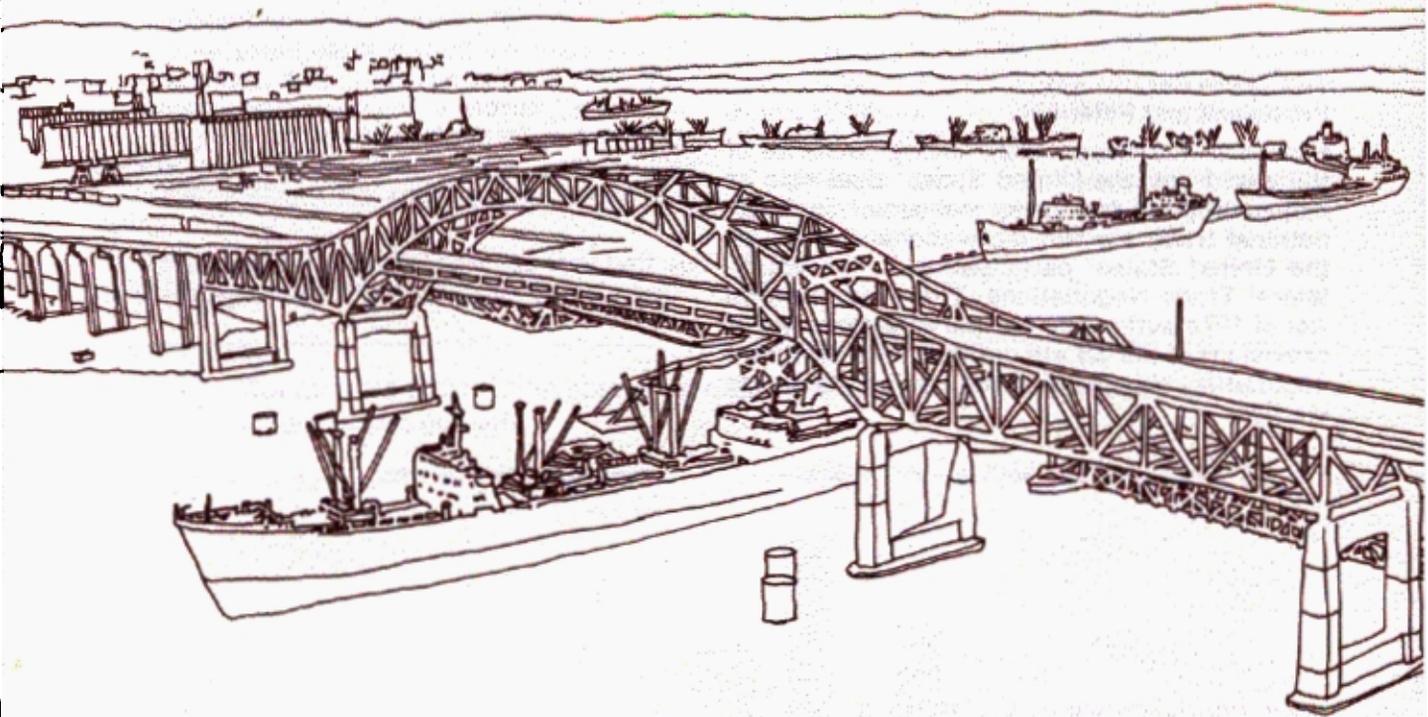


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# Ninth District Quarterly

Federal Reserve Bank of Minneapolis  
October 1975

## The Trade Reform Act: Provisions and Potential



**District Conditions**

Third Quarter '75 Review . . . . . 1

**The Trade Reform Act:  
Provisions and Potential . . . . . 5**

Economic interdependence among countries of the world and the United States' dual role as major supplier and major consumer in international trade are two motivational factors for the United States' participation in the Multilateral Trade Negotiations. The Trade Reform Act of 1974 authorizes our participation. Major provisions of the act are outlined and important negotiating objectives of the United States are studied.

**Ninth District Quarterly Vol. II, No. 4**

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# District Conditions

## Third Quarter '75 Review

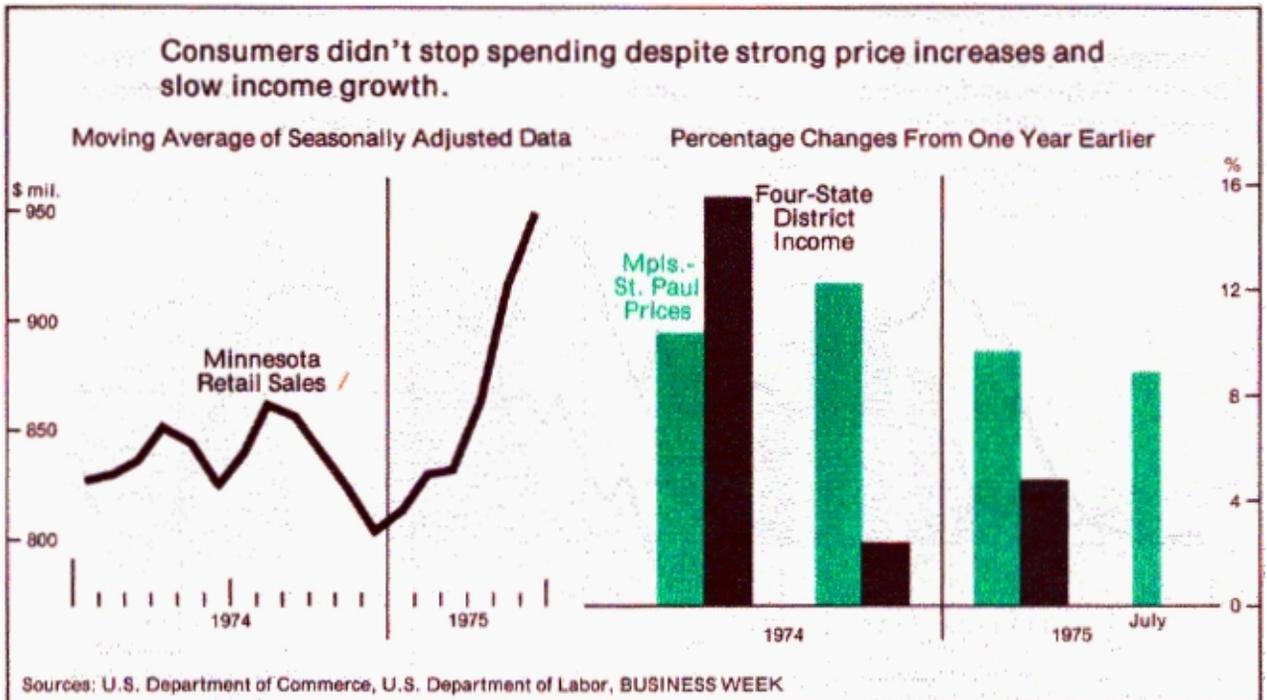
### Most indicators appear to be on the rise.

