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INSTITUTE FOR ECONOMIC AND SOCIAL PLANNING (IPEA)
ECONOMIC COMISSION FOR LATIN AMERICA AND THE CARIBBEAN (ECLAC)
– IPEA/ECLAC AGREEMENT –

TRADE RELATIONS BETWEEN BRAZIL AND THE UNITED STATES

BRASÍLIA, 1985

18662

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PREFACE

This study on commercial relations between Brazil and the United States of America was undertaken within the framework of the IPEA-ECLAC Agreement 1/, as part of a joint research program. The institutions share an interest in analyzing recent developments in Brazilian exports to the industrialized countries and the relative importance of import restrictions to these trade flows. The Superintendence of IPLAN 2/ and the ECLAC Brasilia Office, charged with the execution of the Agreement, defined the scope and purpose of a series of studies on Brazil's commercial relations with the United States and the European Economic Community.

This study is the first of a series of studies on this theme. It focuses on conflict and consensus in the commercial relationship between Brazil and the United States. The first chapter provides a brief summary of the entire study. Chapter II presents a brief description of U.S. trade policy and the role of different government agencies. It also analizes the conflict between free trade and protectionism and its impacts on U.S. trade laws. Chapter III comments on recent trends in Brazil's trade policy, since the inception of the export promotion program in particular and explains the main elements, considering among other factors its historical background as well as the external factors that contributed to changes in the orientation of Brazil's trade policy. Chapter IV presents a short review of recent trends in bilateral trade between Brazil and the United States. The General System of Preferences (GSP) program of the United States is also examined. Chapter V provides data and background information on U.S. import restrictions affecting Brazil and estimates their trade coverage. In the final chapter, (VI) two conflicting conclusions are drawn: Brazil-U.S. trade relations are tense because of a combination of philosophic and practical differences; yet, at the same time, the efforts to resolve trade problems are carried out in a more cordial atmosphere than at any time during the past decade. The study concludes with recommendations.

The study was elaborated by the ECLAC Offices in Brasilia and Washington, with the cooperation of Sidney Weintraub, Dean Rusk professor of the University of Texas at Austin, who drafted the final chapter and provided comments for the remaining chapters.

Apart from the support received from the Coordination of Global Planning of IPLAN, the ECLAC Offices in Brasilia and Washington received information and comments from trade experts in each country at different stages of the execution of this study, especially from Mr. Clodoaldo Hugueney Filho, Head of the Commercial Policy Division of the Ministry of Foreign Affairs in Brazil, Mr. Tarcisio Marciano da Rocha, Head of, and Mr. Adimar Schievelbein, Adviser to the Coordination of International Affairs of the Ministry of Finance of Brazil. Nonetheless, the

information and views expressed in this document are the sole responsibility of IPEA and ECLAC.

1/ Economic Commission for Latin America and the Caribbean (ECLAC) and the Institute for Economic and Social Planning (IPEA), related to the Planning Secretary of the Presidency of the Republic of Brazil.

2/ Institute for Planning (IPLAN), body charged with global, sectoral and regional planning.

CHAPTER I

INTRODUCTION

The land mass of Brazil (3.3 million square miles) is larger than that of the continental United States, but its population of 118 million is barely one half, and its *per capita* income only one fifth that of the United States.

In many respects the development of Brazil shows striking similarities to that of the United States in its early growth stage. Beginning with coastal settlements along the Atlantic Ocean, both countries strove to open up the vast interior; to foster this process, both the United States and Brazil decided to move their capital cities away from the Eastern seaboard and build new cities incorporating modern urban planning techniques and designed specifically to serve as capitals. Both countries have ample resource bases which facilitated their early agricultural and mineral development, followed by industrialization. Both countries relied heavily on massive immigration to provide the labour force for their growth.

The Brazilian economy was dependent in the past on successive booms of commodity exports starting with sugar, which was followed by cotton and then coffee. The drive for industrialization may be traced to the 1890's and intensified during and following World War II when Brazil was cut off from many of its traditional suppliers of manufactured goods. During the 1950's and 1960's the process of industrialization, which initially had emphasized consumer goods, became more complex with the expansion into steel mills and the metal-working industries. This led to the creation of domestic automobile and aircraft industries, and the production of industrial chemicals and pulp and paper based on local resources.

The foundation of this industrialization drive was the size and potential growth of the Brazilian market itself. This was supplemented by the need to diversify exports and the systematic promotion of nontraditional exports. Without an industrial base, this diversification of exports would not have been possible. Simultaneously, however, new nonindustrial products such as soya, poultry, and orange juice, were produced for the export market. More recently, in order to overcome the chronic shortage of fuel, a sugar-based alcohol for fuel use was developed.

Brazil's strategy to expand and diversify its exports was formulated during the decade of the 1960's. By 1968 Brazil was exploring markets for its exports in Africa, Asia, and the Middle East, a foresight that paid off when the oil price increases of the 1970's consumed ever larger amounts of foreign exchange. Despite abundant resources of minerals and agricultural products, Brazil has been severely hampered in its development by insufficient domestic petroleum resources. Thus, the oil crisis

which began in 1973 placed a heavy burden on Brazil, requiring increasing foreign-exchange outlays for oil imports, to maintain its economic activity. In recent years, oil imports have accounted for over 40% of the total value of imports, making it imperative to expand exports at a rapid rate to pay for imports and to service the growing foreign debt which had been accumulated, in part, to finance the oil-induced trade deficits.

Brazilian exports were fueled by an expanding world economy in the 1960's and the 1970's, and a domestic policy to promote industrial exports was part of the overall development plan. Rapid industrialization was financed with the help of massive foreign investments and loans which were attracted by the potential of the Brazilian market. Foreign companies established Brazilian subsidiaries in a wide spectrum of industries. In many cases, these subsidiary companies became the pioneers of Brazilian manufactured exports, particularly within the Latin American region. At the same time, policies and instruments to promote exports were perfected to enable a wide range of producers to participate in this process.

The 1979-80 increase in oil prices and the subsequent recession in the industrialized world provoked a slowdown in the rate at which Brazil's exports had been growing. The recession brought on calls in industrial countries for increasing protection against imports, particularly imports of labor intensive products from low-wage countries.

Brazil suffered the consequences of these protective measures at a time when its oil imports and prices were still high and interest payments on its foreign debt were increasing because of rising interest rates. In the U.S., committed officially to a liberal trade policy, the voices of protectionism became more powerful. A variety of protectionist devices was used. "Voluntary" arrangements were worked out to limit imports in order to protect jobs in specific industries. Other nontariff measures were used, such as countervailing duties.

On the other hand, U.S. wholesalers, retailers and consumers, and exporters of competitive U.S. products expressed their concern at excessive limitations of imports. (The 1983 textile agreement with China vividly illustrated the conflicting interests at play: the opposing parties were the U.S. domestic textile industry on the one hand, and consumers and U.S. wheat farmers on the other.) Large U.S. corporations exporting sophisticated equipment and machinery made known their stake in maintaining open trade channels.

The United States is the largest single merchandise exporter to Brazil (excluding petroleum) with $4.1 billion in exports in 1980 and $3.5 billion in 1981, representing 30% of total Brazilian imports (excluding petroleum).

The United States is also Brazil's largest export market, absorbing $4.0 and $5.1 billion in 1982 and 1983 respectively,

which accounted for 20 and 23% of total Brazilian exports. However, in terms of total U.S. imports, Brazil ranks tenth among the principal trading partners of the U.S. and is surpassed by other developing countries such as Mexico, Taiwan, Hong Kong and Korea. Indeed, in relation to overall U.S. imports in 1980 and 1981 of $240 and $261 billion respectively, imports from Brazil represented barely 1.6 and 1.8%.

The maintenance of high export growth rates is of fundamental importance for the industrial and economic development of Brazil and for the financing of its imports and foreign debt service. In the sixties and seventies the markets of industrialized countries were relatively open for Brazilian products. However, the long economic recession in these countries and the high growth rates of Brazilian exports have provoked increased pressure for restrictions against the imports of Brazilian products in spite of its still low penetration rates in their markets.

Brazil has developed a modern and generally efficient production apparatus and is now internationally competitive in many industrial sectors. This competitiveness is the main basis for protectionism in the industrial countries. The diminishing competitiveness of many industries in the industrial countries makes adjustment to imports particularly difficult during an economic recession when adjustments to trade penetration are difficult and painful. In turn, modern sectors of U.S. industry are exerting pressure to open the Brazilian market. A fundamental question is thus at stake dealing with the future international division of labor.

Brazil's industrialization process traditionally has been largely based on import substitution. This is one of the explanatory factors for the existence of export disincentives that had to be overcome by the granting of subsidies 1/. These subsidies make Brazil's exports especially sensitive to import restrictions, principally in the United States, where countervailing duties are applied more frequently and strictly than in other countries.

The increase in U.S. protectionism can also be explained by the high value of the U.S. dollar which tends to favor imports and discourage exports. Furthermore, international trade relations have become increasingly complicated. Tariffs have been reduced continuously and protection has to rely to an ever larger extent on nontariff measures. The economies of industrialized and developing countries have become increasingly interrelated. The developing countries have for a long time been the most dynamic market outlet for many sectors in the industrialized countries, principally for capital goods which faced sluggish growth in their home markets. The ability of the developing countries to service their foreign debt also depends to an increasing extent on their export performance.

The choice between protectionism and open trade in the

industrialized countries is a complicated one. Exporters, importers and the banking sector generally support the mainteinance of an open trading system; whereas specific economic sectors, trade unions and politicians from areas of high unemployment will support protectionist pressures. Government agencies involved in the formulation and implementations of U.S. trade policy have different constituencies and hence varying standpoints.

Notes

1/ An important disincentive has traditionally been the overvaluation of the exchange rate.

CHAPTER II

U.S. TRADE POLICY IN RECENT YEARS

a) Introduction

In the seventies, the interdependence of the world economic system increased significantly. In the United States merchandise exports increased from 4.3 to 8.5 percent of GNP between 1970 and 1980. (In the sixties this ratio only increased from 4.1 to 4.3). This growing interdependence was accompanied by rapidly changing competitive positions among countries due to a series of factors such as large exchange rate fluctuations; pronounced differences in the increase of production costs, especially unit labor costs; the multinationalization of private enterprise, which facilitated the internationalization and fragmentation of production processes; and the rapid and outward looking growth of the newly industrializing countries. In the seventies, there was a further decline in the economic hegemony of the United States, as measured by its participation in world output and trade 1/.

In this context, trade policy in the United States pursued conflicting goals. The growing importance of the export sector for the creation of new jobs prompted the U.S. administration to give high priority to its long-term commitment to free trade 2/. However, increased imports put adjustment pressure on U.S. industry, which aggravated the adjustment problem caused by low economic growth and low capital formation. Increased protection for U.S. industry and labour was thus demanded. These conflicting goals are reflected in the two comprehensive trade acts enacted in the seventies, the Trade Act of 1974, which authorized the U.S. Administration to enter into the Tokyo Round of multinational trade negotiations (MTN), and the Trade Agreements Act of 1979, which incorporated the MTN agreements into U.S. trade laws.

In the early eighties, the stagnation of world trade, the sharp increase of unemployment in the Organization for Economic Cooperation and Development (OECD) area, the strong appreciation of the U.S. dollar, and the growing U.S. deficit in merchandise trade (especially with Japan), among other factors, provoked new protectionist pressures in the United States. This pressure was increased because of the virtual dismantling of trade adjustment assistance as an alternative to protection. The early eighties witnessed new import relief programs (e.g., for specialty steels), a sharp increase in countervailing duty and antidumping actions, and special attention in U.S. trade policy to the opening of foreign markets for products in which the United States has a competitive position: trade in agricultural products, high technology products, and services. Because of the importance of remitted profits in the U.S. balance of payments, the U.S. maintained its traditional support for freedom of capital movements, especially foreign direct investment.

b) The external sector of the U.S. economy in the period 1970-83

The U.S. trading position in the seventies

In the period 1970-1980, the external sector of the U.S. economy increased significantly: merchandise exports increased from 4.3 percent to 8.5 percent of GNP. In the same period, merchandise imports increased from 4.1 to 9.0 percent (Table II.1).

Two trends indicate a decline in the relative trading position of the United States in the seventies: the merchandise trade balance has shown a persistent and increasing deficit since 1976 and the U.S. share in world merchandise exports declined from 13.6 percent in 1970 to 10.9 percent in 1980 (Table II.2) 3/.

Several factors have influenced the competitive position of U.S. industry and the growth of the volume of U.S. exports, relative to the rest of the world.

OECD indicators on competitive positions, such as relative manufacturing unit labour costs and relative export prices in manufacturing, indicate an improvement of the competitiveness of U.S. industry in the seventies vis-a-vis all its OECD trading partners (Table II.3) 4/. Relative unit labour costs are unit labour costs calculated in a common currency; the improvement in the U.S. competitive position was due mainly to the depreciation of the dollar.

The fluctuations in unit labour costs in local currency depend on changes in wage costs and productivity. In the sixties, unit labour costs in U.S. manufacturing increased less than in any of the other seven largest OECD countries. In the seventies, the percentage increase was higher than in Japan and Germany but lower than in France, the United Kingdom, Italy and Canada. Hourly earnings in U.S. manufacturing increased less than in other major OECD countries, except for Germany. The increase was well below that in France, the United Kingdom and Italy. Conversely, the deceleration of average productivity growth, a common feature in most OECD countries, was particularly sharp in the United States 5/.

The average annual volume increase of U.S. merchandise exports in the seventies (6.9%) was higher than the (mean) volume increase of all industrial market economies (5.8%), although considerably below the growth rate of Japan's export volume (8.9%) (Table II.2).

The developing countries, especially the newly industrializing countries (NICs), showed high export growth rates and accounted for an increasing share of U.S. imports of manufactures. Comparative advantages in many industrial sectors moved to these countries because of lower costs for labor and raw

materials. High growth in output and capital formation, together with the transfer to these countries of the latest technologies, permitted the NICs to build a modern and competitive production apparatus. They became especially competitive in sectors which combine mature production techniques with cheap labour and raw materials. The multinationalization of private enterprise and the international fragmentation of production processes also contributed to the export growth of NICs. Their export success can also be explained by the outward looking orientation of their economic and trade policies.

In the seventies, the export volume of the Latin American and Asian NICs increased at an annual average growth rate of 12.4%.

