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TRADE POLICY REVIEW

UNITED STATES OF AMERICA

A number of new measures and initiatives with significant implications for the multilateral trading system have been taken by the United States during the last two years, according to the GATT Secretariat's report on the trade policies and practices of the United States. The "fast track" procedures for trade negotiations have been extended; steps have been taken to bring some measures into conformity with the GATT, such as the Superfund tax, the customs user fee, and import quotas on sugar; and provisional tariff cuts have been made on a number of products.

"The single most visible, and perhaps most important, development," says the report, however, "is in the Administration's attitude towards preferential regional trade arrangements. The impact of these new groupings on world trade may be far-reaching." For instance, the report points out that the size of the economies involved in a North American Free Trade Agreement among Canada, Mexico and the United States could, through trade diversion, adversely affect third parties' trade with the United States.

While acknowledging the United States' declared intention to follow GATT rules for these preferential agreements, the report issues a caution about the current critically important stage of evolution of the multilateral trading system: "On the one hand, expectations have been mounting for the successful conclusion of the Uruguay Round and for the GATT to play a central rôle in consolidating and sustaining the economic and trade reforms being undertaken in central and eastern Europe, Latin America, Asia and Africa. On the other hand, concern about the erosion of basic GATT principles by regionalism, bilateralism, unilateralism, or

various forms of 'managed' trade is increasing. The United States has a major responsibility for maintaining and reinforcing the faith of the international business community in the open, liberal multilateral trading system."

The GATT Secretariat's report, together with a report prepared by the United States Government, will be discussed by the GATT Council on 11-12 March 1992. This is the second review of the United States since the launch of the Trade Policy Review Mechanism (TPRM) in December 1989. The TPRM enables the Council to conduct a collective evaluation 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 current reports, therefore, mainly cover developments during the last two years in all aspects of the United States' trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment. Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in June 1992 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, reviews of the following countries have been completed: Australia (1989), Canada (1990), Chile (1991), Colombia (1990), the European Communities (1991), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Sweden (1990), Switzerland (1991), Thailand (1991), and the United States (1989).

TRADE POLICY REVIEW
UNITED STATES

Report by the GATT Secretariat - Summary Observations

The United States in World Trade

As the world's largest single economy, the United States continues to play a major part in world trade. It is the world's largest individual merchandise importer, accounting for 14½ per cent of world imports in 1990. United States exports accounted for 11½ per cent of world exports in 1990, but dropped to second place behind Germany.

The recession which took hold in the United States during 1990 played a part in slowing down growth in world trade as U.S. import demand became sluggish. Import volume growth declined from 6.3 per cent in 1989 to 3.9 per cent in 1990. U.S. exports of merchandise, on the other hand, continued to expand strongly in 1990. As a result, the ratio of merchandise trade (exports plus imports) to GDP rose from 16.2 per cent in 1988 to 16.8 per cent in 1990.

The United States' merchandise trade deficit declined by 15 per cent between 1988 and 1990, to US$108 billion. This trend has continued in 1991. As trade in services continued to show a substantial surplus, the current account deficit fell from US$129 billion in 1988 to US$92 billion in 1990, or less than 2 per cent of GDP. The current account deficit is forecast to decline further to around US$9 billion in 1991, partly due to a one-off inflow of official transfer payments (US$40 billion) related to the Gulf war.

The European Communities, Canada and Japan continue to be the major trading partners of the United States, jointly accounting for over half of U.S. merchandise trade. However, double-digit growth in the last two years was recorded in U.S. exports to a number of developing countries, particularly in Asia and in Latin America.

The rapid growth in the United States' agricultural exports during 1987-1989 slowed in 1990, and agro-based products remained at about 11 per cent of merchandise exports.

Robust growth, on the other hand, was recorded between 1988 and 1990 in exports of high-technology manufactured goods such as aircraft, automatic data processing machines, and telecommunications equipment. Interdependence between the United States and the rest of the world economy has also been intensified through growing U.S. direct investment abroad, as well as by foreign direct investment in the United States. About 40 per cent of U.S. direct investment abroad and a similar share of foreign direct investment in the United States have been directed to manufacturing, accelerating the global integration of manufacturing industries. About 25 per cent of U.S. merchandise exports and 15 per cent of imports are currently estimated to be intrafirm trade.

Institutional and Legal Framework

Since the first trade policy review of the United States in 1989, the overall institutional and legal framework for United States trade policy has been largely unchanged. However, some significant modifications to existing trade laws and programmes affect policy formulation and could have a major impact on the multilateral trading system.

Congress extended the "fast track" procedures under the 1988 Omnibus Trade and Competitiveness Act for two years until 1 June 1993. Without the extension, the resumption of the Uruguay Round negotiations in the spring of 1991 would have faced serious difficulties. The "fast track" authority is also applicable to the negotiation of a North American Free Trade Agreement among Canada, Mexico and the United States, and may be extended to the "Enterprise for the Americas Initiative" promoting other trade agreements within the American continent.

The Food, Agriculture, Conservation, and Trade Act of 1990 (the Farm Act) extended and enlarged the scope of existing agricultural supports as well as export assistance programmes, for five years. Its provisions were backed up by the Omnibus Budget Reconciliation Act of 1990, containing a Uruguay Round "trigger" providing that, if no agreement on agriculture is concluded by 30 June 1992, the United States Administration will be required to increase export subsidies by US$1 billion per annum in fiscal years 1994 and 1995, and further to increase assistance to specific U.S. agricultural products.

The Omnibus Budget Reconciliation Act of 1990 also contains an important provision called the "pay-as-you-go" test. Under this test, any new mandatory revenue-losing proposal by a Government agency must be offset by a corresponding decrease in other mandatory spending or by an increase in revenue. Although the test does not apply to multilaterally-agreed tariff reductions in the Uruguay Round, which are covered by Presidential negotiating authority, it will apply to Uruguay Round agreements on non-tariff measures, free trade agreements, tariff preference programmes, and other trade laws and provisions. The test may constrain the Administration's ability to conclude international trade agreements or to launch autonomous trade liberalization measures.

The "Super 301" process, introduced for two years under the 1988 Omnibus Trade and Competitiveness Act, expired in 1990. However, normal Section 301 procedures as well as "Special 301" and other provisions on Government procurement and on trade in telecommunications remain.

Section 337 of the Tariff Act of 1930, mainly concerning patent infringement, has not yet been amended, despite a 1989 Panel report which found certain procedural aspects of the law in violation of GATT. A number of investigations have been conducted and some exclusion orders have been issued on the basis of the existing law. The United States has stated that it would most likely amend Section 337 in the context of legislation implementing the results of the Uruguay Round.

Other trade laws enacted during the last two years include the Customs and Trade Act of 1990, which reformed the customs user fee and reinforced export controls on logs from public land, and the Caribbean Basin Economic Recovery Expansion Act of 1990, which has put duty-free preferences for designated Caribbean countries on a permanent footing.

Trade Policy Features and Trends

Evolution since the first review

Uruguay Round

The United States Administration continues to give top trade priority to the successful completion of the Uruguay Round negotiations. The United States participates fully in all negotiating areas.

Some temporary tariff cuts have been introduced, pending final Uruguay Round results. Thus, implementation of tariff reductions on some tropical products were implemented in mid-1989 on a provisional basis as part of the Mid-Term Review package; and the Customs and Trade Act of 1990 included duty suspensions and temporary reductions, as well as the extension of existing duty suspensions on a number of items, mostly chemical products, until 31 December 1992.

Other trade facilitating measures

The United States continues to use the extension of most-favoured nation and GSP treatment as a policy instrument linked to desired reforms in other countries. Denial of m.f.n. treatment imposes significant costs on a trading partner, as the United States retains substantial differences between m.f.n. and non-m.f.n. tariffs.