Minnesota retail sales picked up markedly in early summer, and area retailers reported that the upturn continued—at a slower rate—into August and September. District automobile dealers and resort owners have been doing much better than their counterparts across the nation.

Total cash farm receipts for the first half of 1975, though down from 1974's extremely high

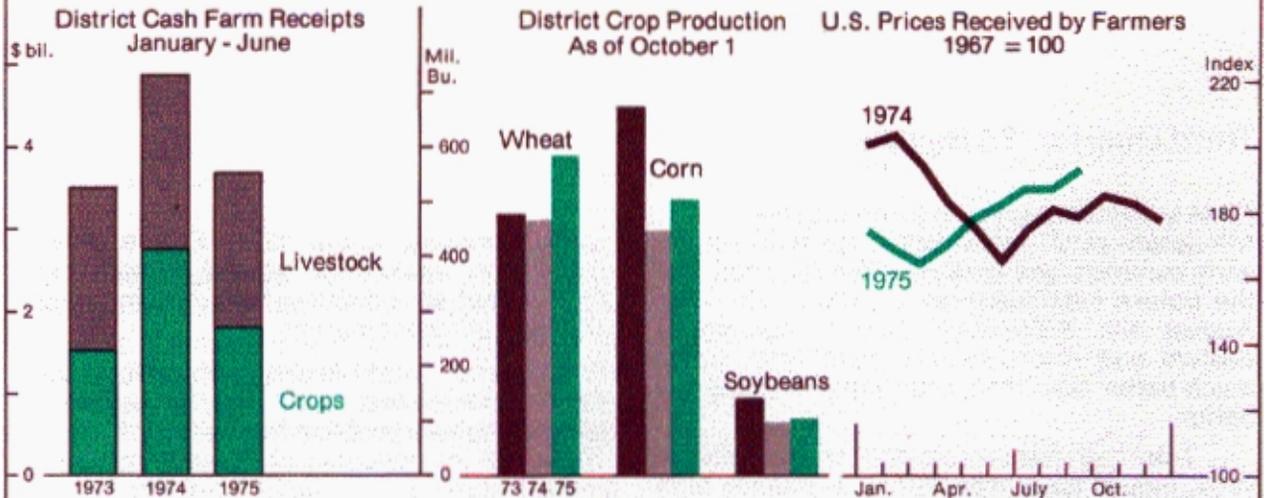
level, remained above 1973. Future receipts from crop marketings should remain fairly high. Other ag indicators have shown signs of strength in recent months.

District labor market conditions have improved over last year, but joblessness will continue to be a problem for many.



Farmers' first-half income was down from 1974 . . .

. . . but second-half prospects may improve since 1975 crop production is up and ag prices are strong.

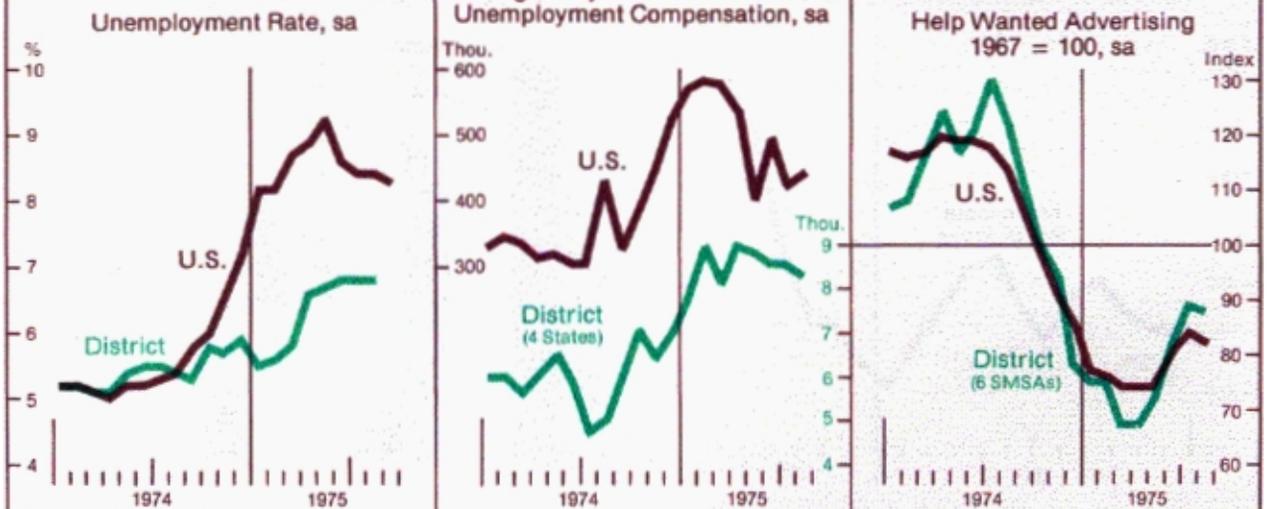


Source: U.S. Department of Agriculture

Unemployment leveled off below 7% here and moved closer to 8% nationally.

Many people were still out of work . . .

. . . but the number of jobs available increased sharply.



Sources: State employment security departments, U.S. Department of Labor

Source: U.S. Department of Labor

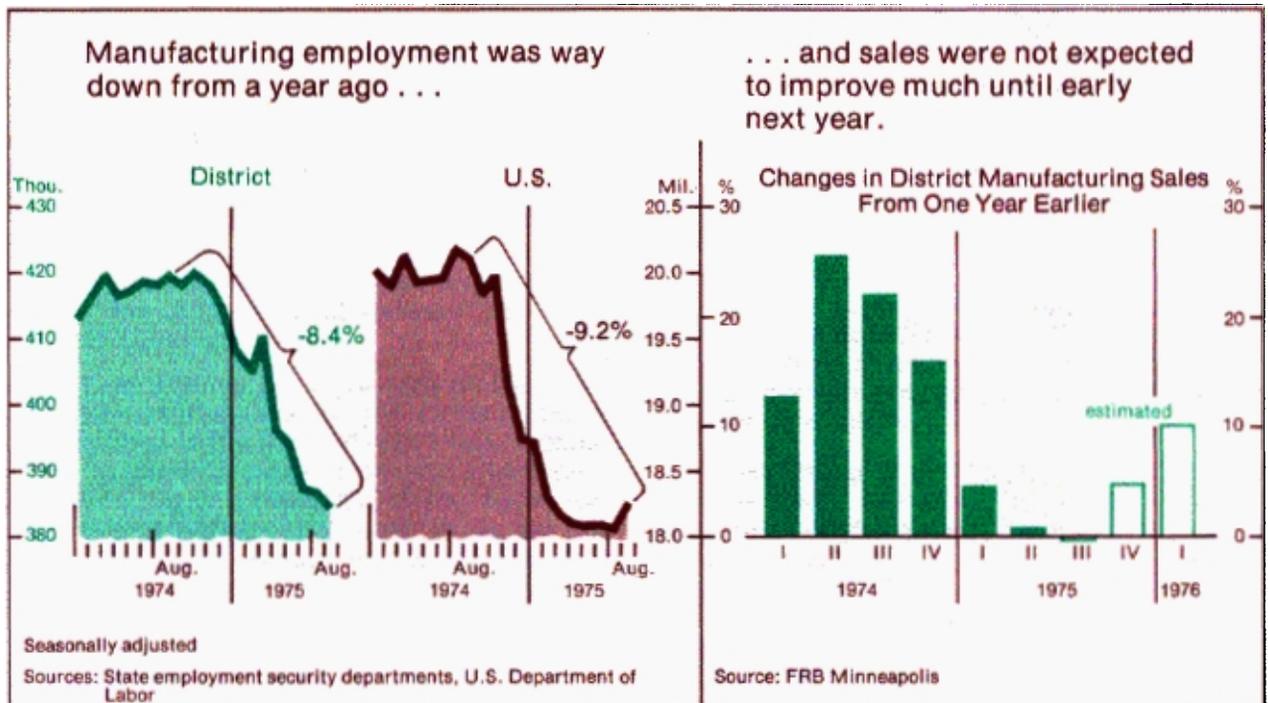
Sources: FRB Minneapolis, U.S. Department of Commerce