The developing countries' share of U.S. imports of manufactures increased from 14 percent in 1970 to 24 percent in 1980. Manufactured imports from developing countries are concentrated in relatively few categories such as clothing, footwear and consumer electronics (Table II.4).

The current account of the U.S. balance of payments

The U.S. merchandise trade balance has shown persistent and increasing deficits since 1976. The deficit reached $69 billion in 1983 (Table II.1).

The balance of international transactions has become more pronounced for both surplus and deficit sectors. With respect to merchandise trade, the seventies witnessed an increasing trade surplus in agricultural products and high technology (or R&D-intensive) manufactures. Conversely, the deficit in low technology manufactures also increased significantly (Table II.5).

Trade in services and return on direct investment abroad have shown a substantial surplus and have tended to compensate for the deficit in merchandise trade. A high proportion of the foreign-exchange earnings of the U.S. service industry comes from remitted earnings from foreign investment. The surplus in the total service and investment account increased from $6.4 billion in 1970 to $36.1 billion in 1980 (Table II.6). Service earnings by the U.S., including direct foreign investment earnings, are estimated to have reached about $35 billion in 1980, resulting in a surplus in trade of goods and services of more than $7 billion.

In 1981, total net investment income showed a surplus of $33 billion (Table II.6). The direct U.S. investment position abroad increased from $90 billion in 1972 to $227 billion in 1981, attaining an average annual increase of about $15 billion 6/. A high proportion of U.S. investment abroad can be explained by the increase in the international operations of the services industry. Due to its particular nature, international transactions in services often require the establishment of affiliates abroad. Direct foreign investment has great importance

for the U.S. economy and the current account balance. Earnings from direct investment as a percentage of total profits of U.S. corporations have grown from 12 percent in 1970 to 33 percent in 1980 7/. There is also a strong link between U.S. investment abroad and U.S. merchandise trade. According to the Department of Commerce, about one third of all U.S. exports in 1977 were traded between U.S. companies and their affiliates abroad 8/.

1980 - 1984

The oil price increase in 1979-1980 provoked new inflationary pressures in the OECD area and a transfer of real income to OPEC. Contrary to what had happened after the 1973-74 oil price increase, monetary policy was generally non-accommodating and real interest rates rose in nearly all countries. This was the case especially in the United States where nonaccommodating monetary policy was combined with an expansionary fiscal policy. U.S. interest rates rose to unprecedented levels, especially in late 1981 and 1982.

The economic recession lasted much longer than expected. The U.S. economy started to recover only in late 1982. World trade almost stagnated in the 1980-82 period and unemployment rose to high levels in all major OECD countries, except for Japan. Total unemployment in the OECD area rose to about 34 million persons in 1983, about 9% of the total labour force. Youth unemployment rates reached 17% in 1982. U.S. unemployment was almost 10% in 1982, but began to decline in 1983.

The rise of interest rate differentials in 1980-81 provoked a strong appreciation of the dollar 9/, seriously affecting the competitiveness of U.S. exports and increasing import competition in the U.S. domestic market (Table II.7). The deterioration of the U.S. merchandise trade balance had no apparent impact on the dollar, as exchange rates in the eighties have been affected more by interest rate differentials and other financial considerations.

In the eighties, the combination of expansionist fiscal policy with nonaccommodating monetary policy has been the main reason for the strength of the dollar 10/.

The combination of a faster economic recovery than in other OECD countries, the balance of payments and debt service problems of non-OECD countries, and the strength of the dollar have put strong pressure on the U.S. merchandise trade balance. This deficit was $69.4 billion ($22 billion with Japan) in 1983 and $123.3 billion in 1984 ($36.8 with Japan).

Protectionist demands have increased further, especially in the steel industry, and so has the probability that these demands will result in protective measures.

c) U.S. Trade Policy

The institutional framework of U.S. foreign trade policy

Many agencies have responsibility for designing and implementing U.S. international trade policy. The administering of trade policy has been subject to reorganization in recent years.

The Office of the Special Representative for Trade Negotiations, created in January, 1963 and charged with administering trade agreement programs, has been assigned increasing powers and responsibilities over the course of time. The Reorganization Plan N. 3 of 1979, implemented on January 4, 1980, changed its name to the Office of the United States Trade Representative (USTR) 11/. It charged the Office with responsibility for setting and administering overall trade policy. It also provided that the U.S. Trade Representative shall be the chief representative of the United States for all trade activities of GATT, OECD, UNCTAD and other multilateral institutions.

USTR chairs the cabinet-level interagency Trade Policy Committee (TPC). With the advice of this body and its subordinate bodies (see Chart 1), USTR has primary responsibility for developing international trade policy and coordinating its implementation.

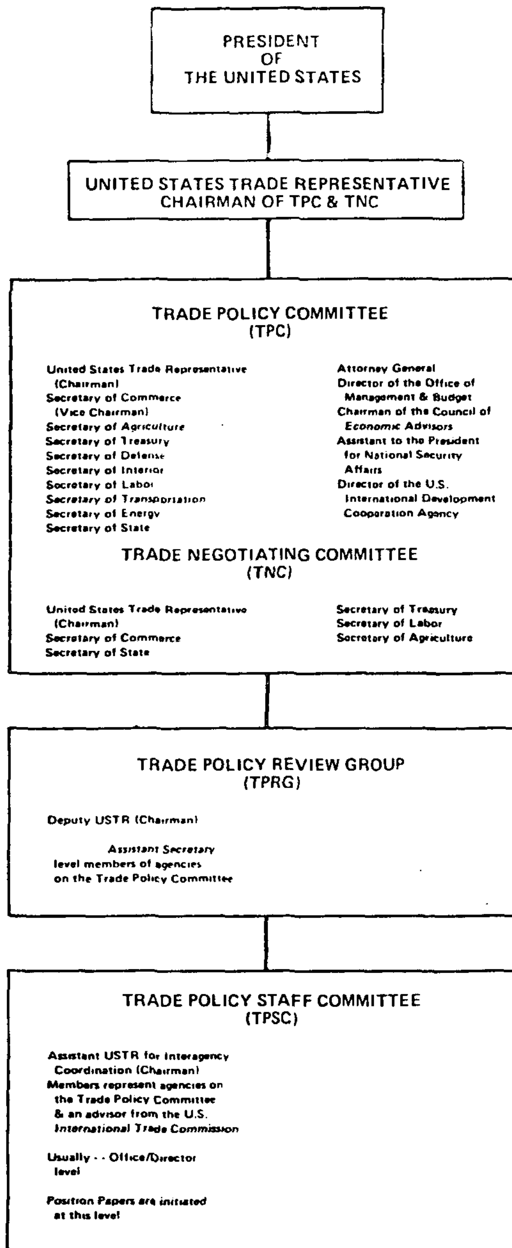
USTR is responsible for the conduct of unfair trade investigations under Section 301 of the Trade Act of 1974 and to recommend appropriate action to the President.

The U.S. Department of Commerce was established in 1903 to "foster, promote and develop the foreign and domestic commerce" of the United States. The Department of Commerce provides data on a wide range of activities related to the economic and technological development of the United States' foreign trade. The International Trade Administration (ITA) was established on January 2, 1980. Important units within ITA are the Trade Administration (TA) unit responsible for the conduct of subsidy and less than fair value investigations; the Trade Development (TD) unit, which carries out programs to promote foreign trade and to strengthen the international trade and development position of the United States; and the International Economic Policy (IEP) unit, whose principal immediate goal is the reduction of foreign government barriers that impede U.S. international trade and development. IEP plays a major role in monitoring and implementing multilateral trade agreements.

The International Trade Commission (ITC) is an independent agency that was created in 1916 as the U.S. Tariff Commission. In 1974 it obtained its present name. ITC conducts investigations on a broad range of topics related to international trade and U.S. trade laws. ITC is charged with making injury determinations in countervailing and antidumping investigations and in

Chart 1

U.S. INTERNATIONAL TRADE POLICY
INTERAGENCY COORDINATION



Source: A Preface to Trade. Washington, D.C., Executive Offi
the President, 1982. p.73.

investigations under Section 201 of the Trade Act of 1974. The ITC advises the President about the probable economic effects on domestic industry and consumers of U.S. concessions in international trade agreements and of the assignment of articles for duty-free treatment under the U.S. GSP program. It is also charged with the responsibility to analyze whether or not imports of agricultural products interfere with support programs of the Department of Agriculture. ITC publishes a series of summaries of trade and tariff information.

The Department of Agriculture recommends to the President whether he should direct ITC to conduct investigations on the interference of agricultural imports with support programs (Section 22 of the Agricultural Adjustment Act).

The Department of Labor administers the Trade Adjustment Assistance Program.

The Secretary of State, the principal foreign policy adviser to the President, is responsible for the overall direction, coordination, and supervision of U.S. foreign relations and for the interdepartmental activities of the U.S. Government overseas.

The Secretary of the Treasury has primary responsibility for general economic policy and international monetary affairs. The Treasury Department participates in trade policy decisions to ensure that such decisions include a consideration of their impact on the U.S. economy, especially on inflation and employment.

The Customs Service collects the revenue from imports, and enforces customs and related laws, and administers the Tariff Act of 1930, as amended, and other customs laws.

Export promotion and sectoral assistance

Many federal agencies are charged with granting assistance and support to U.S. export sectors.

The Department of Commerce operates the U.S. and Foreign Commercial Service (FCS), which is charged with seeking out trade opportunities and providing general support to U.S. exporters. The Department of Agriculture operates the Foreign Agricultural Service (FAS), a promotional agency for agricultural exports. Both agencies have trade experts, marketing specialists and negotiators stationed in the United States and abroad.

The Export-Import Bank (EXIMBANK) provides export credits, export credit insurance and export credit guarantees. Long-term direct credits to a foreign borrower are normally granted for the purchase of U.S. capital goods. EXIMBANK is intended to be a self-sustaining agency. It is a primary objective of the United States in multilateral forums such as OECD and GATT to negotiate the elimination of all subsidies in export financing. However, "in recent years, high interest rates and the increasing tendency

of foreign governments to heavily subsidize export financing, placed U.S. exporters at a competitive disadvantage. In response, EXIMBANK'S role expanded to provide subsidized interest support for U.S. companies to offset the advantages foreign companies obtained from subsidized export credits" 12/.

Export credit insurance is also provided by the Foreign Credit Insurance Association (FCIA), an association of commercial insurance companies formed in 1961 by EXIMBANK and the insurance industry.

The Overseas Private Investment Corporation (OPIC) insures U.S. investors in developing countries by providing political risk insurance against expropriation, inconvertibility, war risk and civil strife. OPIC also provides, on a limited basis, direct loans and loan guarantees to U.S. investors to support their participation in projects in developing countries.

The Small Business Administration (SBA), an independent federal agency, advises and assists small and medium sized firms. SBA aid consists of loan guarantees (with a current ceiling of $500,000) and direct loans 13/. "Small" business is defined broadly.

The Small Business Investment Corporation (SBIC), which works alongside SBA, advises small and medium sized firms on their investment operations.

The United States has some sectoral support programs. Under the Merchant Marine Act of 1936, as amended, construction-differential subsidies (CDS) may be paid to American shipbuilders for the construction of certain ships. CDS can be defined as the difference in costs between having a ship constructed in a foreign shipyard and having the same ship constructed in a U.S. shipyard. Due to the cost differential, subsidization is necessary to place the construction costs of ships built in the United States on a parity with foreign construction costs. The program is intended to encourage the growth and maintenance of both the U.S. merchant marine and the U.S. shipbuilding industry.

In July, 1977, the Administration initiated the Footwear Industry Revitalization Program for a period of three years and with funds on the order of $56 million 14/. A programme of assistance to the steel industry provides for loans on the order of $500 million to finance plant modernization and conversion operations.

A controversial issue was the Domestic International Sales Corporation (DISC), that allowed the deferral of U.S. income tax on a portion of export earnings.

The EEC has questioned the legitimacy of DISC and in 1976 a GATT panel found DISC to be inconsistent with the rules of GATT 15/. In 1981 the GATT Council adopted a qualifier that recognized the legitimacy of territorial systems of taxation, exonerating--

in the view of the U.S. Government-- DISC. The Twenty-Sixth Report of the President of the United States on the Trade Agreements Program 1981-82, futher observes that: "However, the EC and other countries insisted that DISC was not consistent with the GATT regulations on export subsidies. Since DISC had become a highly contentious issue and threatened to slow progress on other important trade problems, the United States announced at the October GATT Council meeting that the U.S. Government would propose amending the DISC legislation to bring it into conformity with GATT; and the Department of the Treasury was preparing an analysis of various proposals for changing DISC to serve as the basis for a Cabinet selection of the eventual proposal to Congress" 16/.

In 1984, the Congress created the Foreign Sales Corporation (FSCA) to replace the DISC in granting tax incentives to exporters. Under the new regulations export sales must be made through a foreign sales corporation incorporated outside U.S. customs territory. In the opinion of EC authorities, FSCA may be continuing to grant export subsidies in violation of the GATT rules. In GATT, the representative of the European Communities mentioned that FCSA had forgiven taxes which had been deferred under DISC. 17/

Services

The liberalization of international trade in services and the establishment of internationally agreed upon codes has been given priority in U.S. trade policy.

There are various reasons for this. The United States relies increasingly on its highly efficient service industry to offset the deficits in its merchandise trade. Due to the domestic recession, exports became relatively more important for the maintenance of the U.S. service industry growth. The export of services also has a significant impact on merchandise trade because of follow-up exports, principally of capital goods and equipment. The U.S. service industry feels it has been facing increasing restrictions on its international operations with respect to both exports and the establishment of affiliates abroad 18/.

The Trade Act of 1974 is aimed at reducing barriers to international trade, and included the service sector in the mandate given to the President to initiate multilateral trade negotiations. The Act also extended the President's power to retaliate against foreign unfair trade practices (Section 301) in the service sector.

Other manifestations of the growing attention to the service sector were the elaboration in 1976 of a comprehensive study by an interagency group chaired by the Department of Commerce and two studies funded by the Office of the USTR 19/.

The Office of the USTR also prepared, with the support of

the private sector, a computerized list of rules and regulations that affect international service trade as well as position papers on particular service industries.

Several governmental and private sector committees were established relating to international service trade, including the Services Policy Advisory Group (SPAC), coordinated by the Office of the USTR, a Commerce Department Committee and the Service Industry Committee of the U.S. Chamber of Commerce.

