opportunities the new system with all its special provisions offers and to provide that after a number of years a review will take place with a view to checking whether the estimates have been confirmed. This means that one would have to accept that the initial appraisal would be based on rather rough indicators. For instance, if a developing country benefited in the past from exclusive preferences on a market of say 200 million developed country consumers, it might be questioned whether it would enjoy equivalent advantages if developed countries with only 90 million consumers were added to those already granting preferences. It would largely be a matter for each developing country concerned to judge what weight to attach to the variables mentioned above. This judgment will be easier once all the technical features of the new system are known, for instance, the types of safeguards regarding the volume of preferential imports. While the question of whether a new preferential system grants equivalent advantages would presumably be kept in mind by the countries during the discussions on each element of the new system, it would probably have to be taken up as a whole toward the end of the discussions and negotiations leading up to the scheme.

127. A further consequence of the difficulties in making an advance appraisal would appear to be that the entry into force of the new preferential system for manufactures and semi-manufactures could not be made conditional on the formal abolition of the parts of the existing preferential systems that relate to manu-

factures and semi-manufactures. All that could be expected is the suspension of the relevant parts of these systems or, as the case may be, their adaptation with a view to eliminating features that would be incompatible with the new system. In other terms, it may be necessary that for some time the new and the existing systems would have to co-exist and that some rules for this purpose might have to be evolved. An examination is made below of how the relationship between the new system and the existing systems would present itself in the case of an escape-clause system and in the case of a tariff-quota system.[1]

(3) THE ESCAPE-CLAUSE SYSTEM IN RELATIONSHIP TO EXISTING SYSTEMS

128. Since the existing systems do not generally provide for an advance limitation of the volume of goods admissible at preferential rates, a new general system based on the escape clause would have the appearance of being equivalent to the old. It would not even be necessary to suspend formally the old systems with regard to manufactures and semi-manufactures. Problems arising from the replacement of the old system by the new one would be few: the main problem would probably concern the manufactured and semi-manufactured products which enjoyed preferences under the old systems but would be excluded by other developed countries under the new system. It may appear to be equitable to provide that for such products the beneficiaries of the existing systems would continue to enjoy exclusive preferential access to the developed countries concerned. Thus, the broader the product coverage of the new system can be, the more it will be possible to absorb the existing systems.

(4) THE TARIFF-QUOTA SYSTEM IN RELATIONSHIP TO EXISTING SYSTEMS

129. If the new preferential system were to provide for general limitations by means of tariff quotas, it would be more difficult to state that the new system is equivalent to the old ones. The suspension of the existing systems, as proposed by the developing countries and assumed in the working hypothesis at the first session of the Group of Preferences, would kconsequently also present greater diffi? culties. Since the existing systems do not provide for an advance limitation of volume, a new system that would provide only for tariff quotas expressed in terms of a small percentage of consumption, production or total imports, would, at least at first sight, appear not to provide equivalent advantages. On the other hand, it can be argued that such quotas in a great many developed countries would be worth more than theoretically unlimited access to the markets of a few developed countries. Similarly, the ten-year duration at least of the new system compares favourably with the existing preference systems that have to be renegotiated at short intervals or may even be discontinued altogether quite independently from the establishment of any new system of preferences. If, however, countries should come to the conclusion that the comparative disadvantages of the new system weigh more heavily in the balance than the stated advantages, the following rules regarding the co-existence of the new and the old systems might be considered.

130. Provision may be made that tariff quotas for industrial products would be reserved for those developing countries that do not belong to the existing system with the developed country concerned. The previously benefiting developing countries would, however, continue to enjoy the right of unlimited access. It might conceivably be argued in favour of this solution that these previously benefiting developing countries would only obtain tariff quotas in the other developed countries and that therefore they could not be expected to share with the other developing countries a part of their previously exclusive developed-country market that would be greater than these same tariff quotas.