**Some sectors continue to lag behind.**

Manufacturing activity has still not begun to recover, and employment in that industry has been far below desirable levels. Respondents to our latest Industrial Expectations Survey anticipated that third-quarter sales would be unchanged from a year ago.

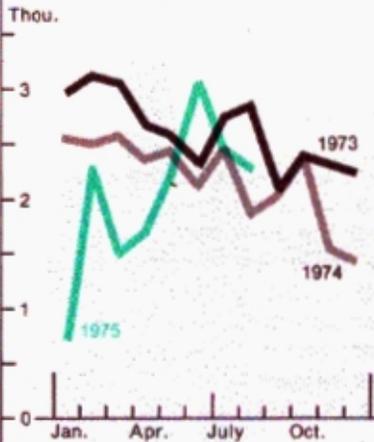
The second-quarter spurt in homebuilding was not sustained in the third quarter. Recent figures, though improved from the beginning of this year, were well below numbers issued in the early 1970s.

Savings growth at district banks and S&Ls slowed during the third quarter, following a more rapid pace in the first half of 1975. The slowdown largely reflected increased attractiveness of United States government securities. Mortgage loan commitments at S&Ls rose in the third quarter; but if rising interest rates and slower savings inflows continue, volume of new commitments is likely to decline in the fourth quarter.



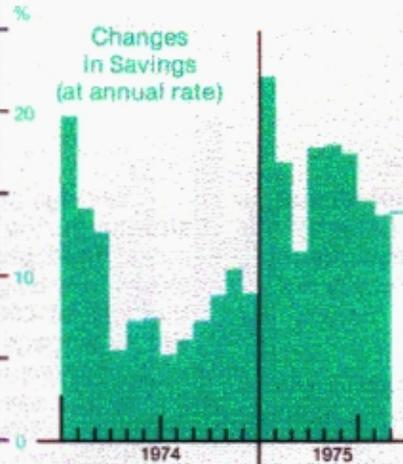
**The district's housing revival stalled.**

**New Housing Units Authorized By Building Permits**



Seasonally adjusted  
Source: FRB Minneapolis

**Rising interest rates slowed savings inflows at district S&Ls . . .**



Seasonally adjusted  
Sources: Des Moines, Iowa, and Seattle, Washington, Federal Home Loan Banks

**. . . and probably will reduce mortgage lending next quarter.**



□ = e = estimated

# The Trade Reform Act: Provisions and Potential

Kay J. Auerbach \*

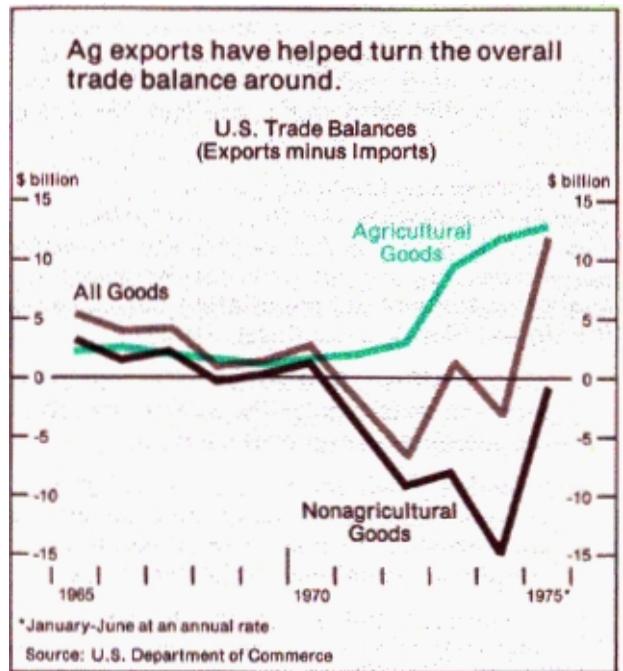
The most recent effort to expand and liberalize the world trading system was set in motion in September 1973 when more than 100 nations signed the Tokyo Declaration of Ministers. The actual negotiations, officially designated the Multilateral Trade Negotiations, began in Geneva, Switzerland, in early 1975 under the auspices of the General Agreement on Tariffs and Trade.

On January 3, 1975, President Ford signed into law the Trade Reform Act of 1974 (TRA) which provides authority for the United States to participate in those trade negotiations. This paper presents a brief summary of the provisions of the TRA and describes the major negotiating objectives of the United States.

## The Need for Trade Reform

The current round of negotiations began at a favorable time. United States trade was in deficit by \$3.1 billion in 1974—excluding purchases of oil, the trade balance would have been in surplus by over \$20 billion. Agricultural exports helped minimize the overall trade deficit: the surplus in agricultural trade was almost \$12 billion.

These figures point up two of the most important motivations for the United States' participation in the international trade negotiations. In the first place, economic interdependence among the countries of the world has become strikingly more apparent in the last few years. Secondly, because the United States is



both a major supplier and a major consumer in international trade, it is interested in establishing trade rules that provide for orderly access to foreign markets not only for sales but also for sources of supplies.

The timing of the trade negotiations, as well as being favorable, is crucial to world economic relations. As Secretary of State Kissinger said,

*The application of ever more restrictive trade practices, the insistence on the unfettered exploitation of the national advan-*

\*The author wishes to acknowledge the research assistance of Maureen L. O'Connor.