In April, 1981, the Reagan Administration launched a five point program for the service industry calling for: 20/

- full use of existing bilateral arrangements with other governments to resolve current trade problems brought to the government's attention by the private sector;
- inclusion of services in the review of export disincentives; 21/
- domestic and international preparations for future multilateral negotiations on services;
- review of domestic legislative provisions relating to the achievement of reciprocity for U.S. service industries; 22/
- review of the adequacy of U.S. statistics on trade in services

Internationally, the U.S. policy towards services aims at (1) establishing a political commitment for improving international cooperation on trade in services (at first in the OECD and later in the GATT ministerial meeting in November, 1982), (2) resisting new barriers and solving current problems; and (3) developing rules for trade in services 23/.

In the GATT ministerial meeting in November, 1982, contracting parties were invited to conduct, to the extent possible, a national examination of their service industries.

The Trade and Tariff Act of 1984 strengthened the place of services in the negotiation and retaliation authority of the administration.

d) The conflict between free trade and protectionism

Demands for protection have increased since the seventies in almost all OECD countries. As tariffs have been reduced significantly, these demands have been principally of a non-tariff nature. The "new protectionism" consists basically of non-tariff restrictions, such as quotas, fiscal and financial assistance to domestic industries, and attempts to organize international trade on the basis of agreements such as "Voluntary" Restraint Agreements (VRAs) and Orderly Marketing Agreements (OMAs). Countervailing and antidumping actions, although, in principle, intended to correct distortions caused by "unfair" trade practices, often have been initiated with

protectionist purposes.

The macroeconomic costs of protectionism are very high. Protectionism affects consumers because of its inflationary impact, by reducing real income and by limiting the consumer's choices 24/.

Restricting imports in one industry hurts other industries. For example, steel prices above world market levels raise the price of automobiles and other steel-using industries, which become less competitive on the world market.

Macroeconomic efficiency is affected by allowing less productive sectors to retain employment and absorb resources that otherwise could be employed in more efficient activities. Export sectors are affected because protectionism tends to attract retaliation and because foreign countries, whose exports are restrained, reduce their external purchases, especially if these are developing countries whose import capacity is closely related to export earnings.

Attempts to organize international trade on the basis of market participation agreements stimulate the formation of international cartels, discourage efforts to increase productivity and tend to freeze existing patterns of production and trade.

Government assistance to import sensitive sectors can be justified, in principle, if it is temporary and permits a more harmonious adaptation to changing comparative advantages. However, the impact is often to increase production capacity without correcting the inefficiency of beneficiary sectors. Under these circumstances these sectors tend to request continuous and increasing protection.

In spite of the clear macroeconomic costs of protectionism and the commitment to free trade of the governments of all industrialized countries, protectionist demands often result in effective trade restrictions. This has been explained by several factors. While the benefits of free trade are dispersed among many sectors and persons, adjustment costs to imports tend to be concentrated in a few sectors, regions and/or occupational groups. It is easier to identify industries that will be affected by increased imports than to indicate which sectors will benefit from free trade. The costs of free trade are felt immediately, and by specific groups, and tend to receive more attention from politicans than its long term benefits. Although imports may not be the main source of damage to particular industries, they constitute a factor which can easily be identified and it is politically attractive to blame imports for the damage.

The conflict between free trade and protectionism was reflected in the trade acts enacted in the seventies. The Annex gives some background information on the legislative history and processes.

A N N E X

The U.S. Trade Agreements Program

Two comprehensive trade acts were enacted in the seventies. The Trade Act of 1974 paved the way for the U.S. Administration to enter into the Tokyo Round of multilateral trade negotiations (MTN) in February, 1975, by authorizing the President to negotiate multilateral trade agreements. The MTN agreements were authorized and incorporated into U.S. law by the Trade Agreements Act of 1979. In late 1984, Congress passed the Trade and Tariff Act of 1984.

The Trade Act of 1974

The Trade Act of 1974 renewed (for a period of five years) the authority of the President to negotiate international trade agreements (granted by the Trade Expansion Act of 1962) and extended that authority to the nontariff area. A main purpose of the Act was to contribute to the reduction or elimination of tariff and nontariff barriers in the international trading system. Domestic resistance to U.S. concessions in MTN was relaxed by improving adjustment assistance programs 25/. Other provisions were intended to protect U.S. industry and labor against foreign competition.

Section 201 relaxed the criteria for the granting of import relief to industries which suffered injury from increased imports 26/. Section 301 granted retaliatory powers to the President of the United States, by authorizing actions against "unjustifiable or unreasonable" import and tariff restrictions imposed by foreign countries on U.S. goods and services and on U.S. access to supplies. The retaliatory powers included actions against dumping, subsidies and other "unfair trade practices".

The countervailing duty provisions were extended to include duty-free articles (but only when injury can be demonstrated). Time limits were imposed upon the determination of the Treasury Department and U.S. producers obtained the right to judicial review of negative determinations.

The President was authorized to administer the U.S. GSP program which grants duty-free treatment to eligible articles imported from beneficiary developing countries. To protect U.S. industry and labour, special categories of import-sensitive articles were excluded from designation as GSP-articles, and competitive need limits were designed (see Chapter IV,Section c). Institutional changes were:

- the change in name fromthe U.S. Tariff Commission to the U.S. International Trade Commission composed of six members, each serving one nine-year term, with increased advisory duties;

- the establishment of an overall Advisory Committee for Trade Negotiations and general policy advisory committees for industry, labor and agriculture;
- the establishment of the Office of the Special Trade Representative within the Executive Office of the President, and the raise of the trade negotiator's rank to cabinet level.

The Trade Agreements Act of 1979

The trade agreements negotiated by the United States in MTN, under the Trade Act of 1974, were approved and implemented by the Trade Agreements Act of 1979, which authorized a number of changes in U.S. trade laws.

The Act incorporated into U.S. law the MTN agreements on countervailing and antidumping duties, customs valuation, government procurement, product standards, civil aircraft, agricultural agreements on meat and dairy products as well as on liquor duties.

The Act became effective on June 19, 1979. The principal provisions of the Trade Agreements Act of 1979 are as follows:

- The Act required a demonstration of injury for the imposition of countervailing duties (except for dutiable imports from nonagreement countries), allowed the administering agency (currently the Department of Commerce) to self-initiate investigations, set new procedures to shorten investigations, and allowed suspension of the investigations with undertakings between interested parties. (Title I - Countervailing and Antidumping Duties).

- The Act simplified the process of assessing duties and repealed the American Selling Price (ASP) system of valuation (which based duties for some chemicals and rubber footwear on the price of comparable domestic products). ASP rates of duty were converted into tariffs. (Title II - Customs Valuations).

- The Act gave the President the authority, beginning January 1, 1981, to waive the application of discriminatory government procurement laws such as the Buy American Act for purchases covered by the agreement. The Government procurement laws used to give domestic bidders on government contracts a 6 percent price preference over foreign bidders, 12 percent for small business or labor surplus areas, and 50 percent for Defense Department procurement. (Title III - Government Procurement) 27/.

- The Act implemented tariff concessions that exceeded the authority granted to the President by the 1974 Trade Act and made other technical changes in U.S. tariff schedules. It allowed the President to give the least-developed countries full tariff reductions (instead of phased reductions stretching over eight years) on nonimport-sensitive products. (Title V - Tariff

Negotiations).

- The Trade Agreements Act authorized the President to take action against unreasonable foreign trade practices under the current agreements and open consultation with the foreign country involved. If the dispute could not be resolved through bilateral consultations, then the Trade Representative could request proceedings under the international dispute settlement procedures of GATT; time limits were set for the USTR recommendation to the President (12 months). (Title IX - Enforcement).

The Trade and Tariff Act of 1984 28/

The Trade and Tariff Act of 1984 addresses the priority items of the trade policy of the Reagan Administration, such as the renewal of the GSP, authority to negotiate a free trade area with Israel, and the strengthening of services, high technology goods and trade related investment in both negotiation and retaliation authorities of the President.

The principal provisions of the Act are:

- The renewal until July 4, 1993 of the U.S. GSP program, which was due to expire in January of 1985. The renewal act includes elements of negotiability by providing narrower competitive need limits for specific countries and articles considered to be "competitive", but at the same time allowing the President to waive, under quantitative rerstrictions, these competitive need limits, considering among other factors the access that the United States is granted to the home market of the beneficiary country in question. (Title V).

- The act provides ample negotiation authority to the President and strengthens his retaliatory authority. The Act grants authority to the administration to conclude the negotiations for a free trade area with Israel and to negotiate tariff agreements with other countries. The act strengthens the place of services, high technology goods and trade related investment in both the negotiation and retaliatory authority of the administration. (Title III: The International Trade and investment Act). The Act also requires USTR to prepare annual reports on foreign barriers to U.S. goods, services and trade related investment.

- The Act provides changes in the laws which grant protection against fair and unfair import competition. Some important provisions are:

i) It modifies the definition of "serious injury" in Escape Clause investigation.

ii) With regard to the antidumping laws, it facilitates self-initiation of investigations in cases of "persistent" dumping (by providing that the Department of Commerce may monitor imports of a product from countries where dumping is suspected, provided that the product has been found to be dumped by two or

more other countries and that the Department of Commerce must self-initiate investigations if sufficient evidence exists).

iii) With regard to anti-subsidy investigations, the law codifies the concept of "upstream subsidization"(subsidies not granted directly to the product under investigation, but to one of its principal components), alredy an existing practice of the Department of Commerce (but not dealt with in the GATT Subsidy Code or the Tariff Act of 1930).

iv) The Act makes suspension agreements subject to a "public interest test".

v) Concerning injury investigations, the Act requires the ITC to "cumulate" the imports from several countries when determining its effects on a U.S. industry . Cumulation used to be a matter of individual discretion of the Commissioners, but the Act makes it mandatory. With regard to small suppliers like Brazil this means that it will be easier to reach affirmative injury findings. It may also encourage petitioners to include a larger number of countries in their complaints.

- The Act enforces the granting of import relief to the steel industry (The Steel Import Stabilization Act). Imports will be limited to a 18.5% share of the domestic market. In return, the steel industry must devote its net cash flow to reinvestment and worker retraining.

- The Act creates a Trade Remedy Assistance Office, located within the ITC, to provide technical assistance to small business in preparing and filing petitions and applications to obtain relief against fair and unfair import competition.

U.S. import restrictions

The principal, overt, nontariff restrictions that can be imposed by the U.S. (on imports from noncentrally planned economies) are antidumping and countervailing duties and a series of quantitative restrictions such as those under import relief programs, including OMAs and VRAs, restraints under the MFA and quotas for agricultural products. Retaliatory actions can be taken under Section 301 of the Trade Act of 1974 ("unfair trade practices"); these actions refer principally to exports of foreign countries to third country markets.

Antidumping and countervailing duties can be imposed when dumped or subsidized imports cause material injury to a U.S. industry (see next sections). Antidumping and countervailing duty actions increased very significantly in recent years, especially against steel imports 29/. In September, 1982, the Department of Commerce was conducting 56 countervailing duty and 25 antidumping cases.

Relief to industries affected by increases in imports--although neither dumped nor subsidized--may be granted under Section 201 of the Trade Act of 1974 30/. ITC is charged with determining whether the imports are in such increased quantities as to be a substantial cause of injury to a domestic industry

31/. ITC may recommend one or more of the following measures to the President of the United States: (1) imposing or increasing a duty on the imported article by as much as 50 percent of the existing rate; (2) proclaiming a tariff-rate quota; (3) imposing or modifying a quantitive restriction on the import of the article; (4) negotiating an orderly marketing agreement.

The President has to consider the national economic interest and he can reject the ITC recommendation. However if he does so, Congress may override the President by a simple majority vote and enforce the measures recommended by ITC.

The import relief measures which received much attention are the OMAs negotiated with Korea and Taiwan, limiting the exports of nonrubber footwear (1977) and color television receivers and subassemblies (1978) 32/. In 1983 import relief measures were issued against imports of specialty steels (Section V.d.). In late 1984, the steel industry was granted relief under the Steel Import Stabilization Act.

Imports of textiles and apparel can be restrained under bilateral agreements in the framework of the MFA. In the United States, textile agreements are authorized by Section 204 of the Agricultural Act of 1956, as amended. The MFA has been effective in restricting U.S. textile and apparel imports 33/.

Under Section 22 of the Agricultural Act of 1933, as amended, imports of certain agricultural commodities are restricted by quotas or fees to prevent interference with price support programs operated by the U.S. Department of Agriculture. Import restrictions are in force on cotton and certain cotton products, peanuts, certain dairy products and sugar.

Under Section 204 of the Agricultural Act of 1956, the President of the U.S. is authorized to negotiate agreements with foreign governments limiting exports to the United States of agricultural commodities and manufactured products as well as textiles.

Section 337 of the Tariff Act of 1930 declares as unlawful any unfair method of competition and unfair acts in the importation of articles into the United States, the effect of which is to injure a domestic industry. Until recently, Section 337 had been used almost exclusively against the importation of articles allegedly infringing upon U.S. patents. As a result of frustration with the administration of the antidumping laws, however, American industry began to turn to Section 337 for relief in price-discrimination cases 34/.

Under Section 301 of the Trade Agreement Act of 1974, as amended, the President of the U.S. is "required to take all appropiate action, including retaliation, to obtain the removal of any act, policy or practice of a foreign government which violates an international agreement or is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S.

commerce." The Trade and Tariff Act of 1984 clarifies that services, high technology goods and trade related investment are fully covered by the provisions of Section 301.

Section 301 investigations are administered by USTR with the advice of an interagency committee.

Petitions under Section 301 against GATT member countries normally allege that foreign governments provide subsidies which are inconsistent with their obligations under the GATT subsidy code. Often these subsidies are alleged to be granted on exports to third country markets. If disputes cannot be solved bilaterally, they can be presented to GATT within the framework of the formal dispute settlement procedures.

History of countervailing duty and antidumping laws

The Antidumping Act of 1921 was defended with the argument that U.S. industry--principally the chemical industry--needed protection against German cartels 35/. U.S. antidumping laws were modified several times, but these modifications referred to particular problems such as the computation of the comparable ex factory value of merchandise subject to investigation in the home market of the exporting country and procedural questions. The substantive provisions of the original statute have remained largely intact 36/.

