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TRADE POLICY REVIEW OF THE UNITED STATES
16-17 FEBRUARY 1994

GATT Council's Evaluation

The GATT Council conducted its third review of the United States under the trade policy review mechanism (TPRM) on 16-17 February 1994. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the two-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published later as the complete trade policy review of the United States and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989 and 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991 and 1993), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991), Japan (1990 and 1992), Kenya (1993), Korea, Rep. of (1992), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), South Africa (1993), Sweden (1990), Switzerland (1991), Thailand (1991), Turkey (1994), the United States (1989 and 1992), and Uruguay (1992).

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Concluding Remarks by the Chairman of the Council

These concluding remarks, made on my own responsibility, are my understanding of the salient features of the Council discussion, which will be fully reported in the Minutes.

The overriding theme in this third Trade Policy Review of the United States has been that the four strands of U.S. trade policies - multilateralism, regionalism, bilateralism and unilateralism - should be coherent and consistent: coherent and consistent both with its domestic economic policies and its essential leadership rôle, as the largest single trading nation, in the multilateral trading system. This need has been particularly emphasized as we approach ratification of the Uruguay Round package and move from the GATT to the broader scope of the World Trade Organization.

Within this major theme, five elements can be identified: the rôle of trade and trade policy in recent U.S. economic developments; the strands of U.S. trade policies and their effect on the multilateral trading system; specific trade measures; sectoral aspects of trade policies; and other issues that go beyond the confines of the GATT into the implementation of the Uruguay Round Agreements.

Rôle of Trade in U.S. Economic Developments

Members recognized that the U.S. economy had emerged from recession, with rapid growth, a resurgence of investment, low inflation and increasing employment. Consistent macroeconomic policies, improved competitiveness and export growth had been important in this context. Members welcomed the reductions already apparent in the fiscal deficit and the measures announced in the current budget. It was emphasized that trade measures were not regarded as appropriate or effective means to address domestic economic imbalances.

The representative of the United States said his authorities understood that current account imbalances resulted much more from broad macroeconomic and structural factors than from trade policy. The United States' policy was to substantially reduce the budget deficit, gradually raise saving rates and set a long-term course of healthy investment and reduction in external deficits. It was not U.S. policy to target exchange rates in order to affect trade flows. Macroeconomic and structural adjustment was desirable also for countries with large and chronic external surpluses.

Rôle of the United States in the Multilateral Trading System

Delegations complimented the United States for its leading rôle in the conclusion of the Uruguay Round and urged the Administration to continue working closely with Congress to obtain smooth ratification of the agreement.

While action by the United States in support of the multilateral system was recognized, there were preoccupations concerning some of its trade policy initiatives. The ratification of the North American Free Trade Agreement was welcomed. However, some felt the agreement could lead to net trade diversion. The pursuit, through bilateral and unilateral means, of market-opening in other nations was seen by many as potentially counterproductive and disruptive to the multilateral trading

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system. In these regards, many stressed the importance of commitment by the United States to, and abidance by, multilateral rules and disciplines; concern was expressed that the United States should not resort to managed trade, particularly in the form of numerical targets, to address bilateral trade difficulties but should use the present GATT and future WTO mechanisms to the fullest extent.

The representative of the United States said the principal objective of U.S. trade policy was to reap economic gains for itself and its trade partners from reduction of global barriers to trade with the view to their elimination; policy was motivated by the desire to solve specific trade problems and open others' markets on an m.f.n. basis. Expansion of market-oriented, rules based trade was fundamental to greater efficiency in U.S. and world production, independent of the status of the U.S. trade balance. The multilateral system was the "floor" for the U.S. approach to trade policy. Consequently, the completion of the Uruguay Round had been a priority and, in this regard, prospects for early Congressional action were good. The United States would, however, go further in opening markets if others were willing, either on a regional or plurilateral basis. Where responses to long-standing demands for market opening had been inadequate, a more specific, results-oriented approach was sought. This was not a search for "managed trade" but designed to achieve what free markets should have reached.

Specific Trade Measures

Members recognized that the United States was in most respects an open market. Tariff averages were low and virtually all rates were bound. However, there was concern about remaining tariff peaks, particularly in such areas as textiles, clothing, footwear and glassware.

Participants noted that increased recourse to anti-dumping and countervailing actions was a source of apprehension, as such actions could lead to unpredictability and increased costs. The use of the "best information available" method for determining dumping margins had become frequent, rather than exceptional. In addition, many cases accepted at the preliminary stage were finally rejected, or margins sharply reduced. Questions were asked on the consistency of aspects of proposed implementing legislation, including provisions on circumvention, with the Uruguay Round agreement.

"Buy American" provisions continued to restrict access in public procurement; members asked what steps were envisaged to reduce such provisions, particularly in view of the new Government Procurement Agreement. Access at State level offered in the Uruguay Round was voluntary, conditional and could not be accurately valued.

The complexity of U.S. rules of origin created confusion and uncertainty for exporters; harmonization on the basis of a tariff shift criterion would improve the transparency of the system.

Many members urged the U.S. to implement the GATT panel recommendations on Section 337 of the U.S. Tariff Act of 1930.