*tage, threatens the world with a return to the beggar-thy-neighbor policies of the Thirties....The major trading nations stand today uneasily poised between liberalized trade and unilateral restrictive actions leading toward autarky.*<sup>1</sup>

Restrictive trade measures imposed by the French, Italians, and Australians in 1974 and 1975 are worrisome examples of dangers to the international trading system. Temptations to remedy severe oil-induced demand by means of restrictive trade practices are very real. It is in this atmosphere that our negotiators are bargaining, armed with the Trade Reform Act of 1974.

### **Provisions of the Trade Act**

#### *Title I—Negotiating and Other Authority*

The first title of the Act grants the President general negotiating authority for five years and spells out some broad negotiating objectives of the United States. In addition, Title I:

- gives the President authority to reduce or increase existing tariffs and to negotiate agreements on nontariff barriers;
- provides rules for temporary relief from serious balance of payments deficits or surpluses as well as from imminent and significant variations in the exchange rate;
- encourages the President to enter into bilateral and multilateral trade agreements;
- directs the President to seek revision of the General Agreement on Tariffs and Trade; and
- provides means for the public, industry, Congress, and various governmental agencies to increase their participation in the trade negotiating process.

The Act states that "the overall United States objective...shall be to obtain more open and equitable market access and the harmonization, reduction, or elimination of devices which distort trade or commerce."<sup>2</sup> Another objective stated in this section of the Act is that

reductions in barriers to agricultural trade should be made in conjunction with reductions in industrial trade barriers; this stipulation may prove extremely important with regard to specifically agricultural trade negotiations.

A very explicit sectoral objective is also included in Title I. It requires United States negotiators to obtain, to the maximum extent feasible, "competitive opportunities for United States exports to developed countries equivalent to competitive opportunities afforded similar products in United States markets"<sup>3</sup> for both the agricultural and manufacturing sectors. For the manufacturing sector, there is the even more stringent requirement that United States concessions granted to foreigners within a sector should result in equivalent competitive opportunities for United States exporters abroad in that sector. Moreover, the Office of the Special Representative for Trade Negotiations is required to evaluate for Congress the equity and mutually beneficial aspects of any reciprocal concessions negotiated under this sectoral provision.

With regard to reducing existing tariffs, the President is authorized to eliminate duties completely on items that had tariff rates of 5 percent or less on January 1, 1975. Tariffs on items that had duties of over 5 percent on that date may be reduced by up to 60 percent in annual stages of 3 percent or 10 percent of the total reduction, whichever is greater. The President is also authorized to increase or impose duties of not more than 50 percent above the 1934 rate or 20 percent above the January 1, 1975, rate, whichever is higher.

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<sup>1</sup>U.S., Department of State, Bureau of Public Affairs, STATEMENT OF SECRETARY OF STATE KISSINGER BEFORE THE SENATE FINANCE COMMITTEE ON THE TRADE REFORM ACT, Washington, D.C.: U.S. Department of State, December 3, 1974.

<sup>2</sup>U.S., Congress, House, TRADE ACT OF 1974, Pub. L. 93-618, 93rd Cong., 2d sess., 1975, H.R. 10710, pp. 6-7.

<sup>3</sup>U.S., Congress, Senate Committee on Finance, House Committee on Ways and Means, TRADE ACT OF 1974, SUMMARY OF THE PROVISIONS OF H.R. 10710, Committee Print, 93rd Cong., 2d sess., 1975, p. 3.

The President is authorized to negotiate agreements to harmonize, reduce, or eliminate nontariff barriers—including subsidies—which restrict United States foreign trade or adversely affect the United States economy. Nontariff negotiations are applicable to agricultural as well as industrial trade. Nontariff barrier agreements, however, are effective only after the President has consulted the appropriate congressional committees and both houses of Congress have voted approval.

The most-favored-nation principle is reaffirmed in this section of the Act. This principle provides for automatically extending to all participants in a given trade agreement any tariff reductions or other concessions granted to any other country in the world. That is, each country having a trade agreement with the United States gets the lowest tariff duty and most favorable trading terms that the United States offers to any other country and so is a "most-favored-nation."

The Special Representative for Trade Negotiations is granted statutory authorization in this title and assigned the primary responsibility for conducting United States trade negotiations. Also, the Tariff Commission is reformed and named the International Trade Commission.

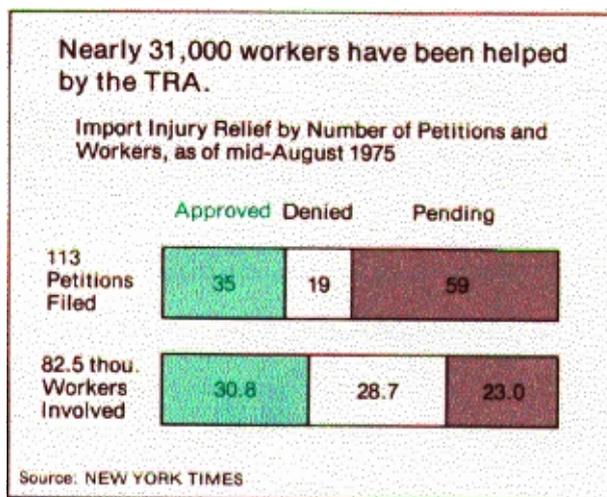
**Title II—Import Injury Relief**

The new provisions significantly liberalize eligibility criteria for relief to workers and industries. The new legislation provides for relief whenever an increase in imports is the "substantial" cause or threat of serious economic injury—"substantial" meaning "important" rather than the "major part" of the injury as in the Trade Expansion Act of 1962 (commonly known as the Kennedy Round of negotiations). Moreover, the legislation abolishes the earlier causal link between increased imports and the granting of prior trade concessions and establishes relief for communities adversely affected by increased imports.

Workers who become unemployed as a result of imports will be entitled to up to 52

weeks of cash allowances at 70 percent of their average weekly wage. This benefit may not, however, exceed 100 percent of the national average wage in manufacturing (currently about \$180 weekly or \$9,360 annually). Also, for the first time, workers are eligible to receive expenses to assist them in job searches when suitable local employment is not available. Technical and financial adjustment assistance is provided for firms, but the extended five-year tax carry-back provision of the Trade Expansion Act of 1962 is not included here.

By late summer 1975, the Labor Department had certified 30,800 workers as eligible for relief under these provisions of the Trade Reform Act of 1974. The biggest case, in August 1975, involved relief for 18,000 Chrysler Corporation workers; petitions by another 23,000 Chrysler Corporation employees were denied. A total of 19 petitions covering 28,700 workers had been denied on the grounds that imports had not caused the workers' layoffs.



**Title III—Unfair Trade Practice Relief**

This section contains the safeguard provisions of the Act and authorizes the President to retaliate against other countries' unfair trade practices, such as foreign import restrictions,

(continued on page 10)

## What is the district's stake in trade liberalization?

Trade liberalization has potentially important implications for the Ninth District. Nowhere is this more evident than in the district's agricultural sector, which is reaping benefits from foreign sales.