In 1954, under the Customs Simplification Act, the authority to determine whether or not a U.S. industry was injured by dumping was transferred from the Secretary of the Treasury to the Tariff Commission.

The Trade Act of 1974 set time limits, introduced procedural modifications, and established the right of U.S. industry to judicial review of certain negative determinations. The Trade Agreements Act of 1979 narrowed some time limits and introduced futher procedural modifications.

The first countervailing duty statute was established as part of the Tariff Act of 1890 to protect sugar producers from subsidized imports. The first general countervailing duty law was created by the Tariff Act of 1897. The Secretary of the Treasury was authorized to impose countervailing duties equal to net subsidies granted by foreign governments on export of dutiable articles. This provision did not apply to duty-free articles which were considered as noncompetitive with domestic production. The coverage of the countervailing duty laws was increased in 1913 and 1922 and subsidies on production and subsidies granted by the private sector also became countervailable. Section 303 of the Tariff Act of 1930 authorized the Secretary of the Treasury to estimate the net amount of subsidies received on articles imported into the U.S.. The Tariff Act was not amended until the enactment of the Trade Act of 1974. All this time, no injury demonstration was required and the affirmation of subsidization was the only requirement for the

imposition of countervailing duties. For this reason, U.S. legislation became conflictive with GATT provisions when this body was created in 1947. Because the U.S. legislation on countervailing duties was enacted prior to the creation of GATT, the U.S. was free from the obligation to institute an injury investigation, under the "grandfather clause". The Trade Act was a compromise between the efforts of the Treasury Department to bring countervailing duty provisions in line with GATT and pressure to guarantee the protection of U.S. industy and labor against subsidized imports. The principal points introduced by the Trade Act of 1974 are:

- the extension of the coverage of countervailing duty proceedings to duty-free articles, but only if injury was demonstrated by ITC;
- the imposition of time limits upon the subsidy investigations carried out by the Treasury Department;
- the establishment of the right to judicial review of negative countervailing duty determinations;
- the Secretary of the Treasury was authorized (subject to a veto of a majority of either the House of Representatives or the Senate) to waive the imposition of countervailing duties during a four-year period beginning on January 3, 1975 if the exporting country had taken adequate steps to reduce the subsidies or to eliminate its adverse impact on U.S. industry, or if the imposition of countervailing duties would hamper the succesful conclusion of international trade agreements 37/.

The Trade Agreements Act of 1979 incorporated the principal elements of the GATT subsidy code, agreed to in MTN, into U.S. countervailing duty provisions. An affirmative injury determination became a precondition for the imosition of countervailing duties. However, the U.S. limited the right to injury investigations to "countries under the agreement" 38/. With respect to "agreement countries" an injury determination is thus required whether or not the merchandise is dutiable. With respect to other countries an injury investigation takes place only in the case of duty-free merchandise.

Agencies charged with responsiilities for antidumping and countervailing duties

Effective January 2, 1980, the Secretary of Commerce established the International Trade Administration (ITA). The Trade Administration (TA) unit is charged with the administration of antidumping and countervailing duty laws, among other responsibilities, 39/. Several offices, which operate under the Deputy Assistant Secretary for Import Administration, conduct investigations and implement policies:

- the Office of Investigations carries out investigations on subsidies and exports at less-than-fair value. The office is divided into several divisions according to

geographical areas;

- the Office of Policy has responsibility for the development of a coherent and consistent interpretation of the applicable laws.
- the Office of Compliance is responsible for computing the correct amount of the duty 40/.

The International Trade Comission (ITC) is required to determine whether an industry in the United States is materially injured, threatened with material injury, or the establishment of an industry in the United States is materially retarded by reason of imports of merchandise for which subsidies are (alleged to be) paid 41/ and which enter into the United States at less than fair value (collectively, material injury). Material injury is defined as "harm which is not inconsequential, immaterial or unimportant" 42/.

Dumping and subsidy investigations

Both dumping and subsidization permit exports at lower prices than those prevailing in the domestic market of the exporting country. (At a comparable level, normally the ex factory price is considered). In the case of subsidies, lower export prices are possible because benefits are granted on export, normally by the government, which are not available for domestic market operations. In the case of dumping, a lower export price is the result of the price policy of individual firms, which establish different prices--at a comparable level--for different markets. Often dumping involves prices which are insufficient to cover the long-term production costs.

U.S. trade legislation does not provide a clear definition of subsidies. However, Section 771(5) of the Trade Agreements Act of 1979 provides an illustrative list of countervailable export and domestic subsidies 43/.

Dumping is referred to as sales of foreign merchandise at "less than its fair value". Generally this implies that the ex factory value of merchandise exported to the United States is lower than the comparable ex factory price of the merchandise at the home market of the exporter.

The content of injury investigations in antidumping and countervailing duty cases

The main issues in injury investigations in antidumping and countervailing duty cases are:

i) the definition of U.S. industry

U.S. industry is defined as "the domestic producers of a like product, or those producers whose collective output of the like product constitutes a major proportion of the total domestic producers of that product " 44/. U.S. industry refers to all industries located within the customs territory of the U.S.,

including foreign-owned industries. However, industries which are related to importers or exporters of the product subject to investigation may be excluded from the U.S. industry definition. In certain cases, U.S. industry can be divided into two or more regional industries. "Like product" is defined as "a product which is like, or in the absence of like, most similar in characteristics and uses with the article subject to investigation". The like product is normally defined as the narrowest range of products for which separate data (on production, profits, etc.) can be made available. A more specific definition of like product, e.g., on the basis of characteristics, use or quality, tends to increase the probability of an affirmative injury determination, because imports are related to a smaller market segment and will have a stronger impact on the corresponding U.S. industry.

ii) material injury

The principal factors which ITC must consider in making its determination on whether material injury has ocurred are the volume of imports of the merchandise under investigation, their impact on price, and the consequent impact of the imports on the domestic industry.

- The increase of the volume of imports of the merchandise subject to investigation is estimated both in absolute terms and in relation to U.S. apparent consumption, U.S. production, etc..

- Low-priced imports are considered to have affected domestic prices if they contribute to a decline in U.S. market prices (underpricing or underselling) or have impeded price increases that could be considered normal, e.g., because of an increase in the costs to the domestic industry for labour, energy and/or other imputs (price suppression).

- Maybe the most important question in injury determination is whether U.S. industry has lost sales to low priced imports. This part of the investigation normally is carried out by verification of lost sales allegations with purchasers of the merchandise in question, and special attention is paid to determine if the foreign price has been a major consideration in substituting low-priced imports for U.S. products.

- The impact of imports on U.S. industry is analyzed on the basis of an evaluation of all economic factors relevant to the state of the industry,especially (1) actual and potential decline in output, sales, market share, profits, productivity, return on investment, and utilization of capacity, (2) factors affecting domestic prices and (3) actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital, and investment (Section 771(7)(c)(iii).

iii) the threat of material injury

If no material injury has occurred an affirmative injury determination can be issued on the basis of the existence of a threat of material injury.

Until recently, U.S. countervailing duty laws did not

provide clear guidelines about the factors to be considered to determining whether a threat of injury exists. ITC normally makes its threat determinations on the basis of trend indicators, such as the rate of increase of the subsided exports to the United States, the capacity of the exporting country to generate exports, and the likelihood that such exports will be directed to the U.S. market. The Trade and Tariff Act of 1984 includes several new indicators which must be analized when determining the threat of injury, which will make it easier for ITC to find that such injury exists. 45/

Table II.1

UNITED STATES: INDICATORS OF FOREIGN TRADE

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
	Billions of U.S. dollars													
1. Merch. trade balance	2.60	-2.27	-6.42	0.91	-5.37	9.08	-9.49	-31.10	-33.98	-27.56	-25.53	-28.05	-36.39	-60.55
exports FOB	42.47	43.31	49.38	71.41	98.31	107.12	117.74	120.81	142.05	184.47	224.24	237.03	211.21	200.21
imports FOB	39.87	45.58	55.80	70.50	103.68	98.04	124.23	151.91	176.03	212.03	249.77	265.08	247.60	260.76
imports CIF	42.43	48.34	58.86	73.58	108.00	103.39	132.50	160.41	186.05	222.23	256.98	273.35	254.88	269.88
crude petroleum	1.28	1.70	2.38	4.24	15.34	19.75	27.46	35.87	34.26	49.02	64.63	64.32	47.45	39.51
other	41.15	46.64	56.48	69.34	92.66	83.64	105.04	124.54	151.79	173.21	192.35	209.03	207.43	230.37
transfers, net	2.12	3.68	3.51	8.84	12.94	12.65	18.06	20.78	23.22	31.81	32.54	39.28	32.89	27.89
3. Current balance	2.33	-1.43	-5.80	7.14	4.86	18.28	4.38	-14.49	-15.49	-0.95	0.48	4.64	-11.20	-40.84
	As a percentage of GNP													
4. Exports (1a)	4.3	4.1	4.2	1.5	7.0	6.9	6.9	6.3	6.6	7.6	8.0	8.0	6.9	6.0
Imports (1b)	4.1	4.3	4.8	5.4	7.3	6.3	7.2	7.9	8.1	8.8	9.5	9.0	8.1	7.9
5. Current balance (3)	0.2	-0.1	-0.5	0.5	0.3	1.2	0.3	-0.8	-0.7	0.0	0.0	0.2	-0.4	-1.2
	Indexes (1980 = 100)													
6. Volume of exports	50.8	50.2	55.0	67.9	74.0	72.4	74.9	75.2	84.2	93.7	100.0	96.9	86.6	80.8
Volume of imports	64.2	69.8	79.2	84.1	80.3	72.0	88.0	97.5	107.4	107.6	100.0	102.5	97.4	107.2
7. Unit value of exports	38.3	39.5	40.7	47.5	60.3	67.4	69.9	72.4	77.4	88.1	100.0	109.2	110.4	112.1
Unit value of imports	25.7	27.0	29.0	34.2	51.3	55.5	57.2	62.0	66.9	79.9	100.0	105.5	103.8	99.8
Terms of trade	149.0	146.3	140.3	138.9	117.5	121.4	122.2	116.8	115.7	110.3	100.0	103.5	106.4	112.3
8. GNP	982.4	1063.4	1171.1	1306.6	1413.2	1549.2	1718.0	1918.3	2163.9	2417.8	2631.7	2954.1	3073.0	3310.5

Source: ECLAC on the basis of: IMF International Financial Statistics, except for current balance 1970-1976 (data provided by OECD)

Table II.2

UNITED STATES, OTHER MAJOR INDUSTRIAL COUNTRIES AND MIDDLE-INCOME COUNTRIES

SELECTED ECONOMIC INDICATORS

	average annual growth rates in 1970-1980 (%)					percentage of GDP (1980)			basic indicators (1980)			share of world merchandise exports	
	merchandise exports		production		gross domestic investment	export of goods and non-factor services	gross domestic savings	gross domestic investment	GDP (millions of dollars)	Population (millions) mid-year	GNP per capita (dollars)		
	1960-70	1970-80	GDP	manufact.								1970	1980
Industrial market economies 1/	8.5	5.8	3.2	3.2	1.6	20	22	23		714.4	10320	69.0	60.5
Largest seven 1/	10.0	6.7	3.3	3.2	1.9					595.6		51.8	45.6
United States	6.0	6.9	3.0	2.9	1.6	10	17	18	2587.1	227.7	11360	13.6	10.9
Japan	17.2	8.9	5.0	6.4	3.2	14	31	32	1040.0	116.8	9890	6.2	6.5
Germany	10.1	5.8	2.6	2.1	1.6	28	25	25	819.1	60.9	13590	10.9	9.7
France	8.2	6.8	3.5	3.6	1.9	22	21	23	651.9	53.5	11730	5.7	5.6
United Kingdom	4.8	7.5	1.9	0.1	0.0	28	19	16	522.9	55.9	7920	6.1	5.8
Italy	13.6	6.7	3.0	3.8	0.5	25	22	25	394.0	56.9	6480	4.2	3.9
Canada	10.0	4.4	3.9	3.6	4.2	29	24	22	253.4	23.9	10130	5.1	3.2
Middle-income economies 1/	5.4	3.9	5.6	6.4	7.8	25	25	20		1138.0	1400	19.5	19.5
Latin american and Asian NIC's 1/	10.4	12.4	7.2	8.9	8.8					260.7		3.5	6.3
Brazil	5.1	7.5	8.4	10.3	9.7	9	20	22	237.9	118.7	2050	0.9	1.3
Mexico	2.8	13.4	5.2	5.9	7.4	14	26	28	166.7	69.8	2090	0.4	1.0
Argentina	3.4	9.3	2.2	1.0	2.9	..	..	..	130.9	27.7	2390	0.6	0.5
Korea, Rep. of	34.1	23.0	9.5	16.6	13.4	37	23	31	58.2	38.2	1520	0.3	1.1
Hong Kong	12.7	9.4	9.3	9.3	12.7	111	24	29	20.2	5.1	4240	0.8	1.1
Singapore	4.2	12.0	8.5	9.6	6.7	..	30	43	10.5	1.2	4430	0.5	1.2

Source: World Bank, World Development Report 1982, and UNCTAD Handbook of International Trade and Development Statistics.

1/ mean

TABLE II.3

MAJOR OECD COUNTRIES: COMPETITIVE POSITIONS

	average annual growth rates				index of manufacturing unit labour costs (1970=100)				index of export prices of manufactures (1970=100)			
	hourly earnings in manufacuring		unit labour costs in manufacturing		in local currency		in a common currency		in local currency		in a common currency	
	1962 to 1971	1972 to 1981	1962 to 1971	1971 to 1982	1980	1983	1980	1983	1980	1983	1980	1983
United States	4.8	8.5	1.8	7.5	180	214	66	82	233	281	85	111
Japan	13.2	11.8	3.2	5.6	208	266	82	95	233	260	81	79
Germany	8.3	7.2	3.6	5.2	174	194	136	122	169	177	101	99
France	9.0	14.8	3.0	10.4	240	341	100	99	231	324	100	93
United Kingdom	8.1	15.9	4.3	15.9	170	184	118	108	160	185	108	101
Italy	10.2	22.6	5.5	16.0	381	602	94	99	408	631	100	99
Canada	6.5	11.2	2.0	8.4	398	476	114	124	366	420	125	106

Source: OECD. Economic Outlook. Paris, No. 33, July 1983.