In 1990, the United States accorded m.f.n. tariff treatment to the Czech and Slovak Federal Republic, and in 1991 this treatment, as well as the m.f.n. treatment accorded to Hungary, was made permanent. Currently only two GATT contracting parties (Cuba and Romania) remain denied or suspended m.f.n. tariff treatment by the United States. Under the Trade Enhancement Initiative for Central and Eastern Europe, announced by the President in July 1991, an intensive review of internal and external barriers to U.S. trade with the region is underway.

The coverage of the United States GSP programme has been expanded to the Czech and Slovak Federal Republic, Hungary, Namibia and Poland; suspension of Chile and some others from the programme has been lifted; and its product coverage has been expanded, particularly to four Andean countries (Bolivia, Colombia, Ecuador and Peru) to assist them in controlling drug trafficking, and to east European countries to support their economic reforms.

During the last two years, the United States Government acted to implement the recommendations of three Panels, in order to bring measures

into conformity with GATT provisions. These actions concerned the "Superfund" tax, the customs user fee and the import quota on sugar.

Quantitative restrictions on imports of cotton comber waste, which had been covered by the GATT waiver granted to the United States in 1955, were suspended indefinitely in November 1990 following an ITC recommendation. The volume of import quotas for peanuts was temporarily increased in July 1991 for the period of one month.

In September 1989, the United States terminated GATT Article XIX safeguard actions on specialty steel. Currently there is no Article XIX action in effect. At the end of September 1991, the OMA with China on imports of tungstic acid and other products under Section 406 (market disruption from non-market economy), which had lasted for four years, was terminated.

Noticeable changes in measures directly affecting U.S. exports included extensive decontrols of COCOM-related export restrictions, both in 1990 and 1991.

The Administration has also prevented certain trade-restrictive legislation from being enacted. One notable example was the Textiles, Apparel, and Footwear Trade Bill of 1990, which was vetoed by the President in October 1990 on the ground that the Bill was blatantly protectionist.

Preferential trade arrangements

At the time of the initial trade policy review in 1989, the United States maintained free-trade agreements (FTAs) with Canada and Israel. Non-reciprocal preferential duty-free programmes were also maintained for Caribbean Basin countries. The possibility of expansion of these arrangements was not thought likely.

Since 1990, however, the United States has moved rapidly to expand the network of regional trade arrangements. The first is a proposed North American Free Trade Agreement with Canada and Mexico, the negotiations for which began in mid-June 1991 and are expected to be concluded within the time limits of the extended "fast track" procedures.

Further, the "Enterprise for the Americas Initiative" (EAI) includes a long-term goal of concluding free trade agreements encompassing all of the North, Central and South Americas. In this connection, "framework" agreements for close cooperation on trade issues have been concluded with twelve individual and two groups of countries. Preliminary discussions have begun with Chile on the feasibility of negotiating an FTA. A Bill to implement investment, debt and environmental elements of the initiative is also currently under consideration in Congress.

The third initiative is the proposed Andean Trade Preference Act of 1991, currently under consideration in Congress. The Act aims to create a duty-free preference programme for four Andean countries, similar to those extended under the Caribbean Basin Economic Recovery Act of 1983 (CBERA).

The growth in preferential arrangements will reduce the importance of m.f.n.-based trade for the United States. In 1989, imports from m.f.n. sources (excluding partners of FTAs, and beneficiaries of GSP) accounted for 63 per cent of total U.S. merchandise imports, but the actual share of imports on an m.f.n. basis would have been greater as the U.S. GSP scheme covered only about half of total tariff items. Additional tariff preferences to Mexico and other Latin American countries will therefore enlarge the scope of duty-free preferential treatment.

The full elimination of all tariffs under the free trade agreements with Canada and Israel is yet to be completed, and certain non-tariff barriers, particularly in agriculture, are still maintained. Under the GSP and the preferential programme for Caribbean countries, as well as under the proposed preferential programme for Andean countries, certain import sensitive products such as textiles and clothing, and footwear are excluded. The conclusion of the NAFTA may also divert trade from these countries through the improved trading conditions extended to Mexico.

Existing FTAs and other preferential arrangements have already created a web of complex tariff and non-tariff measures. For example, these arrangements provide for different rules and treatment with respect to rules of origin, the customs user fee, quantitative restrictions, government procurement, safeguard measures and dispute settlement procedures. Unless otherwise stated in the agreements, rules under these agreements are accorded precedence over those under the GATT. It remains to be seen whether this would also be the case under the new proposed agreements.

Unilateral actions and trade disputes

At the initial trade policy review of the United States in 1989, many contracting parties expressed strong concerns about unilateralism. United States' actions related to "Section 301" provisions were regarded as being particularly controversial. It was pointed out that the General Agreement did not allow for any unilateral interpretation of the rights and obligations of contracting parties, nor for unilateral action by any one contracting party aimed at inducing another contracting party to bring its trade policies into conformity with the General Agreement.

During the last two years, the United States has taken a measured approach to the use of Section 301:

- No new investigations were initiated under "Super 301" in 1990, and all six cases initiated in 1989 were terminated or suspended by June 1990 without retaliatory actions. The "Super 301" process expired in 1990;

- Largely due to the absence of "Super 301" investigations, the number of Section 301 investigations declined from a peak of nine cases in 1989 to three in 1990, and five in 1991 (up to October);

- No retaliatory action has been taken since January 1989, and existing retaliation against Brazil and Japan was removed or suspended. Currently, only one such action (against the EC concerning a meat hormone directive case) is in effect;

- Fourteen Section 301 investigations (including the above six "Super 301" cases) were terminated or suspended. Seven such cases were, as the law requires, brought under GATT or Tokyo Round Agreement consultations or dispute settlement procedures. In four cases, GATT Panels concluded in favour of the United States, while in the other three cases bilateral settlements were reached through consultations or actions taken by the trading partner concerned. The remaining seven cases principally concerned Government procurement and patent protection. Investigations and consultations in these areas were conducted chiefly in a bilateral context, because they were, in the view of the United States, mostly outside the scope of GATT.

- However, in April 1991, China, India and Thailand were named as "priority" countries under the "Special 301" process, for the first time since the enactment of the law.

This more restrained approach may not suffice to dissipate concerns over the potential impact of Section 301 and its related laws. Contracting parties are seeking a clear-cut commitment from the United States not to use Section 301 authority without first completing the GATT dispute settlement process. So far, the United States has given no such undertaking. Moreover, where a foreign practice judged "unfair" by the United States is not covered by multilateral rules, the United States Administration intends to continue to use Section 301 for leverage in bilateral negotiations.

Currently, seven Section 301 investigations are outstanding (two of which are being investigated under the "Special 301" process). If no satisfactory solution is found within 6 to 18 months, depending on the case, the Administration is required to determine whether "unfair" practices exist and, if so, what retaliatory action to take.

Similar procedures, including provisions for retaliatory action, are applied to cases under the provisions introduced in the 1988 Omnibus Trade and Competitiveness Act concerning trade in telecommunications and government procurement. The EC and the Republic of Korea were identified in January 1989 as "priority" countries under the provision on telecommunications, and consultations are currently continuing under a twice extended time-frame (the consultation period is normally one year). Norway was named in April 1991 as a discriminating country in government procurement, and currently the issue is under dispute settlement procedures in the Government Procurement Agreement, which provides 14 months for consultations with members.