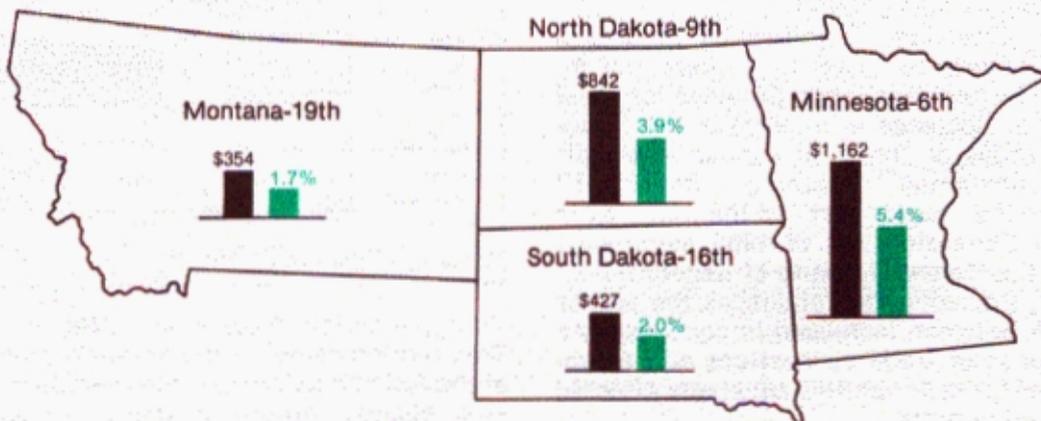
In recent years, United States government programs to restrict agricultural output and stabilize farm income through government purchases of surplus commodities have diminished in importance. As agricultural yields have continued to outstrip domestic consumption, producers have relied more heavily on sales in export markets. Over the last five years, the United States has exported over half of its wheat and soybean crops and from 12 to 25 percent of the corn crop. United States agricultural exports have nearly quadrupled over the last six years, from \$5.9 billion in 1969 to \$22 billion last year.

Rising agricultural exports are significant to this district's economy, since a substantial portion of the nation's agricultural output originates here. In the last four fiscal years, 12 percent of total United States agricultural exports have been produced by the four complete district states. The district's percentage contribution to total exports of some commodities has been particularly outstanding—wheat, 28 percent; dairy products, 30 percent; and flaxseed, 100 percent. Further, the four district states were among the top 20 agricultural exporting states in the nation in fiscal year 1974: Minnesota ranked sixth, North Dakota ninth, and South Dakota and Montana sixteenth and nineteenth, respectively.

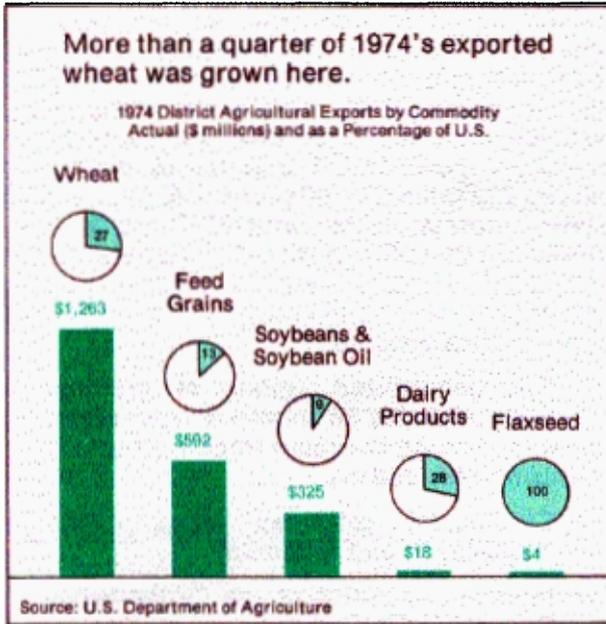
This increase in exports has been a major factor contributing to rising Ninth District income attributable to farming. While exports

In 1974, 13% of the country's ag exports came from the district.

1974 District Exports by State—Actual (\$ millions), as a Percentage of U.S., and Each State's Ranking in the Country



Source: U.S. Department of Agriculture



soared between 1969 and 1974, district agricultural income more than doubled. In 1969 district personal income from agriculture was \$1.7 billion, less than 9 percent of the district's total personal income. But by 1973-74, district agricultural income had climbed to an annual average of \$4.8 billion, 15.5 percent of total district personal income.

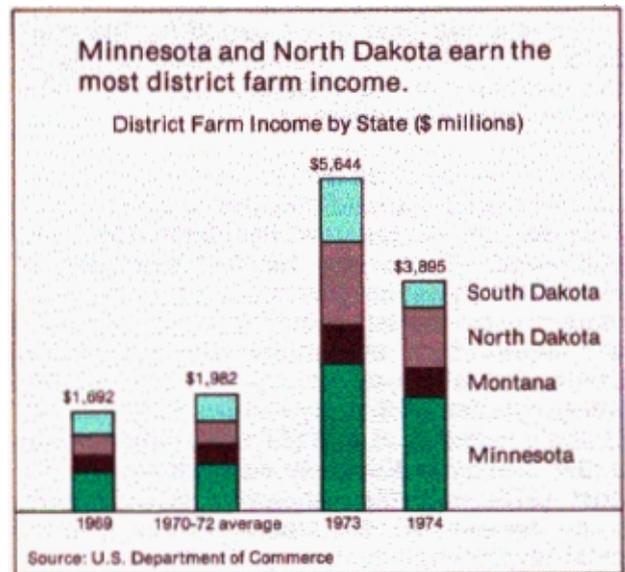
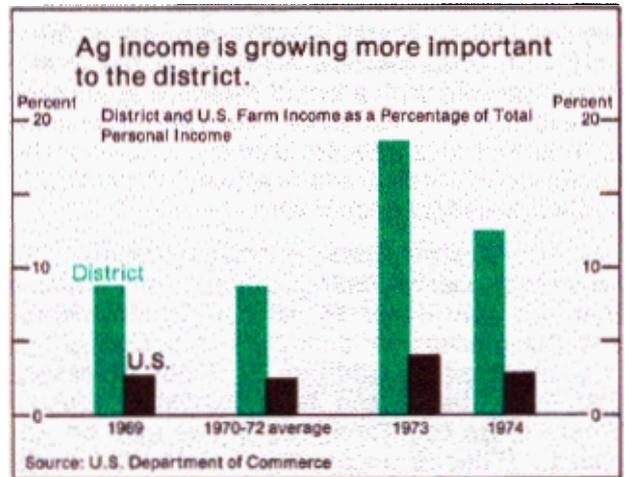
These figures emphasize just how important the success of the United States' negotiators at the Multilateral Trade Negotiations is. Considering the significance of agricultural exports, reduction of tariffs and nontariff barriers to trade in agricultural commodities could be very beneficial to the district's economy.