Table II.4

UNITED STATES, 1981: IMPORTS FROM SELECTED COUNTRIES BY SITC-COMMODITY GROUPS

(U.S.$ millions)

SITC-code		world	developed market economies	centrally planned economies	developing countries	major (non-OECD) newly industrializing countries								relative import share (%)		
						Total	Brazil	Mexico	Argentina	Hong-Kong	Korea	Singapore	Other Asian	developing countries	major NIC's	Brazil
	All commodities	273352.2	148404.5	3764.9	121179.8	42136.9	4851.6	14013.3	1214.5	5757.2	5474.1	2194.9	8631.3	44.3	15.4	1.8
0	Food and live animals	16517.6	5564.9	306.9	10645.8	4331.5	2123.8	1315.9	447.6	69.0	105.8	48.8	220.6	64.5	26.2	12.9
1	Beverages and tobacco	3418.2	2690.3	45.1	2690.3	279.0	92.5	126.9	6.3	1.4	50.4	0.7	0.8	78.7	8.2	2.7
2	Crude materials, excl. fuels	12207.7	7932.6	414.4	3860.6	885.3	304.4	394.7	75.3	16.5	10.7	59.3	24.4	31.6	7.3	2.5
3	Minerals, fuels, etc.	84316.8	16022.0	595.9	67698.8	7664.4	301.3	7006.5	212.9		11.5	131.9	0.3	80.3	9.1	0.4
4	Animal and veget. oils and fats	526.6	90.8	2.3	433.5	57.1	48.2	2.0	5.3	0.5	0.9		0.2	82.3	10.8	9.2
5-8	Industrial products	149176.6	110662.1	2367.4	34139.8	27970.9	1858.5	4751.6	397.6	5512.2	5241.4	1863.7	8345.9	22.9	18.8	1.2
	(Industrial prod. excl 67 and 68)	129950.6	95437.3	2015.9	30490.0	26489.8	1444.5	4412.5	357.5	5490.1	4677.1	1849.9	8258.2	23.5	20.4	1.1
5	Chemicals, related prod. nes	9740.5	8486.1	287.9	966.5	694.7	160.7	247.6	122.6	7.2	44.1	4.7	107.8	9.9	7.1	1.6
6	Basic manufactures	39535.4	29780.8	860.0	8894.6	5061.9	685.1	787.6	204.1	439.4	1490.5	60.0	1395.2	22.5	12.8	1.7
65	Textile yarn, fabrics, etc.	3071.9	1425.6	299.3	1347.0	689.4	95.3	71.8	1.3	161.9	169.6	20.0	169.5	43.8	22.4	3.1
67	Iron and steel	12146.8	10609.2	213.7	1323.9	1086.3	380.0	44.1	35.2		540.7	2.9	83.4	10.9	8.9	3.1
671	Pig iron, etc.	912.9	613.8	6.5	292.6	125.7	105.3	19.5	0.9					32.1	13.8	11.5
672	Iron, steel primary forms	396.1	382.8	0.1	13.2	10.9	4.8				6.1			3.3	2.8	1.2
	Other	10837.8	9612.6	207.1	1018.1	949.7	269.9	24.6	34.3		534.6	2.9	83.4	9.4	8.8	2.5
674	univ. plates, sheet	3119.1	2703.3	140.2	275.6	267.2	135.6	0.4			128.9		2.3	8.8	8.6	4.3
678	pipes and tubes	5197.3	4490.3	58.3	648.7	608.0	95.1	20.8	23.4		387.6	2.8	78.3	12.5	11.7	1.8
68	Non-ferrous metals	7079.2	4615.6	137.8	2325.9	394.8	34.0	295.0	4.9	22.1	23.6	10.9	4.3	32.9	5.6	0.5
667.3	Precious, semi-precious stones	410.0	129.8	0.5	279.7	97.5	45.7	0.9		48.1	0.3	1.4	1.1	68.2	23.8	11.1
	Other	16827.5	13000.6	208.7	3618.1	2793.9	130.1	375.8	162.7	207.3	756.3	24.8	1136.9	21.5	16.6	0.8
7	Machines, transport equipment	72469.8	60547.3	306.8	11615.7	9555.3	540.9	2565.1	38.0	1308.4	1083.6	1492.1	2527.2	16.0	13.2	0.7
713	Internal combus. piston engines	2341.1	2095.6	3.3	242.2	240.1	125.7	101.3	3.2	0.7	0.6	2.8	5.8	10.3	10.3	5.4
761	Television receivers	816.3	312.2		504.1	503.4				1.0	194.5	29.4	278.7	61.8	61.7	
762.1	Motor vehicle radio receivers	650.3	472.3		177.9	177.8	62.2	11.8		8.3	58.3	26.4	10.8	27.4	27.3	9.6
763	Sound recorders, phonograph	2140.3	1889.3	0.2	250.8	248.7	9.3	21.1		24.4	57.9	43.6	92.4	11.7	11.6	0.4
764	Telecom eqpt, pts, acc nes	4096.0	2302.1	0.7	1793.2	1707.3	0.4	768.8	0.2	47.2	125.3	256.1	509.3	43.8	41.7	0.0
776.4	Electronic microcircuits	3040.6	514.7		2625.8	1028.9	13.6	64.0		52.4	203.8	588.9	106.2	86.4	33.8	0.4
778.3	Automotive electr. equipment	289.2	235.8		53.3	46.8	27.3	2.7	0.1	9.4	0.4	2.5	4.4	18.4	16.2	9.4
784	Motor vehicle parts	4419.8	4016.6	36.3	366.9	347.1	109.5	206.0	0.5	0.7	5.6	2.4	22.4	8.3	7.9	2.5
792	Aircraft, etc.	2827.5	2685.7	1.5	140.2	129.8	55.6	48.7	1.5	0.3		22.3	1.4	5.0	4.6	2.0
	Other	51848.7	46023.0	264.8	5461.3	5125.4	137.3	1340.7	32.5	1164.0	437.4	517.7	1495.8	10.5	9.9	0.3
8	Misc. manufactured goods	27430.9	11847.8	912.7	14670.4	12658.6	471.8	1151.4	32.9	3757.1	2623.0	306.9	4315.5	53.5	46.1	1.7
84	Clothing and accessories	8118.0	862.6	558.9	6696.5	5359.3	19.7	247.0	10.9	2027.3	1412.3	161.6	1480.5	82.5	66.0	0.2
851	Footwear	3214.6	1005.5	112.1	2097.0	2000.1	394.3	66.0	0.8	74.0	573.0	8.2	883.8	65.2	62.2	12.3
885	Watches and clocks	1307.1	738.2	3.3	565.6	525.4	0.5	23.9		334.5	37.8	37.0	91.7	43.3	40.2	0.0
894	Toys, sporting goods, etc	2292.2	701.0	10.7	1580.5	1473.7	4.7	50.0		585.5	207.6	23.5	602.4	69.0	64.3	0.2
	Other	12499.0	8540.5	227.7	3730.8	3300.1	52.6	764.5	21.2	735.8	392.3	76.6	1257.1	29.8	26.4	0.4
9	Goods not classified by kind	7188.7	5441.8	32.9	1711.0	948.7	122.9	415.7	69.5	157.6	53.4	90.5	39.1	23.8	13.2	1.7

Source: United Nations, Commodity Trade Statistics, 1981, United States of America-Puerto Rico, Statistical Papers Series D Vol. XXXI, No. 1-8

Table II.5

UNITED STATES, PRINCIPAL SURPLUS AND DEFICIT SECTORS IN THE CURRENT ACCOUNT BALANCE

($ billions)

	1970	1980
surplus sectors		
Agriculture	1.6	24.3
Crude materials and fuels, except petroleum	2.4	14.6
High technology manufactures	11.7	52.4
Services, included investment earnings	3.0	36.1
deficit sectors		
Petroleum	2.3	75.8
Low technology manufactures	8.3	34.8
Consumer goods	4.7	18.3
Automotive products	2.3	11.2

Source: U.S. Department of Commerce, Overseas Business Report, National Science Foundation.
In: Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program. Washington, November 1982

Table II.6

UNITED STATES: CURRENT ACCOUNT BALANCE

($ billions)

	1976	1977	1978	1979	1980	1981
Current account balance	4.384	-14.110	-14.075	1.414	1.520	4.471
Merchandise trade balance	-9.306	-30.873	-33.759	-27.346	-25.338	-27.889
Balance of trade in services and total net investment income	18.129	19.852	24.013	35.300	36.112	40.506
Total net investment income	15.975	17.962	21.400	33.463	29.910	33.037
Direct investment earnings	15.889	16.839	21.247	31.973	27.680	24.065
Balance other transactions a/	0.086	1.123	0.153	1.490	2.230	8.972
Other services trade balance b/	2.154	1.890	2.613	1.837	6.202	7.469
Other c/	-4.439	-3.089	-4.329	-7.450	-9.254	-8.146

Source: Twenty-sixth Annual Report of the President of the United States on the Trade Agreements Program 1981-1982. Table 2, page 9.

a/ principally fees and royalties ($6.6 billion surplus in 1981)

b/ includes services like travel, fares and other transportation, banking, construction and engineering

c/ includes U.S. military agencies sales, direct defense expenditures, and unilateral transfers such as foreign aid, U.S. Government pensions, and other official and private transfers and remittances.

Table II.7

REAL EXCHANGE RATE INDEXES OF SELECTED U.S. TRADING PARTNERS a/

(against the dollar)

(base 1980-I = 100)

Period	Brazil b/	Brazil c/	Japan	Canada	France	Germany	Italy	U.K.	Mexico	Korea	Singa-pore
1971	61.6	67.0	125.0	89.3	120.4	130.2	124.3	129.3	103.2	116.2	--
1972	71.3	66.9	111.0	87.0	108.2	120.2	116.2	123.4	103.7	118.6	--
1973	68.5	64.0	91.5	84.3	89.0	100.8	106.0	125.1	95.7	119.7	--
1974	71.7	66.7	91.5	84.6	91.0	105.3	102.7	131.0	95.4	105.0	97.1
1975	74.8	69.8	100.8	88.1	95.7	106.5	105.9	125.7	96.3	110.2	106.8
1976	74.6	71.7	102.2	86.6	106.0	111.9	88.3	140.3	103.5	104.7	111.2
1977	75.1	72.4	97.0	92.5	110.2	107.3	112.9	129.4	114.8	102.6	112.3
1978	74.3	72.9	83.9	97.6	104.2	98.6	107.7	115.9	107.4	98.8	110.6
1979-I	76.6	74.2	84.9	94.8	100.8	92.4	105.1	113.6	102.6	98.0	100.5
1979-II	79.7	77.4	91.5	93.7	104.5	96.7	105.4	110.3	102.8	95.3	99.3
1979-III	80.2	77.7	91.4	96.3	101.9	95.2	101.4	100.3	102.4	90.8	98.1
1979-IV	85.6	85.1	99.6	98.8	101.0	95.7	100.6	105.1	102.8	92.0	94.6
1980-I	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1980-II	94.4	95.0	94.4	102.1	103.4	102.5	102.4	97.3	98.3	96.5	101.1
1980-III	85.1	86.7	90.7	100.3	102.7	102.0	101.2	93.6	94.0	97.9	98.8
1980-IV	78.5	82.3	89.4	101.4	108.8	110.6	107.1	94.1	93.9	100.9	98.0
1981-I	77.2	80.9	91.1	103.4	122.5	122.6	117.9	98.3	92.7	101.8	99.5
1981-II	78.3	82.7	99.5	104.8	134.9	134.5	131.1	109.0	92.4	101.3	104.5
1981-III	81.0	84.0	104.5	104.7	139.8	142.1	136.9	121.4	91.3	100.5	108.0
1981-IV	83.3	85.4	102.4	102.5	134.3	130.2	130.6	118.6	89.9	101.9	107.5
1982-I	82.8	84.2	106.7	103.3	139.7	134.8	134.4	118.7	108.3	104.1	110.6
1982-II	79.5	80.8	110.8	103.9	142.0	134.7	137.1	120.8	127.1	105.9	112.1
1982-III	80.0	79.4	117.5	104.5	155.6	140.7	141.7	124.5	151.0	108.5	115.6
1982-IV	84.9	83.4	118.8	103.3	157.8	142.2	142.1	129.5	144.7	109.3	118.1
1983-I	96.1	98.2	109.5	101.9	149.5	136.7	135.9	137.0	155.1	109.7	115.1
1983-II	106.8	112.6	111.4	100.6	156.0	140.6	141.2	132.4	143.1	113.0	117.6
1983-III	101.8	110.9	114.7	101.0	161.8	150.0	144.4	136.8	141.4	116.8	119.8
1983-IV	98.5	111.3	111.9	101.5	161.0	151.7	149.0	139.2	140.1	118.8	120.3
1984-I	98.4	111.7	110.9	101.8	159.4	152.6	148.7	141.1	--	119.2	120.2

Source: IMF, International Financial Statistics

a/ nominal exchange rate adjusted for relative prices of manufactures

b/ wholesale prices

c/ wholesale prices of manufactures

Notes

1/ U.S. participation in world output declined from 40.3 percent in 1955 to 23.7 percent in 1980 (measured at current prices and exchange rates). In the same period the U.S. share of world merchandise trade declined from 16.5 to 10.9 percent. (The World Bank World Development Report 1982, Table 3.2, p. 22).

2/ A recent study concluded that 80 percent of all new manufacturing jobs created in the late 1970s were linked to exports. See: Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program 1981-82, p. 3.

3/ Both the merchandise trade balance and the U.S. participation in world trade are affected by exchange rate fluctuations and by the relative growth of the U.S. economy in comparison with its major trading partners. The strong deterioration in the merchandise trade balance in 1977 was due to both losses in terms of trade as a consequence of the depreciation of the dollar and the more rapid increase of GDP than in the United States' major trading partners.

4/ This is reflected in relatively low real energy prices in local currency for U.S. industry (nominal energy prices divided by the wholesale price index) and relatively low taxation, by OECD standards. The legitimacy of the then controlled energy prices was disputed by the EEC.