131. A more equitable solution might consist in distinguishing between products that have in the past not been exported on the basis of existing preferences and those other products that have already been exported under preferences. With respect to industrial products that have not been exported, the beneficiaries of old preferences would be treated in the same way as the beneficiaries of the new system. This would mean that one tariff quota—if it were applied by a particular

[1] The relationship of a reduced duty system to the old systems is not further examined because it would appear to be particularly difficult to argue that such a system would be equivalent to the old systems, which very often provide for duty-free entry. The problem presents itself, however, in similar terms to that of the relationship of a tariff-quota system to the existing systems.

developed country—would be imposed on imports from both the old and the new beneficiaries. The argument in favour of such a solution would be that advantages which have not yet materialized in the form of new trade currents would hardly have to be compensated. As to industrial products which have already been exported on the basis of the old systems, one might provide that, as before, they should continue to enjoy preferential access for a volume of exports corresponding to the year in which they had reached the peak. Any imports beyond the peak year of the past would be treated like the imports from the beneficiaries of the new preferential system, i.e. the tariff quota would be applicable to both the new and the old beneficiaries from preferences. Of course, also in this system such countries should be able to maintain exclusive and unlimited preferential advantages on those items which other developed countries would have completely excluded from the preferential scheme.

132. Inasmuch as in the case of a tariff-quota system the beneficiaries under the old system might continue to enjoy special advantages not extended to the other developing countries, the pressure for setting up new exclusive preferential systems between some developed and some developing countries may well continue after the entry into force of the new general system. In particular, developing countries that have nowhere enjoyed preferences in the past might want to insist that they too should, at least in some developed countries, receive the privilege of unlimited free access. It might be argued in favour of this point of view that it should be immaterial to the other developing countries if some developing countries succeed after the establishment of a general preferential system, in getting even better conditions of access from some developed countries than those provided for in the general system of preferences. On the other hand, the fact that the pressure for exclusive preferential systems might continue, would impair one of the most important advantages of the establishment of a general system of preferences, namely, of stopping the proliferation of exclusive systems. One solution might be to agree on a temporary standstill on the negotiation of new exclusive preferences for industrial products. This might, for instance, last for a period of five years or even of ten years, at the end of which it would be necessary anyway to re-examine whether the new system has in actual fact yielded equivalent advantages. Such a stop-gap measure would prevent the question of how to deal with existing systems for industrial products from becoming more complicated in the meantime.

(5) THE REVIEW OF THE EQUIVALENCE OF ADVANTAGES

133. Regardless of whether the new system is based on an escape clause or on tariff quotas, it may be necessary to provide for a review of the question of whether or not it brings equivalent advantages. In view of the fact that it always takes time for new trade currents to be established or old ones to be affected, the appropriate moment for this examination might be at the end of the ten-year period. If the appraisal of the equivalence were made, for instance, after five years and if as a consequence some countries found themselves able to withdraw from the general system, the system might not have the stability necessary for its success. However, it might be laid down that after five years a first review would be made and if this review shows that equivalence is not achieved, special measures would be taken for the beneficiaries under the previous systems. Such measures might include those of a financial nature (see paragraphs 109 and 110 above). This would take into account the situation of some of the less-advanced developing countries that are highly dependent on the existing preferential markets for the few manufactured products they export. Such a review clause would be a means for taking care of such problems, should they arise.

(6) THE PROBLEM OF RECIPROCAL PREFERENCES

134. In the previous paragraphs, only one aspect of the existing preferential systems has been examined in connexion with the establishment of a new general preferential system, namely, the way to deal with the advantages which the existing systems grant to some developing countries and which are not extended to other developing countries. The problem of the compatibility and possible adjustments of existing systems might, however, also arise in connexion with the reciprocal advantages which many developing countries participating in such systems grant to the developed countries concerned and which are not extended to other developed or developing countries. These reciprocal or reverse pref-

erences present the following problems in connexion with the setting up of a new general preferential system:

(a) In a new preferential system, all developed countries would be expected to grant preferences to all developing countries on a basis of non-reciprocity. It might be difficult to obtain such a decision if some developed countries continued to obtain reciprocal advantages for the preferences which they grant. If developed countries are expected to treat all developing countries alike in trade matters, the developing countries should in turn be expected to treat all developed countries in an equal manner.