Type and incidence of trade policy instruments

Tariffs

United States tariffs are generally low, with a simple average of 7 per cent for all products excluding petroleum. Relatively high tariffs are still used, however, to protect certain sectors, such as tobacco (96 per cent simple average), sugar and some other foodstuffs (e.g. 19 per cent for sugar and confectionery), beverages, watches and clocks, footwear, textiles, certain glass manufactures and medical and pharmaceutical products.

Non-tariff measures

Import quotas, maintained under the United States' 1955 GATT waiver, continue to be binding constraints for certain agricultural products, including dairy products, peanuts, cotton, and certain sugar-containing products. These import quotas have imposed considerable costs to U.S. consumers. According to the United States International Trade Commission, the removal of import restraints on dairy products, peanuts, and cotton would have benefited U.S. consumers by about US$280 million in 1989.

The United States imposed no import quotas or negotiated "voluntary restraint agreements" (VRAs) on meat imports under the 1979 Meat Import Act in 1989 or 1990. However, in 1991 Australia and New Zealand have once again concluded new VRAs on beef and veal to avoid triggering import quotas under the Act.

One of the most controversial U.S. non-tariff measures in the period was the embargo on imports of yellowfin tuna and its products from Mexico, Venezuela and Vanuatu, and on "intermediary" imports of such products from third countries, based on the protection of dolphins under the U.S. Marine Mammal Protection Act. In September 1991, a GATT Panel established at the request of Mexico found that the U.S. embargo was inconsistent with the relevant GATT provisions, while not making a finding on the appropriateness of the United States' and Mexico's environmental policies, as this was not a task for the Panel.

Trade issues have also involved certain U.S. standards or sanitary regulations. For example, marketing orders on imported fruits and vegetables were extended to kiwifruit in March 1991. These were the subject of a complaint from Chile. A controversy with the EC over U.S. sanitary regulations regarding fungicide residues in wines was temporarily resolved in April 1991 when the United States approved an interim tolerance level. At the same time, export controls were tightened with respect to exports of logs from state-held lands, and chemical, biological and nuclear weapons.

Temporary measures

Import relief

The United States has not taken any safeguard measures under GATT Article XIX or under the "escape clause" of Section 201 of the 1974 Trade Act in the last two years. The last remaining Article XIX action on specialty steel was terminated in 1989; however, it was folded into VRAs with several trading partners. Nor have there been any investigations for import relief on products from non-market economies (Section 406 of the Trade Act of 1974), or on grounds of national security (Section 232 of the Trade Expansion Act of 1962, as amended). The only case of Section 406 - an OMA since 1987 with China on imports of ammonium paratungstate and tungstic acid - expired in September 1991.

There was little change in the implementation of Trade Adjustment Assistance (TAA) programmes. The number of workers certified eligible for assistance declined slightly in 1990 to 63,000, (largely in the oil, gas and apparel industries), but the number of firms certified for assistance was almost unchanged. Metal products, electronics, and apparel and accessories accounted for a large share of certified firms in 1990.

Anti-dumping and countervailing duty actions

The United States has been one of the most frequent users of anti-dumping and countervailing duty actions. The number of new anti-dumping investigations was relatively small in the first half of 1990, but has since grown rapidly.

Some anti-dumping and countervailing orders have been cancelled through administrative review and revocation procedures. However, 43 anti-dumping orders and 9 countervailing orders introduced during the 1960s and 1970s - remain in effect.

During the period 1988 to 1990, final determinations by the Department of Commerce on the existence of dumping were almost entirely affirmative (68 affirmative and 3 negative determinations during the three years), while final determinations of injury by the International Trade Commission outweighed "negative" determinations by a factor of two to one. This supports the view that in most cases the injury test by the ITC, not the dumping determination by the Department of Commerce, is the decisive factor in determining whether or not anti-dumping duties should be imposed.

During the last two years, a number of contracting parties have brought U.S. anti-dumping and countervailing duty actions to dispute settlement procedures under GATT or the Tokyo Round Agreements. These complaints reflected growing concern over the frequent use of such measures and the methods used to determine dumping and injury.

Frequent recourse to such provisions generates a considerable degree of uncertainty for exporters, let alone the considerable legal costs invariably incurred in defending cases. Although the share of total U.S.

imports directly affected by anti-dumping or countervailing duty investigations is relatively small (less than one-half of one per cent), the uncertainty so generated may have induced trading partners to voluntarily restrain their exports to the United States, or to price their goods "defensively", or to conclude bilateral arrangements with similar aims. For example, in some sectors such as steel and semiconductors, there appears to be a strong correlation between the frequency of anti-dumping investigations and the emergence of VRAs or similar arrangements as a basis for the termination of investigations.

Section 337

Pending the enactment of amending legislation, the United States Administration continued to enforce the existing Section 337 of the 1930 Tariff Act, notwithstanding the fact that certain procedural aspects of the law were found GATT-inconsistent by a Panel. Following adoption of the Panel report in November 1989, there have been 23 investigations on alleged infringement of U.S. patents up to the end of June 1991. Violation of Section 337 was determined in four cases during the last two years, and exclusion orders were issued in three of the four instances.

Sectoral trade policies

Agriculture

While seeking radical reforms in multilateral rules and disciplines on agricultural trade in the Uruguay Round, the United States continued to assist agricultural production by price and income supports, import quotas and various export assistance programmes. Some of these assistance programmes were, in part, based on the perceived need to compete with other agricultural exporters benefiting from similar government programmes and to put pressure on others to reduce levels of support.

The OECD has estimated that U.S. agricultural support, measured by Producer Subsidy Equivalent (PSE), increased from US$33 billion in 1989 to about US$36 billion in 1990, after falling continuously between 1986 and 1989. Nevertheless, in 1990 the U.S. average percentage PSE, at 30 per cent, was significantly lower than the OECD average.

Although the 1990 Farm Act introduced no significant changes in the nature of U.S. agricultural assistance programmes, their scope was considerably extended and modified. It is difficult to make an overall assessment of these changes, as the Act contains a mix of measures to increase or to reduce market orientation depending on sectors and, moreover, the United States Administration maintains a considerable scope of discretion in the implementation of these programmes.

Steps to improve market orientation and reduce Government support included the introduction of a "triple-base" provision which reduces by 15 per cent the acreage eligible for income support programmes on wheat, feedgrains, cotton and rice. The Act also froze target prices, on which income support payments are based, for wheat, feedgrains and rice at their

1990 levels, but did not continue the progressive reduction of target prices introduced under the previous law.

However, the Farm Act also introduced a number of changes that could arrest or slow the previous trend to greater market orientation. For example, the basic price support rates for 1991-95 wheat and corn crops were slightly raised from those in 1990; a floor was set to the support price for rice and the programme of marketing certificates for rice was extended till 1995; the marketing loan programme to support prices was extended from soybeans to other minor oilseeds; and a minimum support price for milk was established for the period 1991 to 1995. As noted above, Government assistance to agriculture is required to increase in the event that no agreement is reached in the Uruguay Round by June 1992.

The 1990 Farm Act extended a number of existing Government-assisted sales and export promotional programmes, including the Export Credit Guarantee Programme, the Export Enhancement Programme (EEP), P.L.480 (Food for Peace), and the Targeted Export Assistance Programme. Total sales under these programmes accounted for 21 per cent of total United States' agricultural exports in the fiscal year 1989. Growth in sales under the Export Credit Guarantee Programmes and the EEP has been particularly noticeable in recent years. Some of these programmes, particularly EEP, have caused strong concern as to their adverse effects on world prices and agricultural trade.

Certain support programmes are linked to import quotas or fees maintained under Section 22 of the Agricultural Adjustment Act of 1933. While the United States Administration has stated that these import quotas under the GATT waiver are negotiable in the Uruguay Round, and some reforms have recently been made (such as the suspension of quotas on cotton comber waste), it has stated that it is not prepared to eliminate these quotas on its own initiative.