5/ The following factors are believed to have contributed to the secular decline of average productivity growth in the United States in the seventies (although all the reasons are not known): i) Structural shifts in the labour force caused by the arrival of the post-war baby boom on the labour market and the rise in female participation rates, which led to some slowdown in aggregate productivity performance. ii) Increased government regulations concerning industrial safety, health and environmental protection as well as government regulation of specific industries. iii) The reduction of research and development expenditures as well as an apparent shift away from basic research. iv) Slower rates of private investment led to a decline in the growth of the capital/labour ratio. An increasing proportion of new investment went to pollution abatement and re-equipment to deal with the increased prices of energy. v) Sectoral changes, such as the decreased importance of the farm sector, are no longer contributing positively to productivity growth as they did in the first twenty years of the post-war period. See: OECD Economic Survey, United States, November, 1979. pp. 23 and 24.

6/ Twenty-sixth Annual Report of the President of the United States on the Trade Agreements Program, 1981-82. (Table A-12a. p. 155). U.S. direct net foreign investment has traditionally shown annual deficits. However in 1981 and 1982 foreign direct investment in the United States exceeded

U.S. direct investment abroad by more than $10 billion per year. For the financing of their domestic market operations, U.S. companies in 1982 relied heavily on funds raised in the Eurodollar and Eurobond markets by their foreign affiliates. (OECD Economic Outlook 33, page 67).

7/ Ibid, p. 40.

8/ Ibid, p. 20.

9/ Interest rate differentials eased in 1982, which had some effect on the dollar, but other factors contributed to a rebound of the dollar in 1983 and early 1984:

- the prospect that federal budget deficits would remain high for several years in combination with the strength of economic recovery fueled fears of a tightening of monetary policy and a new rise in interest rates;
- the international debt problem and political uncertainty seem to have resulted in substantial capital flight to the United States, especially from Latin America;
- confidence in the U.S. economy grew, fueled by lower oil prices, persistently good inflation results and rising stock prices on Wall Street. (OECD Economic Outlook 33. July 1983, p. 69).

10/ A very important factor is the Federal budget deficit. Deficits are high in almost all OECD countries, but most of them have followed more restrictive fiscal policies than the U.S. For this reason budget deficits in most countries are of a cyclical nature, which means that if economic activity returns to its trend level, increased fiscal revenues and decreased social security payments will bring the budget back into equilibrium. Under the current tax legislation the U.S. deficit, on the contrary, has a significant structural element and is expected to remain high for many years. (See: OECD, OECD Economic Outlook 33, chapter on fiscal and monetary policies).

11/ A cabinet-level official with the rank of ambassador, who is directly responsible to the President and the Congress of the United States.

12/ Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program 1981-82, p. 50.

13/ The OECD Economic Survey, United States (November, 1979), mentions "very low interest rates" for SBA loans (p. 76).

14/ In September 1978, $12 million was granted to 13 manufacturers in loans at preferential rates or with subsidies. 54 firms received technical assistance. OECD, Ibid., p. 77.

15/ Gary Clyde Hufbauer observed that: "The DISC, declared an

export subsidy by GATT, has been defended by the United States under the dubious argument that its total effect does not exceed the degree of stimulus to exports presented by other (for example, European) countries overall tax practices. This argument invites country harmonization to the lowest common denominator of trading practice and ignores the fact that the exchange rate--at least in principle--provides overall balance. At any time Canada and Europe could impose countervailing duties against the DISC, but so far they have preferred to hold the issue in abeyance for leverage against a strong U.S. stand on their own subsidies. DISC is the American Achilles heel in the debate on subsidies". Gary Clyde Hafbauer, "Subsidy Issues after the Tokyo Round," Cline, ed., Trade Policy in the 1980s. This analysis is expanded in: Gary Clyde Hafbauer and Joanna Shelton Erb, Subsidies in International Trade (Washington, Institute for International Economics, 1983).

16/ Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program 1981-82, p. 75.

17/ GATT. Minutes of Meeting on July, 11, 1984. Geneva, 1984. (C/M/180).

18/ There is a close link between U.S. demands for trade liberalization in services and the foreign direct investment issue.

19/ U.S. Service Industries in World Markets: Current Problems and Future. Washington D. C. 1976. "The International Operations of U.S. Service Industries: Current Data Collection and Analyses", Economic Consulting Services, Inc., Washington, June 1981. See also: Evelyn Parrish Lederer, Walther Lederer and Robert L. Sammons, Proposals for International Services Newsletter, Volume 1, Issue 4, January-June, 1981.

20/ International Services Newsletter. Volume 1, Issue 4, January-June, 1981.

21/ Such as the Foreign Corrupt Practices Act and the tax system for U.S. citizens working abroad.

22/ This review would include the consideration of whether retaliation is a useful instrument for the negotiation of the reduction or elimination of barriers affecting international trade in services.

23/ William E. Brock, "A Simple Plan for Negotiating on Trade in Services" (article for the November number of the World Economy, the quarterly journal of the Trade Policy Research Centre, London).

24/ In an article published in the Washington Post in October, 1983, Professor Michael C. Munger of the University of Washington observed that: "voluntary export restraints on coffee cost the

consumers more than $700 million in 1980. Other such restrictions imposed similar costs: beef and pork $1.4 billion, steel $1.7 billion, and footwear $1.6 billion. Moreover, since 1980, the U.S. has extended voluntary export restraints increasing the price of cars, television receivers, textiles, batteries, zinc, dairy products, etc."

25/ For instance, the criteria for workers displaced by imports to qualify for adjustment programs were eased (by requiring that imports "contribute importantly" rather than be the "major cause" of unemployment).

26/ For an industry to become eligible for import relief it was required that increased imports were a substantial cause of serious injury rather than a major cause as in the previous law.

27/ Excluded from the waiver provision were several U.S. agencies, including the Departments of Transportation and Energy, the Tennesse Valley Authority, and the Army Corps of Engineers. Also excluded were purchases under $190,000, state and local government purchases, current preferences for small and minority businesses, strategic goods, and purchases for farm support or human feeding programs such as the U.S. school lunch program.

28/ This section is based largely on: Steve Lande and Craig Vangrasstek. Assessment of the Trade and Tariff Act of 1984, Washington, D.C., Manchester Associates Ltd.,1984.

29/ With respect to steel imports the Trigger Price Mechanism (TPM) was designed as an alternative to individual anti-dumping investigation. The TPM has been suspended since January, 1982. (Section V.b).

30/ For imports from communist countries relief can be granted under Section 406.

31/ Important differences exist between import relief programs and antidumping and countervailing duty actions. Section 201 does not concern itself with dumping or subsidy practices. For import relief programs the national economic interest must be considered, while for the imposition of antidumping or countervailing duties only injury to a particular industry must be demonstrated. The imposition of antidumping and countervailing duties is mandatory and to the full extent of dumping or subsidization, once injury is demonstrated. For import relief the President can reject the ITC determination (although the Congress can override such rejection by a simple majority vote). Finally, the injury requirement of a Section 201 action imposes a tougher standard than in the countervailing duty law. The increased imports must be a substantial cause, that is, an important cause of the injury which is no less than any other single cause, while the injurious effect for purposes of the countervailing duty law needs only to be more than

inconsequential, immaterial, or unimportant.

32/ The measures were terminated at their first expiration data (1981 and 1982 respectively). Effective relief to domestic industry was frustrated by the surge of new suppliers and upgrading of restraint articles.

33/ There are fewer square-yard-equivalents of textile and apparel imports into the United States today than in 1971. The quotas of dominant suppliers were allowed only low average annual growth rates in the 1981 renewal of the MFA. In the new bilateral agreement with Hong Kong, the U.S. allowed annual increases of only 0.5% (two thirds of the items) or 2% (other items). (Martin Wolf, "Managed Trade in Practice: The Implications of the Textile Arrangements", Cline, ed., Trade Policy in the 1980s).

34/ Bryan Greyson, Taxing Unfair Trade Practices, p. 257.

35/ Expert testimony indicated that American prices were the highest in the world and that foreign competitors had no reason to dump. The Antidumping Law was enacted as part of a protectionist program that also included protectionist tariffs. The political momentum facilitated actions against German industry as Germany had been the enemy in war. Bryan Greyson, Taxing Unfair Trade Practices, page 8.

36/ Ibid., p. 9.

37/ The waiver authority was fundamental for the acceptance of the EEC to negotiate an international subsidy code in the framework of the MTN.

38/ "Countries under the agreement" include (1) countries which have signed the agreement; (2) those which have assumed the obligations of the agreement, but cannot sign because they have no diplomatic relations with the United States; and (3) those with which the United States has an unconditional most-favored-nation agreement obligation that runs specifically to countervailing duties.

39/ An important reason for shifting responsibility for subsidy and antidumping investigations from the Treasury Department to the Department of Commerce was that Treasury was perceived as being "soft" on foreigners owing to an excessive concern with international policy. Douglas R. Nelson, "The Political Structure of the New Protectionism". World Bank Staff Working Paper, N. 471, p. 21.

40/ The U.S. Customs Service is charged with the implementation of the decisions by the Commerce Department regarding the amount of antidumping or countervailing duties that must be assessed.

41/ In all cases involving Brazil there was an established

industry in the U.S., and for this reason the question of retardation has not been a relevant issue.

42/ Section 771(7) of the Trade Agreements Act of 1979.

43/ The GATT subsidy code also includes an illustrative list of export subsidies.

44/ Section 771(4)(A) of the Tariff Act of 1930.

45/ See: Lande, Steve and Craig Vangrasstek, "Assessment of the Trade and Tariff Act of 1984", Executive Summary, p. 1.

CHAPTER III

BRAZIL'S TRADE POLICY

a) Recent trends

Import substitution has played an important role in Brazil's industrialization process ever since its early phases. Industrial growth has always faced an important foreign exchange restraint. However, with the exception of the period 1962-67 and the current recession, high industrial growth was achieved because the foreign exchange restraint was alleviated by a net inflow of capital, at first principally through direct investment (particularly from 1956 to 1961) and since the mid sixties principally through foreign loans. An increasing proportion of these loans was provided by private banks at variable interest rates. Although the Brazilian economy started to obtain a more open character in the mid sixties, when trade policy reforms and favorable external conditions facilitated an impressive export growth, in the seventies the country felt obliged in the face of external shocks to reinforce balance-of-payments restrictions and to intensify the orientation toward import substitution. The obligation to service its high foreign debt and the rigid structure of its imports has made the Brazilian economy heavily dependent on its external sector, in spite of the small size of the latter. Due to sharp rises in oil prices and interest rates, the sum of crude oil imports and foreign debt service has exceeded Brazil's export earnings since 1979 (Table I). The balance-of-payments disequilibrium has had great impact on Brazil's trade policy, a main characteristic of which became the existence of strong export incentives simultaneously with severe import restrictions. In 1984 export subsidies were reduced significantly. During 1985 most of them will be eliminated completely.

Until the mid sixties, industrialization through import substitution was carried out mainly by multiple exchange rates, high tariff protection and a severe application of the "Law of National Similars". This protectionist policy implied an anti-export bias, which was reinforced by the absence of exemption from payment of indirect taxes on exports, which were often not granted in order to keep down domestic food prices.

The protection granted to domestic industry permitted high economic growth rates during the phases of "easy" import substitution. However the process became more complicated in later phases when intermediate products and capital goods had to be substituted. The still small domestic market for these goods could not be enlarged sufficiently by exports to achieve economies of scale and there was idle capacity in several sectors. The slow growth of export earnings complicated the industrialization process by increasing restraints on the balance

of payments.

After the stabilization policy of 1964-1967, high economic growth was achieved in the period 1968-1973. At the same time, the Brazilian economy acquired a more open character, partly due to trade policy reforms. On the import side, protection for domestic industry was reduced by lowering import duties and by a less severe application of the "Law of National Similars". Exchange rate markets were unified, but exchange controls were not eliminated. On the export side, the tax system was improved with the elimination of the discrimination against exports by granting exemptions from payment of indirect taxes on exported goods and introducing a "draw-back" system. Genuine export subsidies were introduced, such as the exemption from the corporate profit tax on exports and fiscal credits (the IPI and ICM credit premiums, see below). Preferential financing of working capital for the production of exportable goods was increased. These export subsidies were intended to compensate for the antiexport bias which still existed due to an overvaluation of national currency and the high protection for domestic industry. Although the national currency continued to be overvalued, the exchange-rate policy obtained a more neutral character by the introduction of a crawling-peg system that was aimed to maintain a stable real value of the exchange rate.

In 1974, the Brazilian economy suffered a strong external shock, mainly from the oil crisis. The import bill doubled due to the sharp increase in oil prices and significant increases in both volume and prices of other imports. As a result, the merchandise balance of trade, which had been slightly positive in 1973, showed a large deficit of $4.7 billion in 1974.

The economic authorities tried to correct the balance-of-payments crisis by import controls and export promotion. The current-account deficit was financed by resorting to foreign debt and drawing down international reserves. There was no major devaluation of the cruzeiro or the application of severe demand restraint policies, which most probably would have led to an economic recession. This policy orientation was facilitated by the easy availability of new loans in the international money markets at low or negative real interest rates.

Some important trade policy measures were taken. Many import tariffs were increased, mainly on products considered to be superfluous; quantitive restrictions were imposed, principally on external purchases by the public sector; and the "Law of National Similars" was more severely applied. A compulsory cash deposit on imports was introduced with a maturity of one year, without any accruing of interest or monetary correction. The import substitution policy was also intensified, especially for intermediate inputs (such as pulp and paper, non-ferrous metals, fertilizers, petrochemicals and steel) and capital goods. On the export side, funds designated for export finance were increased and the BEFIEX program (see below) that had been created in 1972 and put into operation in 1973 became much more

important.

The effects of these selective import controls were uneven on different economic sectors. A large number of special policies were employed to provide fiscal incentives to certain imports, thus permitting the authorities to influence the composition of external purchases. This policy was facilitated by the high direct participation of the public sector in total imports. Import controls mainly affected industrial products and more specifically capital goods.

While imports diminished slowly in relation to GDP, the export share remained relatively unchanged. However, manufactured products increased their share in total exports. Since an anti-export bias was inherent in the import controls, export subsidies had to be maintained or increased. The combined effect of large subsidies granted to manufactured exports and the increasing participation of these products in total exports led to a significant rise in subsidies as a proportion of exports. Although the immediate goals--a high growth rate and a rapid diversification of exports--were accomplished, it became clear that the export subsidies had many disadvantages, namely, their high fiscal costs and a lack of rationality. For instance, the fiscal credits per sector were granted in relation to IPI and ICM rates, which in turn were established according to special criteria that did not take into consideration the domestic costs of foreign-exchange earnings. Export subsidies were not granted on the basis of economic criteria such as domestic resource costs. The high level of export subsidies also provoked adverse reactions in importing countries, principally the United States, which in some cases applied countervailing duties to imports of Brazilian products (mainly footwear at this time).