(b) It may appear incongruous to stop discriminating against some developing countries in the developed countries, but to continue discriminating against them in favour of developed countries in the markets of developing countries. If there is a case for equality of treatment with producers of the developed world in the domestic markets of the developed countries, there is an at least equally strong case for equal treatment with these same producers in the markets of other developing countries.

(c) The establishment of a general system of preferences would form a proper framework for the elimination of the existing reverse preferences. The developing countries granting such special advantages to developed countries may regard it in their interest no longer to place limits upon their freedom of choosing the most favourable sources of supply in the developed world. Inasmuch as all developed countries in the new system would accept a part of the burden of granting preferences to developing countries, this might be taken as an argument for treating all developed supplying countries alike in the future.

135. In considering the relationship of reverse preferences to a new general preferential system, account must, however, also be taken of arguments that might be put forward against dealing with them at this juncture:

(a) It may be pointed out that the normal trend of events in the last decade has already led to a reduction in reverse preferences. For instance, the existension of the Franc-Zone preferences and licensing procedures to the EEC as a whole is sometimes interpreted as reducing the scope of the problem, and the general whittling down of Commonwealth preferences as indicating that the scope of the problem is diminishing automatically.

(b) It might conceivably also be argued that the developed countries which enjoy such preferences not only grant preferences on industrial products to the developing countries concerned, but also on primary commodities and that they also provide considerable financial assistance. Reverse preferences might be interpreted as constituting counterparts for these special measures.

136. If the conclusion were reached that the problem of reverse preferences bears some relationship to the establishment of a new preferential system, the following solutions may deserve consideration:

(a) It might be stipulated that the reverse preferences and other special advantages would be eliminated or gradually phased out according to a pre-established timetable. Just as within the EEC and EFTA the producers hitherto enjoying protected domestic markets were able to face increased competition partly because a sufficient transitional period was provided for, it may be expected that a similar procedure would yield equally satisfactory results in connexion with the protected markets which some developed country producers enjoy in some developing countries. Moreover, the manifold traditional special links that do not relate to trade barriers would in any case continue and protect the interests of the developed-country producers concerned.

(b) Furthermore, a problem might arise not so much with the continuation of existing reciprocal preferences but on account of the possibility that after the establishment of a general system of preferences, some developing countries might feel induced to grant to some developed countries new reciprocal preferences. At a stage where the developed countries would, by accepting a general preferential system, have taken an important step towards non-discrimination among developing countries, it may appear incongruous if some developing countries were to make moves in the other direction. Accordingly, steps might be taken to declare that no new reverse preferences would be granted and that contrary action would be inconsistent with the continued participation of the developing country concerned in the general system of preferences.

H. The Question of Possible Parallel Obligations on the Part of the Developing Countries

137. While it is generally agreed that developing countries should not have to grant reciprocal concessions in favour of the developed countries in connexion with establishment by the latter of a general system of preferences, it has been suggested that such a new preferential system would be of little use to many developing countries if they themselves were not to take some action on their part. In particular, it has been stated that exports of industrial products to the developed world can hardly be successful if a developing country feels that it continues to need very high protection against the outside, and particularly other developing countries. Secondly, it has been pointed out that many features of the governmental policies and practices of many developing countries make it unlikely or impossible to increase industrial exports to the developed world, even if a system of preferences were established. Accordingly, it may be said that if UNCTAD action is to lead to an effective increase of industrial exports to the developed world, both the developing and the developed countries would have to assume their respective responsibilities.