Other issues raised included customs user and harbour maintenance fees; ad valorem charges applied to imports not meeting origin marking requirements; testing for standards on certain food imports; and the continued non-application of the GATT against two contracting parties.

In response, the representative of the United States noted that, under its Uruguay Round offer, the trade-weighted average tariff would fall from under 5 to around 3 per cent. Cuts in over 90 per cent of the 876 U.S. peak tariffs had been offered, for an arithmetic average depth of cut of 49 per cent.

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The United States was reviewing its government procurement provisions in the perspective of the WTO. "Buy American" was not a prohibition, but a preference. A list of exclusions from the new Agreement was being compiled. Rules of origin were complex, but the United States was committed to the new Agreement on Rules of Origin. "BIA" was not an equivalent option to verifiable information in anti-dumping or subsidy determinations; however, the discretion available to the Department of Commerce was limited. Efforts would be made to expedite the completion of administrative review. The United States intended to include amendments to Section 337 of the Tariff Act of 1930 in legislation implementing the results of the Uruguay Round. Regarding product standards, efforts had been made towards harmonization and mutual recognition agreements with trading partners, notably the European Union; in the context of NAFTA; and in the perspective of the WTO Agreement on Technical Barriers to Trade.

Sectoral Policy Measures

Participants expressed concern about the expansion of U.S. agricultural export programmes; their application to additional previously untargeted markets; and their negative effects on exporting countries. They urged the United States to wind down these programmes in anticipation of the implementation of the Uruguay Round results.

The tightening of agricultural import barriers, notably on sugar and meat, was a further cause of preoccupation. Fears were expressed that NAFTA could reduce access to the U.S. sugar market for non-members. Legislation concerning the use of imported tobacco was widely seen as detrimental to exporters of all forms of raw tobacco; the establishment of a GATT panel was noted.

Questions were also raised regarding U.S. steel import policies, where anti-dumping and countervailing measures acted as a significant barrier to trade. Some participants regretted the failure to arrive at an agreement on multilateral trade in steel products.

Participants feared the potentially restrictive nature of the NAFTA origin rules on textiles and clothing, and queried recent measures to prevent circumvention of MFA bilateral agreements. Rules of origin and tariff reclassification were seen as potentially damaging instruments in the motor vehicle sector. Several questioned the bilateral nature of commitments on automobiles and components sought by the United States in negotiations with Japan.

In response, the U.S. representative stated that changes in laws required to meet Uruguay Round commitments in agriculture would be contained in the implementing legislation. There was no intention to go beyond the current Uruguay Round commitments on subsidy reduction. Section 22 restrictions would be converted to tariffs on implementation of the Uruguay Round, but could still be applied in the interim.

The United States had modified the tariff reclassification of certain motor vehicles. However, there were no plans to eliminate the temporary increase in the import duty for light trucks.

Other Issues

Questions were asked about the continued application of the Jones Act to trade in maritime services, and the impact of the Fair Trade in Financial Services Bill on the financial services sector and the continuing multilateral negotiations.

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It was noted that U.S. measures to protect the environment could have a bearing on trade; the justification for export restrictions on logs was questioned. Concerns were voiced regarding the extraterritorial application of certain U.S. trade legislation, notably in the field of anti-trust and environmental protection.

While commending the reduction in the use of the Section 301 authority, several participants expressed preoccupation at the persistent use of "Special 301" in intellectual property issues. With the implementation of the Uruguay Round dispute settlement provisions, resorting to unilateral measures under Section 301 should no longer be necessary.

Regarding foreign direct investment in the United States, some participants perceived a risk that national treatment would be replaced by reciprocity considerations. Participants sought clarification of conditionality and national security considerations in decisions on foreign direct investment.

Finally, apprehensions were expressed regarding the continuing negative effects, and extra-territorial application, of the unilateral trade embargo maintained by the United States against one contracting party.

The representative of the United States expected that, with the entry into force of the Uruguay Round dispute settlement undertakings, "unilateralism" in the existing sense would disappear. Section 301, which had been a spur to the expansion of multilateral rules, would be operable within the WTO system.

International investment guidelines were designed to determine whether the transaction would promote the U.S. national interest, including exports, employment and the technology base. The Fair Trade in Financial Services legislation was not yet final. Efforts were made to provide an effective tool to open banking and securities markets overseas.

The U.S. Marine Mammal Protection Act would be reauthorized by the Congress in 1994.

This third review of the United States' trade policies and practices has underlined the importance of the United States in the multilateral trading system. The present period, including the run-up to Marrakesh, is crucial for the stability and future of world trade. There are many positive elements in U.S. trade and economic policies, but the very size of the economy and trading sector means that any weaknesses in its policies impact on all its trading partners. Participants thus look to rapid ratification by the United States of the Uruguay Round agreements, to consolidate a strengthened multilateral base for U.S. trade policies. I therefore return to the point made at the outset: the importance attached by the Council to consistency and coherence in U.S. trade policies and the need for the United States to adhere closely to multilaterally agreed provisions, both now and in the implementation phase of the Uruguay Round.

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