The evolution of the real rate of exchange, weighted by exports of manufactures to Brazil's major trading partners, improved the international competitiveness of manufactured products in the seventies, due to the depreciation of the U.S. dollar against other convertible currencies (Table II). However, the need for significant import controls simultaneously with ample export subsidies, despite which there was a deficit in trade in goods in the period 1979-1980, indicated that there was still an overvaluation of the national currency.

Brazil made a commitment during the Multilateral Trade Negotiations (MTN) to gradually eliminate its principal export subsidy, the fiscal credit. In an attempt to liberalize the economy, in January, 1979, Brazil began a program to phase out the fiscal credit gradually through June, 1983, in combination with faster real exchange-rate adjustments. The policy package of December 1979 included a 30% increase in the cruzeiro value of the US dollar, the total abolition of fiscal credits and the elimination of the prior cash deposit required for imports.

During 1980, Brazil's trade policy went through various modifications. It was decided at the beginning of the year that

the increase in the cruzeiro's value of the US dollar during the year would be only 40%. The main reason for this decision was to stimulate external borrowing by maintaining the cost of loans in foreign currencies below the cost of domestic loans. Since domestic interest rates were controlled and the monetary correction factor, which is the legal basis for debt adjustments, was preestablished for the entire year, the cost of external loans could be kept below that of domestic loans only if the exchange-rate variations were also controlled. Preestablishment of the total exchange-rate variation was also aimed at reducing inflationary expectations.

This exchange-rate policy meant a considerable loss of export profitability during 1980. By the first quarter of 1981 the real exchange rate adjusted for external inflation had almost completely lost the effect of the devaluation of December, 1979. The abolition of fiscal credits thus added to the net loss of competitiveness for exports of manufactured products. To compensate for this loss, more emphasis was put on preferential working capital finance.

The Brazilian economy suffered another external shock in 1979-80 from the new increase in oil prices. Contrary to what had happened after the first oil shock, the industrialized countries pursued deflationary policies this time. Interest rates also increased. The simultaneous stagnation of world trade and the sharp increase in interest rates put heavy pressure on the foreign debt service of Brazil (and other developing countries).

As a consequence of the balance-of-payments difficulties, import controls were further reinforced in 1980, principally by the application of the Financial Operations Tax (IOF) to import-related exchange-rate operations, which meant a 15% surcharge on imports. In spite of fortified import controls and good growth of export earnings, the large deficit in the merchandise trade balance experienced in 1979 was practically maintained during 1980. The deficit on current account reached 12.9 billion dollars and international reserves dropped to a level equal to the value of only three months of imports. This unfavorable development can be explained by a deterioration of the terms of trade 1/ mainly due to a 50% increase in prices of imported oil in 1980, and - principally - by the rise in interest rates in international money markets. The balance-of-payments difficulties can also be partially expained by the high economic growth rate in 1980 and by the stockpiling of imported products. The latter was encouraged by the combined effect of the exchange-rate policy, the controls on domestic interest rates and the fear of tighter import controls in the future.

The unfavorable situation of the external sector at the end of 1980 led to new reforms in economic policy. These reforms marked the beginning of a period of a more austere economic policy and a pronounced reduction of economic growth. The principal policy measure was the liberalization of interest rates, which in combination with a tight monetary policy and

heavy borrowing by the public sector, experienced a substantial increase. This sharp rise in interest rates made it possible to increase the rhythm of the cruzeiro's devaluation without discouraging external borrowing whose cost remained below that of domestic loans. During 1981 the cruzeiro was devalued according to domestic inflation, without adjustments to external inflation. This was believed to be sufficient to gradually recover the profitability of exports lost in 1980. However, because many convertible currencies devalued strongly against the dollar, the effects of the cruzeiro's adjustment were partly or fully annulled.

Exports of manufactured products stagnated in the first quarter of 1981 and fiscal subsidies were reintroduced in April. This policy measure was considered necessary to compensate for the negative effects on exports of the exchange-rate policy in 1980, the devaluation of almost all convertible currencies against the dollar, the economic recession in the industrialized countries, and the devaluation of the Argentine peso. The reintroduction of fiscal incentives provoked protectionist pressures in the United States and, to a lesser degree, in the EEC. In order to avoid increases in outstanding U.S. countervailing duty orders, export taxes were charged on sales of certain products shipped to the United States.

Import restrictions were increased once again. The IOF surcharge was increased from 15 to 25 percent. The major importers (enterprises whose annual imports exceed a value of 100,000 dollars) were obliged to present annual import programs to CACEX. In principle, the import values authorized for 1981 were not to exceed the value of imports realized by the same enterprise in the previous year. The volume of authorized imports was reduced implicitly as a result of price increases.

In 1982, the Brazilian economy continued to suffer from a series of external difficulties, which had a strong impact on its balance of payments. The most striking fact in the first semester of 1982 was the significant absolute fall in export earnings which at year end reached 13.4%. From 1967 through 1981, export earnings had grown at an average annual rate of more than 20 percent. As a result, the surplus in the balance of trade in goods in 1982 was only 775 million dollars, far below the initial 3 billion dollar target.

As in previous years, Brazilian exports were hampered by the economic recession and the consequent strengthening of protectionist pressures in the developed market economies, high interest rates, the continuous high value of the dollar compared to other convertible currencies and, mainly due to these factors, the low levels of commodity prices. However, the decrease in Brazil's exports in 1982 was due mainly to the balance-of-payments difficulties of other developing countries, principally in Latin America and Africa, and to diminished purchases of Brazilian products by the socialist countries. These countries had been the most dynamic markets for Brazil's exports in prior

years. The same external problems facing Brazil were facing other developing countries and they were obliged to take measures restricting their imports, with dramatic effects on Brazil's exports.

The highly unfavorable development of exports in 1982 once again led to a further tightening of import controls in June, and again in September when there was a drastic reduction in the inflow of foreign loans, which caused a severe drop in Brazil's international reserves. The maximum value of allowable imports by the public sector was reduced significantly (from $3.6 billion in 1981 to $3 billion in 1982 and $2 billion in 1983) and the CACEX import programs for major importing firms were made much more restrictive. (Currently, all private and public importers are subject to the CACEX import programs.) The number of products for which no import permits can be obtained was increased substantially and the requirements to obtain external financing for imports were reinforced.

In November, 1982, the Governments of Brazil and the United States agreed to the mainteinance of the export credit premium for eligible products through April 30, 1985 at an overall rate of 11% of the adjusted FOB value. As mentioned above, when Brazil signed the GATT subsidy code agreed to in the MTN it committed itself to phase out the export credit premium by June, 1983. Since the U.S. approved the modification of Brazil's original commitment, it will continue to consider Brazil as a "country under the agreement" and will thus require an injury demonstration for the application of countervailing duties on subsidized imports of dutiable articles from Brazil.

A large increase in the deficit on current account, principally due to an increase of more than $2 billion in net interest payments, together with a sharp reduction in new external financing in the second half of the year, provoked a record balance of payments deficit (loss of net international reserves, balance of payments concept) of $8.9 billion in 1982. This deficit could be financed only by a significant loss of international liquidity, IMF compensatory financing and bridge loans provided by commercial banks, the U.S. Treasury and the Bank for International Settlements (BIS).

It became clear that the amount of international loans that Brazil could obtain in the international money markets in the coming years would be significantly below its historical levels and that the traditional mechanisms for obtaining external resources would be insufficient to cover Brazil's gross borrowing needs.

At the end of 1982, the economic authorities designed an economic adjustment program, in order to face the balance-of-payments problems and to make structural adjustments aimed at reducing the role of external savings and increasing the efficiency of the economy through changes in relative prices.

Major objectives of the adjustment program were to achieve a significant surplus in foreign merchandise trade and a real devaluation of the cruzeiro.

In order to guarantee the acquisition of the necessary external financing, in late 1982 Brazil started negotiations with the IMF on special credit facilities , and presented a plan to commercial banks aimed at the refinancing of the outstanding debt and obtaining new loans. The negotiations included almost all foreign loans that Brazil planned to acquire in a certain period (normally one year) and were supported -and at the same time conditioned- by the fulfillment of the economic adjustment program agreed to with the IMF.

In February, 1983, the IMF approved a loan of 4488.75 Special Drawing Rights, within the Extended Fund Facility, over a period of three years and subject to an economic adjustment program 2/. Brazil also obtained compensatory and buffer stock financing.

The first plan for commercial banks was presented in December 1982 and referred to Brazil's external financing needs for 1983. In September, 1983, Brazil started negotiations on a new loan package, in order to obtain additional resources for 1983 and to guarantee the financing of the balance of payments in 1984. The plans presented to commercial banks included new loans (Brazil requested $4.4 billion in December, 1982 and $6.5 billion in September, 1983), the conversion of amortizations into new long term loans ($4.5 billion in 1983 and $5.4 billion in 1984) and the maintenance of trade related short-term credits and short-term bank lines.

In November, 1983, Brazil negotiated the rescheduling of its foregn debt eligible for negotiations in the "Paris Club" (direct government loans and credits guaranteed or insured by creditor governments and its institutions). The main result was a rescheduling of 85% of the principal and interest due from August 1, 1983 through December 31, 1984 over nine years with a grace period of five years. (Eligible debt has been estimated between $2.4 and 3.8 billion).

The continued high value of the U.S. dollar against other convertible currencies, the devaluation of the currencies of Brazil's major trading partners in Latin America, and the necessity to attain a large surplus in the balance of trade in goods in order to keep the financing of the deficit on current account under control provoked a new maxidevaluation (23%) of the cruzeiro in February, 1983. The principle export incentives for manufactured products and import restrictions were maintained. However, the dollar amounts of preferential working capital finance for exportable products were reduced to compensate for the effects of the devaluation (the amounts in local currency remaining unchanged), export taxes were charged on some primary and agro-based industrial products and the IOF surcharge on imports of a series of articles was reduced to 15%.

Brazil's agreement with the IMF, according to the "letters of intent", will have no significant short-term effects on Brazil's trade policy. However, Brazil will reduce foreign-exchange restrictions in accordance with the possibilities permitted by the balance-of-payments situation. In the long run, Brazil intends to continue the crawling-peg exchange-rate system, maintaining at least the real value of the cruzeiro against the dollar, eliminate exchange restrictions (towards the end of the 3-year agreement with the IMF), and base protection for domestic industry on tariffs rather than on quantitative restrictions.

In January, 1984, the amount of available working capital finance for export production (under former Central Bank Resolution 674) as a proportion of adjusted FOB value of exports was reduced significantly and eliminated completely for some sectors. The subsidy element was virtually eliminated in January, 1984, as loans were to be fully adjusted by the monetary correction factor (ORTN) and bear a real interest rate of 3%. (Central Bank Resolutions 882 and 883). Resolution 950 obliged the banks authorized to operate the program to finance working capital for export production exclusively out of their own resources; with regard to interest payments, a small percentage will be borne by FINEX (10% of interest costs for operations for which certificates were issued after August 1, 1984).

The external sector of the Brazilian economy showed impressive results in 1983 and 1984. The surplus in merchandise trade exceeded the $6 billion dollar target in 1983 and the deficit on current account was reduced from $14.8 billion in 1982 to $6.1 billion in 1983 and $550 million in 1984. In 1984 the trade surplus ($13 billion) again exceeded the ($9.1 billion) target. In 1984, Brazil met the external sector's performance criteria agreed to with the IMF with a considerable margin.

b) Main elements of Brazil's export promotion program

Fiscal incentives for exports consist mainly of exemptions from payment of value added and indirect taxes on exports and exemption or reduction of duties on imports of raw materials, intermediate products and capital goods, used fully or partly in export activities.

The exemption from indirect taxes on exports and the exemption from or restitution of taxes and duties on inputs that are physically incorporated into the exported products -normally under the "draw back" system- avoids having domestic taxes affect export prices, this is considered internationally as a normal and acceptable practice.

Additional compensations that involve a transfer of public resources to the export sector -on export performance- at lower than market prices and that thus permit price discrimination (at a comparable level, e.g., "ex factory") according to the

destination of sales (domestic or external markets) are normally considered as genuine export subsidies.

In Brazil, normal restriction or exemption of domestic taxes is granted as follows:

i) Exemption from the Industrial Product Tax and the Circulation of Merchandise Tax

Both the Industrial Product Tax Tax (Imposto sobre Produtos Industrializados, IPI) and the Circulation of Merchandise Tax (Imposto sobre Circulacao de Mercadorias, ICM) are value-added taxes. Exemption from IPI (a federal tax) is granted to exports of all sectors, whereas exemption from ICM (a state tax) normally is granted only on exports of manufactured products. However, exemption from ICM can be granted on export of primary products by special agreement. Tax exemptions are normally granted directly to producers of exportable products. However, similar incentives are available to trading companies and pools of exporting firms through suspension of tax payments.

ii) Suspension of IPI and ICM for products deposited in "Entreposto Aduaneiro"

This involves suspension of tax payments on products deposited in customs warehouses for eventual export.

iii) Draw-Back

The Brazilian draw-back system was created in 1966 but has been operating only since 1969. Three different procedures exist:

- Suspension of duties and related taxes 3/ on imports to be incorporated into export products with a higher unit value. This is the most commonly used procedure in Brazil, on the basis of agreements between exporting firms and CACEX.

- Exemption of duties and related taxes on imports to replenish stocks of imported raw materials incorporated into (previously) exported products. Previous clearance from CACEX is required.

- Restitution of duties and related taxes involves reimbursement on export of previously paid taxes on imported inputs. This procedure is scarcely used in Brazil.

iv) Exemption from the Financial Operations Tax.

Financial operations related to exports are exempted from payment of the Financial Operations Tax (Imposto sobre Operacoes Financeiras, IOF). These exemptions are granted to export finance, export credit insurance and exchange-rate operations related to exports.

One of the most important incentives that can be considered as export subsidies are the tax credits. The IPI (and ICM) export tax credits ("credito premio fiscal") have existed since 1969. Under the old program, the exporter received on export a credit that exceeded the indirect taxes that otherwise would have been borne by the exported product and its components. This additional credit could be used for payment of other federal and state taxes or transferred to other companies. In special cases it could also be traded in for cash.