138. It cannot be denied that various developing countries are already undertaking action to expand trade among themselves and to adapt their governmental policies to the need for increased exports. It may consequently be considered that the developing countries will quite naturally take additional autonomous action in this direction. On the other hand, it may also be considered that the likelihood of such action occurring in the near future would increase if the developing countries were to undertake, towards the international community, formal pledges to this effect. This might have the additional advantage of showing public opinion that the establishment of a preferential system is part of a joint effort to improve the developing countries' opportunities for increased external earnings.

139. With respect to the creation of better conditions for trade expansion among developing countries, the need for some parallel action on the part of the developing countries has already been recognized in resolution 32 (IV), adopted at the fourth session of the Trade and Development Board. This envisages that countries would "define the action programmes that might be adopted by the time of the Second Conference". Since the conditions in the various regions of the developing world are different, such action programmes would have to take this into account and might profitably base themselves on what is already undertaken by various groups of countries. Conceivably, however, developing countries might want to consider including in such action programmes certain measures that might be applicable to all the regions. An example of such an undertaking might be to reduce the protection level towards other countries of the same region to a certain ceiling on all those products which a particular developing country succeeded in exporting to the developed world in substantial quantities. If a developing country is able to stand competition on the markets of the developed world, it would indeed no longer need excessive protection against other developing countries. There are, however, certain problems in implementing this idea which have been examined in another context (see TD/B/85, Chapter V, paragraphs 48 to 51). Another undertaking of a more general nature as regards trade expansion among developing countries might consist in a declaration of willingness on the part of the more-advanced developing countries to grant preferences to the less-advanced ones.

140. With respect to the elimination of features of national policies that are detrimental to exports, it might be possible to envisage laying down a certain number of guidelines as to what constitute sound policies for the export of industrial products. Formal action might be envisaged for the establishment of agreed guidelines or a kind of code which would list the various practices which developing countries should avoid in their export policies as well as the positive measures which would have to be taken for a successful policy of export promotion. Of course, some of these guidelines may not have the same binding force as the measures which the developed countries undertake in establishing a system of preferences. Nevertheless, such policy guidelines might form the basis for a review procedure in which the developing countries might report on what they have done to implement them. Such procedures have, for instance, been practised successfully in the past in other contexts and by providing for them in the framework of UNCTAD, they might increase the chances that the establishment of a preferential system would actually lead to a substantial

increase of industrial exports from developing countries. To provide for such parallel undertakings in connection with the Second Conference on Trade and Development would underscore the fact that convergent action by both developed and developing countries is necessary to fulfill the objectives of UNCTAD.

I. Institutional Arrangements

141. The preparation and implementation of a general preferential system would require adequate institutional arrangements. For, in the preparatory stage, it would be necessary to create suitable conditions for the harmonization of the differences that may exist on various aspects of the matter and, with regard to the operation of the scheme, the need for proper institutional mechanisms and procedures has emerged in connection with several of the elements which have been discussed in this report.[1]

142. Consultations and negotiations on the specific content of the system would have to be undertaken within a framework which would provide equal opportunities to all countries to discuss the technical features of the system. To ensure the proper operation of the scheme, institutional arrangements would be necessary for following the application of the rules and guidelines agreed upon by the governments, for instance in connection with the escape clause or the tariff quotas. Moreover, adequate reviewing procedures would have to be provided for in connection with, *inter alia*, the special measures in favor of the less-advanced developing countries, the appraisal of the equivalence of the new and existing systems and the duration of preferences, and, as the case may be, with respect to the parallel policy guidelines which developing countries might accept. All these are matters of direct concern to all the countries participating in the preferential system, and the universal character of UNCTAD would thus make it possible for them to work together in the operation of the system.

K. Summary of the Main Features of a Preferential System

143. For facilitating the discussion, the main features of the possible systems analyzed in the previous chapters are listed below in summary form:

(a) *Safeguards regarding the volume.* One solution would be to provide that each country would be able to resort to an escape clause provided certain agreed-upon criteria are respected, among which the fixing of a minimum of imports which should not be subject to an escape clause. An alternative solution would be to introduce uniform tariff quotas expressed in terms of a precentage of consumption, production or total imports.