Manufacturing

While the United States does not maintain comprehensive policies for manufacturing industries, sector-specific programmes exist for the protection or promotion of certain industries, including steel, machine tools, textiles and clothing, and semiconductors.

Most of the VRAs and similar restraint arrangements observed at the initial trade policy review of the United States in 1989 remain in force, with some modifications. Specialty steel has been added to the list of products under such arrangements.

Voluntary restraint agreements on steel with the EC and 16 other trading partners were renewed, with coverage extended to include specialty steel. These are all scheduled to expire on 31 March 1992. The current situation in the U.S. steel industry and the level of import penetration are judged to provide a favourable environment for the termination of the VRAs as scheduled. At the same time, however, as provided in the President's statement of July 1989, the United States has instigated

negotiations for a multilateral consensus on steel within the GATT which should address issues such as subsidies, officially supported export credits, bound and duty-free treatment for imports of steel products, non-tariff barriers, and contain its own dispute settlement procedures.

The United States Government is also seeking a multilateral agreement with OECD members and other countries to eliminate subsidies or other administrative acts to the shipbuilding industry. The negotiations address such issues as elimination of official subsidies, prevention of dumping, and dispute settlement.

VRAs on machine tools concluded with Japan and Taiwan in December 1986 remain in force until 31 December 1991. Export limits under these agreements remain at the levels established in 1986. While the shares of the affected countries in U.S. imports declined under the VRAs, substantial export growth was achieved by other countries. Moreover, according to the U.S. International Trade Commission (ITC), about US$40 million in quota rents arising from increased import prices went to exporters.

The United States has, as of October 1991, bilateral agreements on textiles and clothing with 40 trading partners and two U.S. insular possessions. Thirty of these are with MFA signatories. Textiles and clothing covered by restraint agreements account for about 60 per cent of total U.S. imports of these products. The leading suppliers under restraint are China, Taiwan, Hong Kong and the Republic of Korea; the major unrestrained source is the EC.

A new bilateral arrangement between Japan and the United States on trade in semiconductors entered into effect in August 1991. It is valid for five years, with the option of termination after three years by mutual agreement. One unusual element in the agreement is an explicit target foreign share of 20 per cent of the Japanese market, which is intended to be realized by the end of 1992. The Government of Japan has also agreed to ensure that Japanese semiconductor exporters collect and maintain data to monitor against possible dumping.

Although the new arrangement does not provide for a guaranteed market share, there is no doubt that, under its provisions, imports of products concerned are expected to expand through government intervention, often in a non-transparent manner, in the market. It is noteworthy that the United States had recourse to Section 301 retaliation in April 1987 because, it was alleged, Japan did not keep previous "commitments", including one to increase foreign market access opportunities in Japan.

Competition policies

United States antitrust laws provide relatively strict principles and disciplines to prohibit anti-competitive activities including price-fixing, bid-rigging, and certain mergers. They are applied not only to firms in the United States, but also to firms operating abroad so long as their conduct has direct, substantial, and reasonably foreseeable anti-competitive effects in the United States.

However, the Justice Department may use its discretion not to prosecute enterprises abroad engaging in such activities if these are the result of "sovereign compulsion" by foreign authorities. The scope of discretion is even wider if the foreign governments have instigated such measures at the request of the United States Government. As a result, all known VRAs appear to fall outside the anti-trust laws.

There is an evident dichotomy in the application of anti-trust laws. Companies operating under VRA agreements requested by the United States are normally exempt from risk of anti-trust actions. In other cases, trading partners need to ensure that "government compulsion" is applied to private firms to restrain their exports, if such export restraints are to avoid prosecution under U.S. anti-trust laws. VRAs concluded with the United States therefore imply engagement by enterprises abroad in anti-competitive actions which could otherwise be prosecuted under U.S. anti-trust laws.

The continuation of Japan's voluntary export restraint (VER) on passenger cars, without the request of the U.S. Government, since 1985 indicates that if the existence of "foreign compulsion" has been once shown, anti-trust laws do not affect VERs by foreign exporters, even where the United States Government has not requested restraint. This provides an incentive for foreign governments to engage in such arrangements, rather than to see their nationals subjected to possible U.S. anti-trust actions.

Trade Policies and Foreign Trading Partners

The fundamental framework of United States' trade policies has not changed since the last review. However, a number of new measures and initiatives with significant implications for the multilateral trading system have been taken. The "fast track" procedures for trade negotiations have been extended; steps have been taken to bring some measures (the Superfund tax, the customs user fee, import quotas on sugar) into conformity with GATT provisions; and provisional tariff cuts, to be consolidated after the Uruguay Round, have been made on a number of products.

The single most visible, and perhaps most important, development in United States trade policies during the last two years is in the Administration's attitude towards preferential regional trade arrangements. Movement towards a North American Free Trade Agreement (NAFTA) among Canada, Mexico and the United States negotiated under the "fast track", has been swift and decisive. In addition to the NAFTA, other regional initiatives aiming at eventual free-trade or preferential conditions for Latin American countries are currently being considered in Congress.

The impact of these new groupings on world trade may be far-reaching. The economies of the NAFTA countries combined have a population of 360 million and a total output of US$6 trillion. Canada and Mexico are already the United States' biggest individual trading partners. The size of the economies involved points to a possibility that the free trade arrangements could, through trade diversion, adversely affect third parties' trade with the United States. The United States has declared its

intention to follow GATT rules for these preferential agreements. It remains to be seen, however, whether the rights and obligations of third parties under GATT agreements are directly or indirectly affected by the operation of rules and procedures established within the regional groups. In particular, the possible emergence of a complex network of preferential programmes covering the American continent could further undermine the most-favoured nation principle.

Based on a perceived need to respond to fierce competition, often at subsidized prices, from certain other agricultural exporters, the United States continues to subsidize its own exports of major agricultural commodities. At the same time, the United States seeks major reductions in export subsidies through the Uruguay Round negotiations on agriculture, on the grounds that growing export competition, at subsidized prices, is fundamentally uneconomic and has adversely affected the trade of a number of efficient agricultural producers.

Although the United States Administration has, in the last two years, avoided major disputes with trading partners where feasible, and has used GATT or other multilateral procedures, where these exist, in dispute cases, the possibility of unilateral action under Section 301 and related provisions remains. Its trading partners would like to see a firm commitment from the United States not to use retaliatory action without first completing multilaterally agreed dispute settlement procedures under a much strengthened and expanded GATT system. These matters are a key part of the negotiations on dispute settlement in the Uruguay Round.

Most sectoral arrangements observed in 1989 still remain in force, some having been modified or extended. The expiry dates of VRAs on machine tools with Japan and Taiwan, and on steel with the EC and 16 other countries are approaching. In this connection, multilateral negotiations are ongoing for agreements on steel and shipbuilding. In addition, the new arrangement with Japan on semiconductors, with its controversial 20 per cent foreign target share, has raised the question of whether United States trade policies have moved further towards "managed" trade.

The attitudes and policies of the United States in the forthcoming months with respect to regional initiatives, domestic legal processes, and sectoral arrangements affecting both imports and exports will show how firmly the United States remains committed to the principles of the multilateral trading system.

The multilateral trading system is currently at a critically important stage of evolution. On the one hand, expectations have been mounting for the successful conclusion of the Uruguay Round and for the GATT to play a central rôle in consolidating and sustaining the economic and trade reforms being undertaken in central and eastern Europe, Latin America, Asia and Africa. On the other hand, concern about the erosion of basic GATT principles by regionalism, bilateralism, unilateralism, or various forms of "managed" trade is increasing.