Exports of manufactured products, although less prominent than agricultural exports, are also important. District firms export a wide variety of products, including food, computers, farm machinery, transportation equipment, and technical instruments.

In 1972 the district exported manufactured goods valued at almost \$700 million. During

that same year, Minnesota was the 15th largest exporting state in the nation in terms of export-related manufacturing employment.

The district has much to gain from liberalized trade, especially in the agricultural and manufacturing sectors. The trade negotiations in Geneva, therefore, are of particular importance to the future of our district's economy.



export subsidies, dumping (price discrimination), and infringement of United States patent laws.

When the President determines that such unfair restrictions against United States exports of goods or services exist, he may suspend, withdraw, or prevent the application of trade agreement concessions and may impose duties on foreign goods and fees or restrictions on foreign services.

Retaliation for unfair trade practices which restrict United States exports may be applied only with congressional scrutiny. If the President retaliates with a broad measure applicable to several countries rather than a selective measure aimed at a specific country judged to be engaging in unfair trade practices, the action is subject to congressional veto.

The Act provides increased flexibility in imposing countervailing duties<sup>4</sup> on imports that are subsidized by foreign governments, and the process for determining subsidization is accelerated. In addition, it is not necessary that injury be caused to a domestic industry before these countervailing duties may be imposed. (This is inconsistent with the rules established by the General Agreement on Tariffs and Trade, but it is grandfathered.<sup>5</sup>) There is a four-year grace period for the mandatory imposition of countervailing duties by the Secretary of the Treasury, but only under certain limited conditions.

#### *Title IV—Trade With Other Than Most-Favored-Nation Countries*

This section of the law has been the most publicized. It provides for the extension of most-favored-nation treatment to those non-market (Communist) countries which conclude a bilateral trade agreement with the United States and which do not discriminate against the emigration of their own citizens. The Soviet Union's rejection of most-favored-nation status under these conditions is well known. In August 1975, with the conclusion of a bilateral trade agreement, the United States granted most-favored-nation status to Romania.

#### *Title V—Generalized Preference System*

Under this title, the President is authorized to extend duty-free treatment for ten years to specified products from beneficiary developing countries; this system is commonly referred to as the generalized system of preferences. Articles imported from any one country are excluded, however, if imports of that good exceed \$25 million or 50 percent of total United States imports of that article. There is a requirement that 35 percent of the value-added of any good be contributed by the exporting nation (50 percent if the country is a member of a free trade association).

The generalized system of preferences expressly excludes 26 countries from receiving benefits. Among the more important groups of countries excluded are:

- Communist countries (except Poland, Yugoslavia, and Romania);
- member countries of the Organization of Petroleum Exporting Countries<sup>6</sup> or members of other international cartels;
- countries expropriating United States property without compensation;
- countries which do not eliminate "reverse preferences"<sup>7</sup> which adversely affect United States exports by January 1, 1976; and
- countries failing to cooperate in the international control of drug traffic.

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<sup>4</sup>A countervailing duty is a customs duty levied by an importing country as a protective surtax to offset an export subsidy paid by the exporting country.

<sup>5</sup>Grandfathering refers to the practice of permitting existing rules or institutions to continue to exist even though new rules or institutions of the same type may be prohibited from being formed in the future.

<sup>6</sup>The members of the Organization of Petroleum Exporting Countries are Abu Dhabi, Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and Venezuela; Gabon is an associate member.

<sup>7</sup>Reverse preference refers to the practice of a developing country granting preferential treatment to imports from particular developed countries in return for trade concessions. Such reverse preference agreements currently exist between some European countries and their ex-colonies.

## The 10 Largest\* Countries Eligible for Generalized Tariff Preferences

Country	1973 U.S. Imports for Consumption (\$ millions)	Dutiable U.S. Imports (\$ millions)	Average Rate of Duty (%)	Principal U.S. Imports
1. Mexico	2,273.0	1,657.3	9.94	Electronics, fruits & vegetables, nonferrous metals
2. Taiwan	1,754.3	1,709.0	14.65	Electronics, apparel, misc. manufactures
3. Hong Kong	1,423.1	1,347.5	15.67	Apparel, misc. manufactures, electronics
4. Brazil	1,171.0	521.2	9.41	Coffee, sugar products, footwear
5. Korea	948.4	933.1	18.19	Apparel, plywood & veneers, electronics
6. Spain	758.7	677.4	9.25	Footwear, fruits & vegetables, petroleum products
7. Philippines	647.1	565.4	9.61	Sugar products, vegetable oils & fats, plywood & veneers
8. Singapore	463.6	383.1	12.44	Electronics, apparel, rubber
9. India	431.4	184.4	9.28	Textiles, fruits & vegetables, diamonds
10. Malaysia	417.1	83.2	7.54	Rubber, tin & alloys, electronics

\*Based on origin of 1973 U.S. imports.

Source: CONFERENCE BOARD RECORD

Venezuela and Ecuador have expressed their intense displeasure with these provisions, since as members of the Organization of Petroleum Exporting Countries they cannot receive these benefits.

On March 24 of this year, President Ford used his new authority under this title to designate 89 countries and 43 dependent territories as eligible for special United States tariff concessions. The tariff cuts will go into effect later this year after the International Trade Commission studies the results of its hearings and determines a list of eligible imports. These tariff reductions will be made unilaterally, since offsetting concessions from other countries do not need to be negotiated at the Multilateral Trade Negotiations in Geneva. The list of eligible imports is expected to include agricultural and industrial commodities as well as manufactured and semimanufactured goods; these imports currently total more than \$1 billion annually in United States imports.

### *Title VI—General Provisions*

This section of the law contains a number of miscellaneous provisions. They include the uniform collection and submission of trade data to Congress, immunity from antitrust penalties for participants in the program for voluntary

restriction of steel imports into the United States, and a \$300 million ceiling on government credits to the Soviet Union.

### **Negotiating Objectives**

The United States' negotiating objectives contained in the Trade Reform Act were cited above. Summarized briefly, they are to obtain more open and equitable market access for internationally traded goods and services, to seek fairer and freer trading conditions, and to strive to modernize the international trading system.

It is too early to determine specific bargaining positions or to assess the possible concessions that may result from the Multilateral Trade Negotiations. Although the International Trade Commission completed its assignment in August 1975 to hold public hearings on the impact of future trade agreements, it has not reported its findings on public sentiment in support of specific trade-offs. Additionally, the new trade legislation provides for inputs from a number of other groups, and the Congress will have a much enlarged role in deciding the final negotiating stance of the United States. There are, however, a few things that can be said about the broader objectives the United States would like to achieve as the negotiations

continue.