(b) *Extent of tariff reduction.* The tariff reduction would be to zero, but this target might have to be reached only gradually over a number of years. Each developed country would, however, be free to extend these reductions on a most-favored-nation basis to all other countries.

(c) *Product coverage.* It would be desirable to arrive at a wide common definition of semi-manufactures and manufactures applicable to all developed countries but each developed country should be able to except initially items corresponding to a small percentage of imports. If a tariff-quota system were adopted, it might be possible to avoid providing for such exceptions. With respect to the excepted products, developed countries might declare their willingness to work out, within a sepcified period of time, a programme for the orderly expansion of the possibilities of access to their markets.

(d) *Countries granting preferences.* All countries that are usually considered to be in the category of the developed countries would take part in the system. Those of these countries which cannot be considered to be fully developed would be granted the opportunity of following a slower pace of duty reductions and of initially excepting a larger number of products.

(e) *Countries obtaining preferences.* For defining which countries are eligible to obtain the benefits of the preferential system, a procedural solution would be envisaged. If the group of countries that regard themselves as

[1] Another matter which would arise at the time of adopting a preferential scheme is that the countries which are also Contracting Parties to GATT would require a waiver under the terms of the General Agreement.

developing is to make the initial proposal, the developed countries should be able to make certain additions.

(f) *Less-advanced developing countries.* Special provisions for the less-advanced developing countries would be incorporated into the system, but no attempt would be made to define in advance which these countries are. After the preferential system has operated for ten years, a particular country which would have exported a particular product for the whole period would no longer enjoy preferences for that product. Secondly, in connexion with an escape clause or with the tariff-quota procedures, one might exclude from the benefits of the system the products of those countries which had proved competitive, for instance, by being the cause of the serious injury or by taking up a large share of the tariff quota. Thirdly, a permanent review mechanism would be established to check whether all developing countries gain advantages from the preferential system and to suggest additional measures in favour of those countries that would not have benefited from it. Fourthly, the more-advanced developing countries would declare their willingness to grant preferences to the less-advanced developing countries. Lastly, the international institutions concerned would decide to give priority attention to the building up of productive capacity and to infrastructural improvements in the less-advanced developing countries.

(g) *Duration.* The preferential system would remain in force for at least ten years. At the end of this period, the functioning of the system would be reviewed and certain countries and/or products could be excluded from it. If the review is not satisfactory to a particular developed country, it would be able to withdraw from it. But even if such a country withdraws, it would have to continue to grant preferences for a certain period on all those items for which a particular developing country had begun exports before the end of the ten-year period.

(h) *Existing preferential systems.* Existing preferential arrangements, insofar as they apply to manufacturers and semi-manufacturers would, in the case of a general system based on an escape clause, be suspended or absorbed, except for the products which would not have been granted preferences in important developed-country markets. In the case of a system based on tariff quotas, a distinction would be made between the products exported in the past and those not exported by the beneficiaries of earlier preferences. For the products that have not been exported in the past, the old system would be suspended. For the products that have been exported in the past, the beneficiaries of existing preferences would still continue to enjoy at least that access which they had in the past while the imports from the beneficiaries of the new system could be subject to the tariff quota. The question of whether the new system had granted equivalent advantages would be considered by the developing countries concerned during the preparation of the scheme and would be reviewed after a certain number of years. As for the reciprocal or reverse preferences, the beneficiaries of the developed countries might agree to their elimination or phasing out over a period of years. Another solution would be to ban the setting-up of new reverse preferences.

(i) *Parallel obligations.* It would be understood that at the second session of the United Nations Conference on Trade and Development, parallel obligations of developing countries would be defined, particularly with respect to trade among developing countries and with respect to policy guidelines for sound export policies.

(j) *Institutional arrangements.* All developing and all developed countries would be able to take part in the general and detailed consultations and negotiations leading to the setting-up of the preferential system, as well as in the operation of the system and its review, and this would be facilitated by the universal character of UNCTAD.

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