The United States has a major responsibility for maintaining and reinforcing the faith of the international business community in the open, liberal multilateral trading system. This can be done by reducing tariff or non-tariff barriers on an m.f.n. basis; by ensuring that new regional arrangements are in accordance with the framework of rules and disciplines contained in the General Agreement; and by promoting the observance of these disciplines and principles in the context of sectoral arrangements or when pressures arise for unilateral action.

TRADE POLICY REVIEW

Report by the United States - Summary Extracts

Sectoral trade policies

Textiles: The United States continues to conduct an import restraint programme for textiles and apparel under a multilaterally-agreed derogation from the GATT. This programme was recently extended through 31 December 1992. Under this programme the United States maintains restraints on one or more textile or apparel products with forty countries.

Steel: In 1989, the United States extended the existing Voluntary Restraint Agreements for a transitional two-and-a-half years, through March 1992. The extended VRAs, which consist of market share arrangements and/or quotas or in a combination thereof, permit increases in export levels for countries undertaking commitments to eliminate trade distorting practices. These commitments have been negotiated in bilateral consensus agreements to eliminate subsidies, tariffs and non-tariff barriers in the steel sector. It is not expected that the VRA Programme will be extended after 31 March 1992.

Agriculture: Although there is no single act or statement outlining agricultural trade policy objectives, these objectives are described in several legislative contexts (e.g. the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990, as amended by the Budget Reconciliation Act of 1990, the Food Security Act of 1985, as amended, the Omnibus Trade and Competitiveness Act of 1988, the Trade Agreements Act of 1979, the Agricultural Trade Development and Assistance Act of 1954, and the Agricultural Adjustment Act of 1933, as amended) and generally emphasize the importance of expanding exports of farm products to increase farm income. Also, the United States has supported the Uruguay Round of Multilateral Trade Negotiations to reform agricultural policies in three separate areas (i.e., import access, internal support, and export subsidies) to bring these measures under strengthened and more operationally-effective GATT rules and disciplines. Absent a complete Uruguay Round settlement, domestic support programmes in certain sectors, such as dairy, cotton, peanuts, and sugar are dependent on the existence of import fees or quota restrictions to prevent imports from materially interfering with the operation of the programme.

Bound tariffs are a primary form of import protection for most agricultural products. Quantitative import restrictions for certain dairy products, peanuts, certain cotton products, certain sugar-containing products, and fees for refined sugar, certain sugar syrups, and certain molasses are implemented in accordance with provisions of the 1955 waiver to obligations under Articles II and XI of the GATT; QRs, including VRAs and OMAs. The quotas set on sugar imports under the Sugar Headnote Authority (Additional US Note 2 to Chapter 17 of the HTS) were converted to tariff rate quotas as of 1 October 1990, in compliance with Presidential

Proclamation No. 6179, of 13 September 1990. In some years, meat exporters have been limited through voluntary restraint agreements in order to avoid more restrictive import quotas under provisions of the Meat Import Act. The average tariff rate for all dutiable and non-dutiable agricultural products is 3.2 per cent ad valorem.

The Food, Agriculture, Conservation, and Trade (FACT) Act of 1990, as modified by the Budget Reconciliation Act, continued the US policy of seeking to improve US agricultural trade competitiveness and modified US support programmes to make them more flexible. Principal features of the act included new rules for calculating deficiency payments and continuance of several export programmes. If a GATT agreement has not been concluded by 30 June 1992, the Secretary of Agriculture will be required to increase export subsidies by US$1 billion annually, much of which would be funded through the Export Enhancement Program (EEP).

The Targeted Export Assistance (TEA) Program was renamed the Marketing Promotion Program (MPP) in the 1990 Act. All agricultural commodities and products are eligible for export promotion assistance. Funding for the MPP will continue at the minimum level of US$200 million for each fiscal year, 1991 through 1995.

The Export Enhancement Program (EEP) will continue through 1995. Operating guidelines have been replaced by formal regulations. The authorized funding level will be a minimum of US$500 million annually in either CCC commodities or cash.

An additional change in US policy was the creation of a new programme to maintain the competitiveness of upland cotton. This programme was authorized under Section 103 B(a)(5)(F) of the Agriculture Act of 1949, as amended by Section 501 of the 1990 Act. The programme features a three-step procedure: an adjustment in the calculations used to determine the loan repayment rate, a generic certificate programme, and a special import quota, which is in addition to and separate from the existing Section 22 import quota.

The Trade Policy Framework

Domestic laws and regulations governing the application of trade policy

The following is a description of US statutory provisions related to import relief. Key provisions are summarized below:

TABLE 1

Section	Statute	Common name	Basis for action	Administering authority	Remedy
201	Trade Act of 1974	Escape clause	Increased imports which are a substantial cause of serious injury (product-specific from all sources).	US International Trade Commission (ITC) (recommendation); President (final action); US Congress (disapproval of Presidential action if different than ITC recommendation).	Tariff increases, tariff-rate quotas, quantitative import restrictions, orderly marketing agreements, expedited adjustment assistance.
406	Trade Act of 1974	Market disruption	Increased imports from a Communist country which are a significant cause of material injury (both product-specific and country-specific).	ITC (recommendation); President (final action); US Congress (disapproval of Presidential action if different than ITC recommendation).	Tariff increases, tariff-rate quotas, quantitative import restrictions, orderly marketing agreements, expedited adjustment assistance.
303, 703 and 705	Tariff Act of 1930	Countervail	Import sales benefiting from foreign subsidies (both product- and country-specific).	US Department of Commerce (Commerce subsidy determination); ITC (injury determination where required by international obligations).	Countervailing duties equal to the amount of net subsidies.
733 and 735	Tariff Act of 1930	Dumping	Import sales at less than fair value resulting in material injury (both product- and company-specific)	Commerce (dumping determination); ITC (injury determination).	Anti-dumping duties equal to margin of dumping.
337	Tariff Act of 1930	Unfair import practices	Unfair methods of competition injuring a US industry or restraining or monopolizing US trade and commerce - usually a patent infringement (product-specific).	ITC (order); President (veto authority).	Exclusion from entry into US, or a cease-and-desist order.

Section	Statute	Common name	Basis for action	Administering authority	Remedy
22	Agricultural Adjustment Act of 1933, as amended		Imports of an article are materially interfering or likely to interfere with a programme of the US Department of Agriculture.	US Department of Agriculture (recommendation) ITC (recommendation); President (final action).	Import fees of up to 50 per cent ad valorem or quantitative restriction reducing allowable imports of the article to a level not less than 50 per cent of the quantity imported during a representative period.
332	Tariff Act of 1930	General fact-finding investigations	Investigate US foreign trade and its effect on industries and labour or to provide assistance to the US Congress and the President or United States Trade Representative (USTR) upon request.	President, House Ways and Means Committee, Senate Finance Committee, either branch of the US Congress or the Commission.	

Section	Statute	Common name	Basis for action	Administering authority	Remedy
301	Trade Act		Violation of US rights under a trade agreement or any foreign act, policy or practice which is unjustifiable, unreasonable, or discriminatory and burdens or restricts US commerce.	USTR (recommendation); President (final action).	"All appropriate and feasible action" including retaliation in the form of suspension or withdrawal of trade agreement benefits, imposition of tariffs, fees or other import restrictions.
232	Trade Expansion Act of 1962		Imports which threaten the national security (product-specific from all sources).	Commerce (recommendation); President (final action).	Such action as the President deems necessary to safeguard the national security.
2	Trade Act of 1974	Trade adjustment	Increases in imports that have contributed importantly both to (a) the total or partial separation of a significant number or proportion of workers from their firm and to (b) a decrease in production or sales of the firm.	US Department of Labor (investigation, determination, and provision of benefits).	Assistance in the form of trade adjustment allowances, training, and other employment services, and job search allowances.