### Tariffs

Although tariffs are now 35 percent lower than they were prior to the Kennedy Round negotiations, the tariff battle is far from won. A major objective of the Multilateral Trade Negotiations is to further liberalize tariffs. About 60 percent of trade in industrial products remains subject to tariffs in industrial countries, and while the average tariff rate in the United States, the European Community,<sup>8</sup> and Japan is around 9 percent, some very high tariff rates remain. As much as 4 percent of world trade is still subject to tariff rates of 20 percent or more, and duties on manufactured goods remain extremely high in Australia, Canada, and Japan.

Despite past tariff reductions, the current level of United States tariffs provides considerable latitude for further reductions. In 1972 over 55 percent of imports of agricultural products and nearly 70 percent of imports of industrial products were subject to duties of more than 5 percent. Almost 23 percent of all United States imports were subject to tariffs of 5 percent or less, which the President has authority to eliminate under Title I of the Trade Reform Act.

### Many U.S. imports still face high tariffs.

1972 Distribution of U.S. Imports  
By Type of Product and Applicable Duty

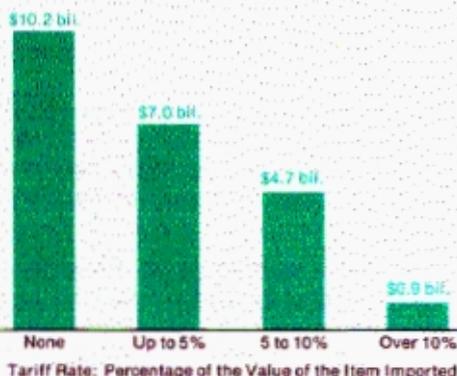
Range of Duty Level	Agricultural Products	Industrial Products
No tariff	20.7%	8.4%
Up to 5%	22.9	22.9
5 to 10%	25.9	29.8
10 to 20%	20.4	25.6
Over 20%	10.1	13.3

Source: U.S. Tariff Commission

It is not surprising that of all goods imported by the United States those that have the highest total import value also tend to have the lowest duties. The 25 largest import items by level of applicable tariff accounted for about 40 percent of total United States imports for consumption in 1972, and only 2 of the 25 items, with a total import value of less than \$1 billion, were subject to duties over 10 percent.

But most items the U.S. imports have low or no tariffs.

Value of 25 Leading Import Items in 1972  
By Level of Applicable Tariff

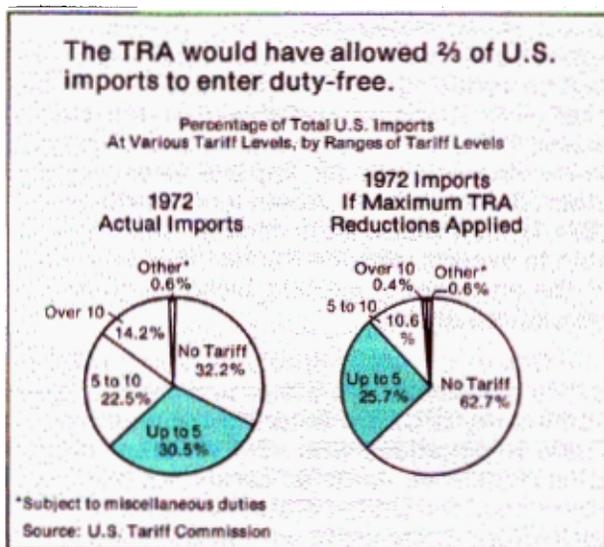


Source: CONFERENCE BOARD RECORD

The U.S. Tariff Commission prepared a study in which the maximum rate reductions contained in Title I of the Trade Reform Act were applied to actual levels of United States imports in 1972.<sup>9</sup> Almost two-thirds of imports in that year would have entered the United States duty-free, and duties of over 10 percent would have applied to only a negligible value of imports. However, on the basis of past experi-

<sup>8</sup>European Community (Common Market) countries are Germany, France, Netherlands, Belgium, Luxembourg, Italy (the original six), United Kingdom, Denmark, and Ireland.

<sup>9</sup>U.S., Tariff Commission, ANALYSIS OF THE RATE REDUCING AUTHORITY IN THE TRADE REFORM ACT OF 1973 [sic], Washington, D.C.: U.S. Tariff Commission, July 1974.



ence, full use of the tariff-reducing authority in the new trade legislation seems highly unlikely.<sup>10</sup>

Another area of concern in the tariff negotiations is that over half of world trade today is subject to preferential tariff rates, that is, those below most-favored-nation levels. These low rates resulted from the European Community's expansion and its preferential trade agreements with its associated states and certain other countries. Increasing potential for United States exports in these markets through elimination or reduction of tariff discrimination will be a major focus of our negotiations.

#### *Nontariff Barriers to Trade*

Negotiations on nontariff barriers will prove one of the most difficult, but potentially among the most rewarding, tasks facing the negotiators. The General Agreement on Tariffs and Trade (GATT) Secretariat has classified more than 800 nontariff barriers in 27 countries. It would be too optimistic to hope for resolution of all of the problems represented by this list, and the United States will probably concentrate its efforts on just 3 categories: export and domestic subsidies, product standards, and government procurement practices.

The present GATT provisions have proved woefully inadequate in preventing use of subsidies. Nowhere has this been more obvious than in the case of subsidized products competing with United States exports in third markets.

The problem can be illustrated by the following hypothetical example. Suppose that both the United States and another developed country, country A, produce and export item X. Suppose further that country A subsidizes the export of item X. If country A exports item X to the United States, our item X producers can demand that countervailing duties be imposed, under GATT rules, to offset the subsidies granted by country A. However, if both the United States and country A export to a third country, the United States' item X will be at a relative disadvantage in competition with the subsidized item X from country A. Neither United States law nor GATT rules currently provide any effective relief for United States exporters in this situation—one which occurs frequently in world trade today.

The growing importance of product standards and their use to impede rather than facilitate trade is another area of great concern to the United States. Some progress has been made in this area by means of the CENEL Agreement, an arrangement between European countries for the standardization and certification of electronic components.

The fact that procurement policies of other governments are so diverse as well as less obvious and well specified than ours are is another critical area. International agreement on government procurement policies could be very beneficial; for example, the Organization of Economic Cooperation and Development has estimated that nonmilitary goods and services procurement by the industrial countries amounts to \$28 billion annually.

<sup>10</sup>Only one-third to two-thirds of past tariff reducing authority has been used, according to James McCarthy, "The Trade Act of 1974," CONFERENCE BOARD RECORD, Vol. XII, No. 3 (March 1975), p. 18.

The United States favors the removal of the few remaining quantitative restrictions on industrial products which are still imposed by the developed countries. The United States also wants automatic import licensing and consular formalities abolished and is in favor of the international standardization of import documentation and packaging and labeling requirements. Progress can be seen in at least one of these areas: by March 1975, a United States proposal to abolish consular formalities had won general support in the Multilateral Trade Negotiations' Nontariff Measures Group.