Bilateral, multilateral, regional and preferential trading arrangements

Arrangement regarding International Trade in Textiles

During 1990, the United States had bilateral textile agreements with thirty-nine countries and two US insular possessions. Not all of these agreements were concluded with signatories to the MFA. The United States negotiates agreements with non-MFA signatories under the authority of section 204 of the Agricultural Act of 1956. The United States has established 147 categories for purposes of setting restraint levels on US textile imports. These categories comprise groupings of numbers in the US tariff schedule covering textile yarns, fabrics, apparel, and made-up articles and miscellaneous textiles. The number of categories under restraint varies widely from country to country; some large suppliers may have as many as 141 categories subject to restraint, while new suppliers may have limits on as few as one category. In addition to limits on specified categories, during 1990 twenty-one of the US agreements had group or aggregate limits providing broader limits on imports.

During 1990, 85 per cent of US textile and apparel imports by quantity[1] were from MFA signatories. These imports totalled 10.3 billion SME, an increase of only 0.7 per cent over the volume of such imports in 1989. Of the countries with which the United States had bilateral agreements, the leading suppliers were China, Taiwan, Hong Kong and Korea. Together these four accounted for 40 per cent, or 4.9 billion SME, of textile and apparel imports, a decline of 3.2 per cent from 1989 levels. Imports from the EC, the major unrestrained source, amounted to 1.1 billion SME, or 9 per cent of the 1990 total, and recorded a decline of 6 per cent from 1989 levels.

Generalized System of Preferences (GSP)

In 1990, US$11 billion worth of imports entered the United States duty-free under the GSP programme. Ten beneficiaries supplied 80.4 per cent of all US imports that received duty-free treatment under the GSP Programme in 1990: Mexico, Malaysia, Thailand, Brazil, Philippines, Israel, India, Argentina, Yugoslavia, and Macau. Since 1989, Hungary, Poland, Czechoslovakia and Namibia have been named GSP beneficiaries. In 1991, Panama, Bahrain, Chile, Paraguay, and the Central African Republic were reinstated as GSP beneficiaries, having previously lost that status. In addition, Liberia and the Sudan have been suspended for failing to provide internationally accepted worker rights. Kiribati, Mauritania,

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[1]Measured in square metres equivalent (SME), the standard unit of measure used in the administration of the Textile Trade Agreements Programme. In this system, imports of non-fabric products are converted to a SME basis. For example, 1 kilogramme of cotton yarn equals 8.5 SME and one dozen men's and boys' woven shirts equals 20.1 SME.

Mozambique, Tuvalu, and Vanuatu were designed as least-developed countries for the purposes of GSP, joining thirty-one already on this list, and are now eligible to waive competitive need criteria. As the result of the 1990 Annual Review, concluded in July 1991, and of the Special GSP Review for Bolivia, Colombia, Ecuador and Peru concluded on 23 July 1990, 157 products were added to the eligible list and nine were removed, and an additional sixty-eight products were removed for graduation and competitive need reasons.

Countries are graduated from the GSP Programme when their per-capita GNP exceeds a certain level (US$10,463 for 1990). "Competitive need" limits provide a ceiling on GSP benefits for each product and country. A country will automatically lose its GSP eligibility with respect to a product (i.e. an eight-digit tariff category) if these limits are exceeded and a waiver is not granted. For 1990, the general percentage and dollar limits were 50 per cent and US$93,604,020, respectively. Countries that were found during the 1986 general review to be "sufficiently competitive" in certain products are subject to lower competitive-need limits of 25 per cent and US$36,546,313 for those products.

Recent changes to GSP Law: "The Support for East European Democracy (SEED) Act of 1989", signed on 28 November 1989, removed Poland from the list of countries which may not be designated as GSP beneficiaries.

The Customs and Trade Act of 1990, signed on 20 August 1990, removed Czechoslovakia and Germany (East) from the list of countries which may not be designated as GSP beneficiaries. A review to consider Czechoslovakia's eligibility was initiated on 4 December 1990 and was concluded in early 1991. East Germany is no longer eligible for consideration as a beneficiary since its unification in a single Germany on 3 October 1990. A review to consider the eligibility of Bulgaria was initiated in August 1991, and a review to consider the eligibility of Estonia, Latvia and Lithuania was initiated in September 1991.

The 1990 Act also amended the Trade Act of 1974 to include the requirement that an imported article must be produced by a GSP beneficiary country in order to receive GSP duty-free treatment. Section 226 of Title II, Sub-title B of the Act amended the GSP Law by imposing a statutory requirement for "substantial transformation" to conform with a similar statutory requirement contained in the Caribbean Basin Economic Recovery Act (CBERA). The GSP law already required that 35 per cent of the appraised value of a GSP-eligible article consists of the value of materials produced in the beneficiary country plus the direct cost of processing in such country. The same 35 per cent standard applies to the products of certain associations of eligible beneficiary countries, such as customs unions or free-trade areas. The new amendment provided that imported materials may be included in the 35 per cent provided they are transformed in the beneficiary country into a new and different article of commerce.

Caribbean Basin Economic Recovery Act (CBERA)

The Caribbean Basin Initiative (CBI) is the most generous tariff preferences programme currently provided by the United States. CBI provides duty-free treatment to all products except those specifically excluded by law. Those excluded are most textiles and apparel, canned tuna, petroleum and petroleum products, most footwear, most leather goods and certain watches. CBI also provides additional non-tariff benefits, such as technical assistance, tax incentives for US companies and trade and investment promotion programmes.

CBI countries face few barriers entering the US market; 50 per cent of all imports from CBI beneficiaries enter duty free under CBI or m.f.n. rates; other goods were subject to average duties of 7.7 per cent in 1990. Imports of products eligible for CBI have increased by 250 per cent, growing from US$582 million in 1983 to US$1.5 billion in 1990. Increases have been greatest in non-traditional products, both CBI and non-CBI eligible, with growth from US$1.9 billion in 1983 to US$4.4 billion in 1990. Due to decreases in our imports of petroleum products from three CBI countries, total US imports from CBI beneficiaries fell from US$8.8 billion in 1983 to US$6.1 billion in 1988. This overall trend has since been reversed; total imports increased by 24 per cent since 1988, to US$7.5 billion in 1990. Export growth in the region has been uneven.

Some countries have shown great progress in diversifying their economies and assisting private business take advantage of the CBI programme. For example, Jamaica's non-traditional exports have grown by 61 per cent since the CBI began; Costa Rica's by 360 per cent; the Dominican Republic's by 322 per cent.

United States exports to the region have grown from US$5.9 billion in 1983 to almost US$9.5 billion in 1988. In 1984 the US ran a trade deficit with the region of US$2.4 billion; in 1990 that had changed to a surplus of nearly US$2.0 billion. The investment components of the CBI have also been effective. A 1990 Department of Commerce study determined that since the inception of the CBI, 789 new investments in CBI countries have been undertaken, totalling an estimated US$2.2 billion and creating more than 142,000 new jobs.

Operation of the Automotive Products Trade Agreement

Status report: Two-way trade under the agreement grew to US$53.4 billion in 1990, up from US$51.5 billion in 1988. Under the Auto Pact, the United States charges no duty on imports of new or used vehicles and original-equipment parts if they are of Canadian origin as defined in the US-Canada Free Trade Agreement (FTA).

Canada established a record surplus in automotive trade with the United States in 1990. United States exports to Canada declined by 9.3 per cent, while imports from Canada remained stable. This translates to a record US deficit of US$7.4 billion in automotive trade with Canada since the implementation of the Pact in 1965.

Despite the FTA, the Auto Pact remains as a distinct agreement because Canada does not implement the Pact as a bilateral agreement. Under the Auto Pact, Canada will continue to offer duty-free entry to qualified automotive products irrespective of the country of origin to certain importing automotive manufacturers, as long as they meet the specified performance requirements. Under the FTA, Canada will also phase out duties on US automotive products not already duty free under the Auto Pact that meets the FTA rule of origin. The United States uses the FTA rule of origin to implement the Auto Pact. Once bilateral duties are eliminated under the FTA, the benefits provided under the Auto Pact for automotive imports in the United States will be indistinguishable from those under the FTA.

Enterprise for the Americas

On 27 June 1990, the President announced the Enterprise for the Americas Initiative (EAI), laying out a comprehensive new policy for the hemisphere with trade, investment, debt and environmental elements. The fundamental objective of this economic initiative has been faster growth for all the participating countries, including the United States. The EAI was prompted by the desire to establish a more reciprocal approach to US economic relations with the other countries of the western hemisphere.

In describing the trade component of the initiative, the President set out the long-term goal of a hemispheric free trade zone, with "framework agreements on trade and investment" serving to begin the liberalization process. The first step in this process will be the negotiation of a free trade agreement with Mexico (as notified to Congress on 25 September 1990). Most other countries of Latin America and the Caribbean have started down this road by concluding framework agreements with the United States. With country-by-country variations, these agreements set out some basic principles of trade relations, create a bilateral consultative mechanism and establish an immediate action agenda for trade liberalization.

The consultative mechanisms provided for in these agreements have already met at least once for most countries. Initially, their discussions have focused on addressing specific trade issues between the countries and exchanging information, such as import barriers and trade restrictive policies. Only after a process of careful preparation, identification and, if possible, resolution of specific trade problems will it be possible to determine which country groupings or countries are prepared to take the next step toward negotiation of a free trade agreement. Given the complexity of the issues involved, we expect this to be a long-term process.

In the interim, the early meetings under the framework agreements will be used to outline the US vision of an eventual system of free trade in the hemisphere. At a minimum, inclusion in this agreement would require a stable macroeconomic environment and established market-oriented trade and economic policies. We also believe that the FTA partners should be full participants in the multilateral trading system, and signatories to the relevant GATT Codes.

The EAI is fully consistent with US support for multilateralism. The objective is to encourage economic and trade liberalization within the western hemisphere. All agreements under the EAI must be consistent with Article XXIV of the GATT, and the US will not support common external tariffs or other measures that are inconsistent with multilateralism. All our EAI-related discussions have stressed the importance of the Uruguay Round and have emphasized the importance of taking an active rôle in the Round.

The FTAs eventually negotiated under this initiative should be broad in scope and consistent with obligations under the GATT. In particular, they should:

- be comprehensive, covering "substantially all trade", and eliminating tariffs, non-tariff barriers and other trade-distorting measures affecting the trade between participants;

- cover investment, services and intellectual property;

- provide for dispute settlement;

- be consistent with the terms of GATT Article XXIV, be notified to the GATT and not result in an increase in trade barriers towards non-member countries; and,

- be a two-way exchange among equals in its balance of rights and obligations.

Discussions in the consultative mechanisms set up under the framework agreements designed to liberalize bilateral trade should be mutually reinforcing, and designed from the outset to constitute steps along a path to a hemispheric free trade zone. These discussions will be accompanied by close consultations with the private sector through the Private Sector Advisory Committees. The actual establishment of free trade agreements with all the countries covered by the EAI is a long-term process that will extend well into the next decade.

North American Free Trade Agreement (NAFTA)

On 11 June 1990, President Bush and President Salinas endorsed the goal of a comprehensive FTA between the United States and Mexico. They directed their trade ministers to undertake the domestic consultations and preparatory work needed to begin negotiations. On 21 August 1990, President Salinas formally proposed that the two countries take the steps necessary to begin FTA negotiations, and on 25 September, President Bush notified Congress of his intent to negotiate an FTA with Mexico. After further consultations including Canada, the three governments decided to proceed with trilateral negotiations, i.e. to negotiate a three-way free trade agreement among the United States, Canada and Mexico. President Bush notified Congress of this decision on 5 February 1991. In May 1991, the US Congress extended the President's authority to negotiate such an agreement.

Negotiations were formally initiated on 12 June 1991. The first phase of the negotiations will concentrate on developing information, conducting domestic consultations and seeking advice from those concerned on the nature and scope of the negotiations, and on identifying the key issues for negotiation. The latter phase, which has only now begun in earnest, will be the negotiations themselves, which will be conducted in eighteen negotiating groups falling under six broad categories whose scope fulfils the mandate of the three Presidents for a comprehensive agreement. These groups include market access (tariff and non-tariff barriers, rules of origin and government procurement), trade rules (e.g. standards and safeguards), services, investment, intellectual property rights, textiles and apparel and dispute settlement. No deadline has been set for conclusion of the agreement.

QRs, including VRAs and OMAs affecting imports

Agriculture: As indicated in Appendices F and G of the 1989 report, the United States maintains a number of quantitative restrictions with respect to agriculture. In 1955, the United States received a waiver from obligations under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions the US Government is required to take under Section 22 of the Agricultural Adjustment Act, as amended. In recent years, import restrictions in place under the authority of Section 22 included those for several dairy products, peanuts, cotton of specified staple lengths, cotton waste (except cotton comber waste), refined sugar, and certain sugar-containing products. The quotas set on sugar imports under the Sugar Headnote Authority (additional Note 2 to Chapter 17 of the HTS) have been converted to tariff rate quotas as of 1 October 1990, in compliance with Presidential Proclamation No. 6179 of 13 September 1990.

On the basis of US International Trade Commission Investigation No. 22-51 concerning the Section 22 import quota restriction on cotton comber waste, the President issued Proclamation 6228 on 13 November 1990, which suspended indefinitely the import quota on cotton comber waste. Cotton comber waste is used mainly in the production of high-quality bond paper, currency paper, yarn, and certain medical supplies.

The Meat Import Law, amended by the Meat Import Act of 1979 provides for the imposition of import controls on certain fresh, chilled, and frozen beef; veal, mutton, and goatmeat products, if imports are expected to exceed 110 per cent of a formula quantity. Import controls under these laws have only been implemented once. The trigger level, derived from the quota level, has been set at 1,318.5 million pounds for 1991.

On 3 October 1989, the USDA began implementation of the first step in a three-step competitiveness procedure for upland cotton. Step 1 was codified in the 1990 Act, as were Steps 2 and 3 which began implementation on 1 August 1991. The legislation provides for: Step 1: a discretionary adjustment to the "adjusted world market price" (AWP) used in calculating marketing loan repayment rates for upland cotton; Step 2: a "user certificate programme", which compensates domestic users and exporters for the price gap between the five-day average of the lowest US Middling (M)

1.3/32 inch upland cotton quote, c.i.f. northern Europe (US Northern European quote) and the five-day average of the lowest world quotes of M 1.3/32 inch upland cotton, c.i.f. Northern Europe (World Northern European quote), and triggers when the US Northern European quote for upland cotton is at least 1.25 cents per pound above the World Northern European quote for four consecutive weeks; and Step 3: a "special import quota" in addition to the quota established under Section 22 of the Agricultural Adjustment Act of 1933, as amended. The "special import quota" is triggered when the US Northern European quote exceeds the World Northern European quote by more than 1.25 cents per pound, adjusted for the previous weeks Step 2 certificate rate, for ten consecutive weeks.