### Agriculture

The negotiations on agricultural trade are among the most complicated of the issues to be faced in Geneva. Earlier trade negotiations, including those of the Kennedy Round, were unsuccessful in liberalizing trade in agricultural commodities. This is not too surprising, since it is in agriculture that free trade principles most often conflict with domestic economic and social objectives. Domestic farm programs designed to achieve nationally desirable goals have led to a highly artificial producing and trading environment for agricultural commodities.

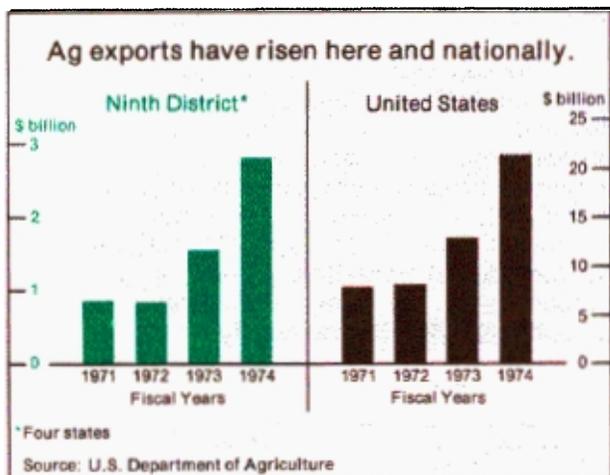
The United States has a major stake in liberalizing world trade in agricultural com-

modities. As noted above, the United States' agricultural trade surplus was extremely important in reducing the overall trade deficit last year, and it seems probable that the United States will need enlarged agricultural exports in the future to pay for imports of energy and other raw materials. About one-fourth of the 1974 United States farm income was attributable to exports, despite the fact that two-thirds of the agricultural exports faced some sort of restrictions abroad.

One of the initial problems facing negotiators is that the United States and the European Community (EC) are entering the Multilateral Trade Negotiations with very different negotiating objectives. As noted earlier, an important objective of the United States is the inclusion of agricultural trade along with trade in industrial goods in the comprehensive negotiations. If this objective were met, agricultural commodities would be included in the negotiations on nontariff barriers and supply problems. But the EC favors separate parallel agricultural negotiations.

The expected deadlock on the procedural question of the appropriate forum for discussion of agriculture was partially resolved in May 1975. At that time, the EC agreed that the discussion of matters of a global nature, including tariff and nontariff barriers affecting agriculture, could be discussed in negotiating groups other than the Multilateral Trade Negotiations' Agriculture Group. However, this continues to be a particularly crucial negotiating point, since it seems clear to most observers that

*to obtain meaningful results for agriculture in the negotiations, the United States must be prepared to offer improved access to its industrial markets in return for the liberalization it needs for United States agricultural exports in the markets of other countries.<sup>11</sup>*



<sup>11</sup>Gordon O. Fraser, "U.S. Agriculture's Stake In World Trade Negotiations," FOREIGN AGRICULTURE, Vol. XIII, No. 7 (February 1975), p. 4.

Expanded world agricultural trade and a more efficient international allocation of agricultural resources through elimination of trade barriers are two major objectives of United States policy. In addition, the United States wants to place more of the burden for domestic farm programs directly on national governments, rather than permitting countries to shift this burden to trading partners.

In our government's view, present agricultural policies in too many countries artificially increase their domestic production. This in turn leads to reduced imports by that country and, moreover, frequently prompts that country to subsidize agricultural exports to third countries. The net result of such policies greatly complicates trade adjustments for efficient agricultural producing nations like the United States.

The EC, in contrast, emphasizes the stability of prices and export earnings for domestic producers through commodity agreements. The EC has declared the principles and mechanisms of its Common Agricultural Policy not subject to negotiation, although negotiations on some elements are not precluded.

One possible solution to the apparent dilemma has received considerable study within the administration of the United States government. It takes the form of a unique commodity agreement in the grain, feed, and livestock sectors<sup>12</sup> which would involve gradual elimination of all international trade restrictions and provide for world market prices in these three interdependent agricultural sectors. In May 1975, the Multilateral Trade Negotiations' Agriculture Group did establish special negotiating subgroups for grains, meats, and dairy products. Matters related to agricultural trade will certainly be a major focus of United States efforts as the negotiations evolve over the next two to three years.

#### *Supply Problems*

The United States may be able to make one of its greatest contributions to the Multilateral Trade Negotiations in the thorny area of supply

problems. Because the United States is in the dual position of being a major supplier and a major consumer of internationally traded goods, it understands the interests of both exporting and importing countries. Although it would be naive to expect agreement on strict codes of conduct, it may be possible to work out a set of guidelines assuring orderly access to foreign markets and sources of supply. Such guidelines should also contain provisions for internationally acceptable export restraint measures should they become unavoidable.

#### *Multilateral Safeguards*

GATT's Article XIX covers safeguard measures for the protection of domestic industry due to disruptions caused by trade liberalization. However, most adherents to the GATT agree that Article XIX has not worked well in providing countries with effective measures to use if they are seriously harmed by increasing imports.

Multilateral safeguards are essential to a reformed trading system because they represent a realistic acceptance of the fact that well-intentioned commitments to trade liberalization sometimes conflict with desirable social and economic goals of the countries involved. If trade barriers are to be further liberalized and imports increased, it is of the utmost importance that a multilateral safeguard system be implemented. The GATT Secretariat, the Organization of Economic Cooperation and Development, and the United States have all been working on various plans for a multilateral safeguard system to propose during the Multilateral Trade Negotiations.

#### *Reform of the International Trading System*

Reform of the GATT is not only mandated in Title I of the Trade Reform Act of 1974 but also is essential to the success of new agreements to be negotiated at Geneva. Particular attention must be given to the rules governing trade practices, the procedures to be followed in applying these rules, and new institutional arrangements.

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<sup>12</sup>The grain, feed, and livestock sectors of agriculture include wheat, corn, barley, soybeans and other oilseeds, meal, beef, pork, and poultry.

## Conclusion

The provisions of the Trade Reform Act of 1974 offer great opportunities for expanding international commerce and improving the world trading system within which we operate. A member of the staff of the Office of the Special Representative for Trade Negotiations best summarized the situation by noting that the

*failure to improve the mechanism for the settlement of issues that arise in international trading relations could create a great risk that the world will slide back into protectionism. The choice...is not whether to stand still or to move forward, but whether to move forward or to risk sliding backward.*<sup>13</sup>

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<sup>13</sup>Geza Feketekuty, "Toward an Effective International Trading System," COLUMBIA JOURNAL OF WORLD BUSINESS, Vol. VIII, No. 3 (Fall 1973), p. 39.