Textiles: Total US imports of textile and apparel products covered by the Multifibre Arrangement from all sources is estimated at US$28 billion or 12 billion square meters equivalent annually. Over 75 per cent of this trade is covered by bilateral agreements on textile trade.

VRAs: Machine tools - Export ceilings under the machine tool Voluntary Restraint Agreements (VRAs) negotiated with Japan and Taiwan in 1986 were not reduced as a result of consultations in 1990. Export limits remain at the levels negotiated in 1986. Taiwan's export ceilings reflect adjustments for over-shipments in prior years. There have been no requests made of other countries to limit exports of machine tools to the United States. No machine tool suppliers other than Japan and Taiwan have agreed to reduce their machine tool exports to the United States. We have no evidence to suggest that any other suppliers have taken measures to restrain these exports to the United States. The VRAs with respect to Japan and Taiwan are scheduled to expire at the end of 1991.

Automobiles: Japan's announced intent to limit exports of automobiles to the US market does not occur as the result of any US action or request. There are neither formal nor informal agreements or arrangements in this regard. There has been no arrangement or any other agreement concerning auto exports from Japan in place since the VRA expired in 1985. The US is on record as opposing the continuation of the Japanese restraint on autos. The Japanese Government makes no report to the US Government on the existence or level of any restraint nor on the types of vehicles that might be covered nor on whether the entire customs area of the United States is covered.

OMAs: Tungsten - The orderly marketing agreement (OMA) with the People's Republic of China (PRC) expired 30 September 1991. The United States has decided not to undertake any action against PRC imports at this time.

Programmes for trade liberalization

Andean Trade Preference Régime (ATPR)

In October 1990, and again in January 1991, the President forwarded legislation to Congress to create an Andean Trade Preference régime designed to help Colombia, Ecuador, Peru and Bolivia build their exports to

the United States market as viable alternatives to drug trafficking. This legislation proposes to extend duty-free treatment to a wide range of exports from this region for a ten-year period. It is expected that this legislation will be enacted by the end of 1991.

Trade Enhancement Initiative (TEI)

On 12 July 1991, President Bush announced the Trade Enhancement Initiative for Central and Eastern Europe. An interagency team reviewed the needs of Poland, Hungary, Bulgaria and the Czech and Slovak Federal Republic (CSFR), and the existing trade impediments in the United States to their exports. Under this TEI, these countries will receive increased access to the United States market through a variety of market opening measures.

The TEI targets sectors for increased access to the Central Europeans that are relatively insulated in the United States, particularly textiles, apparel and steel. Steps are also being taken to assist these economies in exporting to the United States GSP seminars have been held to assist Central European officials with filing GSP petitions and increasing their usage of benefits. An expedited review of GSP petitions submitted by the Central Europeans has been granted, and the United States has agreed to review requests that had previously been denied.

Anti-bunching waivers on steel were granted for Poland, Hungary and the CSFR to allow these countries to shift their unused quota allotments to categories of products they could export. Steel quotas will be dropped entirely by 31 March 1992.

New bilateral textile agreements were concluded with Poland, Hungary and the CSFR which dropped quotas on several products and increased the quota allotments on remaining products covered by quotas.

Bilateral Agreement on Semiconductor Trade with Japan

The United States and Japan signed a government-to-government agreement on semiconductors, 11 June 1991 in Washington D.C. The new Arrangement entered into effect 1 August 1991, replacing the previous Arrangement, which expired 31 July. Under the anti-dumping provisions of the Arrangement, Japanese producers will collect their individual cost and price data for semi-conductors covered by the arrangement and provide it on an expedited basis to the USG if anti-dumping complaints are lodged. Separate procedures for obtaining information are provided for in the event of allegations of third country dumping. There will be no government involvement in the setting of semiconductor prices. Both governments also agree to encourage their industries to undertake a broad range of activities aimed at increasing sales opportunities for foreign suppliers and expanding the inter-industry initiatives begun over the past few years. In light of these efforts, the foreign share of the Japanese market is expected to increase to at least 20 per cent by the end of 1992. There is no market share guarantee.

Joint Announcement Concerning Exports of Amorphous Metal

The Joint Announcement of 21 September 1990 by the Government of Japan and the Government of the United States of America concerning exports of amorphous metal to Japan provides, among other things, that Japanese electric utilities will adopt principles for purchasing amorphous metal transformers (AMTs) which provide that economic efficiency is the most important element of decision-making consideration, and will evaluate AMTs in terms of the total life cycle levellized annual cost method. The Joint Announcement further provides that Japanese utilities will purchase from Japanese transformer manufactures 32,000 AMTs over two years in order to conduct field tests to determine the commercial adaptability of AMTs. Furthermore, the Joint Announcement provides that Japanese steel producers and utilities will honour the Japan Patent No. 1521363, until it expires. It is the understanding of the Government of the United States of America that the Government of Japan recognizes these steps by entities within its private sector and will make efforts to encourage the implementation of these steps by the relevant private parties.

BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES ARE CARRIED OUT: WIDER ECONOMIC AND DEVELOPMENTAL NEEDS, EXTERNAL ENVIRONMENT

The external economic environment

Major trends in imports and exports

During 1982-87, US merchandise imports grew at an average annual rate of 10.6 per cent, exports grew at a rate of 3.5 per cent, and the trade deficit increased from US$36.4 billion to US$159.5 billion. After peaking in 1987, the deficit declined during the next three years, falling to US$108.1 billion in 1990 as export growth accelerated and import growth slowed. In value terms, exports grew by 7.8 per cent in 1990 compared with 1989, whereas imports grew only 4.3 per cent. The corresponding rates in volume terms were 8.7 per cent for exports and 3.5 per cent for imports.

The slowing of US export growth in the first half of the 1980s was broad-based across most major countries and regions of the world while imports of manufactured foods from Europe, Japan and the rest of Asia increased rapidly. During the 1982-87 period the US merchandise trade deficit grew, on average, by over a third each year. The growth in the country's trade deficits with Western Europe (especially West Germany) and Asia (particularly Japan and the four Asian NICs) was striking. Since 1987 the trade deficit with Europe has been eliminated and the deficits with Japan and the Asian NICs have fallen by nearly one third. There has been little progress in reducing the deficit in the trade with other areas, and increases in the deficits with the OPEC countries and China have offset some of the gains made elsewhere.

Most of the improvement in the trade deficit during 1990 occurred during the first part of the year. During the second half of 1990, spurred on by rapidly-increasing oil prices, the deficit rose, from US$21.9 billion in the second quarter to US$33.0 billion in the third quarter and

US$30.7 billion in the fourth quarter. The merchandise trade deficit decreased again in the first quarter of 1991 to US$14.8 billion, owing to a sharp decline in the value of petroleum imports.

By broad product categories, the 1982-87 surge in imports was concentrated in finished manufactures - consumer goods, autos and capital goods. A sharp decline in the value of energy imports as oil prices fell helped keep imports of industrial supplies and materials virtually flat. In 1987-90 the growth of imports of manufactured goods, especially autos and consumer goods, slowed drastically while exports of capital goods and consumer goods boomed. In 1990 the global economic slowdown resulted in slower growth of all US export categories. Agricultural exports declined. Slow economic growth in the United States likewise resulted in vary little import growth in all categories except energy.

Problems in external markets

As outlined in the annual publications National Trade Estimate Report, US trade opportunities and competitiveness are negatively affected by a wide range of measures implemented by other countries. The United States is committed to addressing these barriers in the context of the Uruguay Round, where possible, through the mechanisms available under the General Agreement, and where necessary bilaterally.

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