When Brazil subscribed to the GATT Subsidy Code, it committed itself to eliminate these tax credits gradually, according to a timetable that established June 30, 1983 as the final expiration date. However, in December, 1979, this program was abolished completely 4/ in combination with the maxidevaluation of the cruzeiro.

As mentioned before, the favorable effects on international competitiveness of exports of manufactured products of the December, 1979 devaluation were lost within one year as a result of the 1980 exchange-rate policy in combination with the appreciation of the US dollar. These factors led to the re-introduction of the export credit premium on April 1, 1981. As the program was reinstituted in combination with a timetable for its gradual elimination through June 1983, roughly equal to Brazil's original MTN commitment, the Government of the United States did not oppose the reintroduction and continued to consider Brazil as a "country under the Agreement".

After some modification, the timetable remained as follows: 15% through March 30, 1982; 14, 12.5 and 11% in the second, third and fourth quarters of 1982 respectively, and 3% during the first quarter of 1983. However, in November, 1982, Brazil negotiated with the United States the mainteinance of the export tax premium -at the prevailing rate of 11%- until April 30, 1985. In September, 1984, the Minister of Finance decided to reduce the export tax premium according to the following rates: 9% in November, 1984; 7% in December, 1984; 5% in January, 1985; 4% in February, 1985; 3% in March, 1985; and 2% in April, 1985.

The new export credit premium is different from the former IPI export tax credit as it is granted to all beneficiary sectors at a uniform rate and deposited in cash for the exporter. The deposit is made through the bank involved in the export transaction generally 30 days after the realization of the exchange contract or shipment of the exported articles. (Under special circumstances the delay can be up to 120 days.)

The basis for calculation is the adjusted FOB invoice value of exports, after several deductions. These adjustments include: any agent commissions, rebates or refunds resulting from quality deficiencies or damage during transit, contractual penalties, and the value of imported inputs. In order to receive the maximum export credit premium, the exported product must consist of a

minimum of 75 percent value added in Brazil. If this minimum limit is not met, there is a specific calculation to reduce the FOB invoice price when calculating the base upon which the IPI export credit premium is paid.

The export credit is added to the profits of the beneficiary firms and therefore subject to corporate profit taxation. For this reason plus the adjustments that have to be made to the FOB export value and the delay in its payments, the real value of the incentives for the exporters (as well as its actual costs to the federal budget) are considerably below its nominal value.

An important incentive is preshipment finance granted mainly under the Special Program for Export Finance (former Central Bank Resolutions 643 and 674, since January, 1984, Resolutions 882 and 883), which provides working capital for the production of exportable manufactured products, at subsidized interest rates and using preferential Central Bank rediscounting. In recent years the annual interest rate had been 40%, to be paid biannualy, the effective rate being 44%. In June 1983 the interest rate was increased to 60% annually (Central Bank Resolution 832, June 9, 1983) and in January 1984 it was increased to 3% + 100% of the variation of the monetary correction factor (ORTN) (Central Bank Resolutions 882 and 883). The sectors and products for which this type of finance can be provided and the amounts they may receive (as a percentage of FOB value) are indicated by the National Monetary Council (NMC). The loans may have a duration of up to one year, apart from the time needed for export production. For the calculation of the adjusted FOB invoice value, which is the basis for the computation of eligible finance, several items must be deducted from the export value, such as agent commissions, contractual penalties, refunds or return of goods, exports denominated in cruzeiros, imported inputs over 20 percent of the export value, and a deduction for the company's trade deficit as a percentage of the value of its exports. Under Resolution 674, eligible products and/or sectors were allowed to receive 12, 20 or 40% of the adjusted FOB value of exports in the previous year 5/. In January, 1984, these amounts were reduced and for some sectors eliminated (e.g., frozen concentrated orange juice). In August, 1984, Central Bank Resolution 950 obliged banks authorized to operate the program to provide working-capital finance for export production completely out of their own resources and established that interest rates for export financing should be equal to the normal rates of each bank less a percentage borne by FINEX (15% for operations for which documents were issued between January 1 and July 31, 1984; and 10% for operations for which certificates were issued after August 1, 1984).

Another important instrument, available for all export products, is the Export Financing Against Foreign Exchange Contracts (AAC), which involves advances in national currency for up to 90 days (for an amount of up to 100% of the export value) against foreign-exchange contracts and receivables, at non-subsidized interest rates that depend on each bank.

The Banco do Brasil can provide finance out of its own resources to support the production of manufactured and semi-manufactured goods with short production cycles. The firm that receives finance must commit itself to export goods up to a certain amount during its term, which at present is one year.

For profit tax computations, the taxable income of firms can be reduced by the percentage of its total sales accounted for by export sales. As a consequence, profits made on export sales are not subject to the corporate profit tax of around 35%. This program has existed since 1971 and according to the legislation it will expire at the end of 1985.

Since 1971, exemption from IPI and ICM taxes on imports of raw materials and intermediate and capital products can be granted to exporters in proportion to the increase of their exports. This scheme has had little importance in practice and according to the legislation it will expire at the end of 1985.

In some cases, exporters can obtain exemption from payment of duties and value added taxes on imported plant and equipment, in relation to export performance. The duty free imports of capital goods for export production is considered a subsidy as imported products are not physically incorporated into exported products and thus give an extra benefit to the exporting firm in relation to its sales in the domestic market. In some cases a firm can be granted -based on its export performance- the benefit of accelerated depreciation of plant and equipment manufactured in Brazil.

The BEFIEX (Special Program of Fiscal Incentives to Exports) program, which has been operating since 1972, aims principally to promote exports of manufactured products by granting fiscal incentives to imports, facilitating the growth and modernization of enterprises and/or the diversification of production lines, thus contributing to a modern and internationally competitive production apparatus. Multinational companies were induced to operate at economic scales, attaining specialization of production across countries. By paying special attention to these factors, BEFIEX plays an important role in Brazil's industrial development policy.

In order to receive the benefits of the program, enterprises (individually or in pools) must present long-term export programs, normally for ten-year periods, and reach a minimum domestic value-added content of exports (and of total production). At this enterprise level the total value of imports receiving fiscal incentives, including those realized under the "draw back" mechanism and/or other promotion schemes, should not exceed 50% of the FOB value of exports. In cases where transport and/or insurance is provided by national companies, the FOB values of exports can be increased by the corresponding value.

Incentives, negotiated at the enterprise level with BEFIEX,

can be the following:

i) A 70 to 80% duty and tax reduction on imports of equipment and machinery. These tax reductions can be authorized even when a "national similar" exists. A waiver can be granted if there is a "national similar", but imports are subject to previous approval by the Ministry of Industry and Commerce in the case of machinery, equipment and components, and by the Council of Customs Policy (Conselho de Politica Aduaneira, CPA) in the case of imports of intermediate products.

ii) In special cases the President of Brazil can grant a greater tax reduction if the project is considered of special national importance.

iii) A 50 percent duty and tax reduction on imports of raw materials, components and intermediate product imports, up to a total import value of one third of the average net FOB value of exports. In special cases, considered to be of national interest, complete exemption from duties and taxes can be granted.

iv) Maintenance of fiscal export incentives during the entire period of validity of the export programs, even if changes occur in the legislation on incentives. This point has proved to be especially important in recent years when the fiscal credits were first abolished (1979) and then reintroduced in combination with a timetable for its gradual elimination (1981). These changes have not affected the fiscal credits granted to enterprises which joined the BEFIEX program before March 30, 1982.

v) Exemption from payment of corporate profit tax on exports and from taxes on remittance of profits. Pre-operational and preindustrial costs can be carried forward for tax computations for a term of up to ten years.

In 1976, a similar program was established (CIEX, Comissao de Incentivos as Exportacoes) which aimed to grant incentives to smaller firms. Benefits are more limited: beneficiary firms are allowed reductions of up to 90 percent in taxes on imported capital goods. The export commitments are easier to achieve (positive balance in foreign exchange receipts and payments and viability of the export program). The CIEX program is quite small compared to BEFIEX.

Postshipment finance is provided by the Fund for Export Credit Finance (FINEX), administered by the Bank of Brazil-CACEX. Its resources come from the Central Bank of Brazil. The maturity of the loans is between 6 months and 8 years according to the nature and value of the exportable goods and services.

According to the Equalization of Interest Rates system 6/, commercial banks are authorized to borrow abroad, at interest rates prevailing on the international financial markets, increased by spread and commission, to finance Brazilian exports

at internationally competitive interest rates. The difference between the cost of foreign loans and the interest rate charged to the importer of Brazilian products is covered by FINEX. Financial institutions authorized to operate under these conditions are private commercial banks, branches of Brazilian banks operating abroad and foreign financial institutions guaranteed by the Central Bank of Brazil.

With regard to Buyer's Credit, export credits supplied directly to the importer of Brazilian products using FINEX funds are scarce and used only in the case of big projects in which several Brazilian firms participate.

Table III.1

BRAZIL: BALANCE OF PAYMENTS AND FOREIGN TRADE INDICATORS

($ millions)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
1. Merchandise trade balance	-252	-61	-4748	-3549	-2385	-100	-1159	-2717	-2823	1184	778	6470
Exports of goods	3941	6093	7814	8493	9961	11922	12473	15244	20132	23275	20175	21899
Imports of goods	4193	6154	12562	12042	12346	12022	13632	17961	22955	22091	19397	15429
Crude oil	344	606	2558	3099	3354	3602	4064	6264	9372	10604	9566	7822
Other	3849	5548	10004	8943	8992	8420	9568	11697	13583	11487	9831	7607
2. Net interest payments	-413	-581	-730	-1496	-1811	-2103	-2699	-4108	-6310	-9162	-11353	-9555
3a. Balance on current account	-1713	-2174	-7560	-6995	-6551	-5115	-7039	-10482	-12848	-11760	-16279	...
3b. excluded reinvested profits	...	...	...	...	...	...	...	...	...	-10993	-14755	-6171
4. Amortization	-1271	-1676	-1929	-2185	-3017	-4133	-5274	-6553	-6677	-7642	-8098	-7591 a/
5. Debt service (2+4)	-1684	-2257	-2659	-3681	-4828	-6236	-7973	-10661	-12987	-16804	-19451	-17146
6. Gross borrowing needs (3b+4)	...	...	...	...	...	...	...	...	...	18635	22853	16101
7. International liquidity (at end of period)	4183	6416	5269	4041	6544	7256	11895	9689	6913	7507	3994	4563
8. External debt, registered	9521	12572	17166	21171	25985	32037	43511	49904	53848	61411	70198	80843
External debt, registered and nonregistered	...	...	...	...	...	...	...	...	...	71878	83205	91162
9. Index numbers (1970=100)												
Terms of trade in goods FOB/CIF	97.7	106.9	90.9	85.4	92.8	100.8	87.6	79.9	67.4	56.1	54.0	53.9
Purchasing power of exports of goods	122.6	163.2	142.3	145.1	160.4	185.8	181.5	188.4	200.9	211.9	188.4	217.0
10. Debt indicators:												
Debt Service/exports of goods (%)	42.8	37.0	34.0	43.3	48.5	52.3	63.9	69.9	64.5	72.2	96.4	78.3
Net interest payments/exports of goods (%)	10.5	9.5	9.3	17.6	18.2	17.6	21.6	26.9	31.3	39.4	56.3	43.6
Amortization/exports of goods (%)	32.3	27.4	24.7	25.7	30.3	34.7	42.3	43.0	33.2	32.9	40.1	34.7
Registered external debt/exports of goods	2.4	2.1	2.2	2.5	2.6	2.7	3.5	3.3	2.7	2.6	3.5	3.7
11. *Other indicators:*												
Imports of crude oil/exports of goods (%)	8.7	9.9	32.7	36.5	33.7	30.2	32.6	41.1	46.6	45.6	48.7	35.7
(Debt service + oil imports)/exp. of goods (%)	51.5	46.9	66.8	79.8	82.1	82.5	96.5	111.0	111.1	117.8	145.1	113.0

a/ Included amortizations converted into new loans, to an amount of $4.6 billion. (Project 2.)

Source: 1972-1981: ECLAC on the basis of the IMF and the Central Bank of Brazil

1982-1983: Central Bank of Brazil. Brazil Economic Program; Internal and external adjustment. May, 1984.

Table III.2

BRAZIL: TRADE WEIGHTED REAL EXCHANGE RATE INDEX 1/
(1980 = 100)

Period	Major trading partners 2/	United States	EEC 3/	Japan	LAAI 4/
1971	63.7	75.3	60.0	56.4	54.9
1972	65.3	75.3	65.0	63.6	54.7
1973	69.2	71.7	69.3	73.3	65.2
1974	72.7	75.3	70.5	77.0	70.1
1975	72.5	78.9	73.7	73.2	63.8
1976	72.9	80.3	70.0	73.7	66.5
1977	73.5	81.1	73.9	78.4	64.3
1978	77.0	81.7	80.3	91.2	67.5
1979	87.2	88.1	89.6	89.9	83.6
1980	100.0	100.0	100.0	100.0	100.0
1981	87.8	93.4	79.0	88.0	89.5
1982	77.3	91.6	68.3	75.7	70.5
1979-I	81.7	83.1	85.2	91.7	75.5
1979-II	84.4	86.7	86.6	88.7	78.8
1979-III	87.4	87.1	90.1	89.3	84.7
1979-IV	95.3	95.3	97.5	89.7	93.5
1980-I	111.3	112.0	113.8	104.9	108.9
1980-II	105.4	106.4	106.7	105.6	103.4
1980-III	98.0	97.1	99.1	100.3	97.9
1980-IV	92.6	92.2	88.9	96.6	95.6
1981-I	88.1	90.6	80.3	93.2	91.6
1981-II	85.2	92.7	74.2	87.2	86.8
1981-III	85.3	94.1	70.2	84.3	88.7
1981-IV	89.0	95.7	76.2	87.6	92.7
1982-I	84.7	94.3	73.3	82.8	84.5
1982-II	79.2	90.5	69.5	76.5	76.1
1982-III	73.3	89.0	65.6	71.0	64.2
1982-IV	76.8	93.4	67.6	73.7	67.8
1983-I	91.0	110.0	80.9	94.1	79.7
1983-II	105.7	126.2	91.8	106.1	96.5
1983-III	104.8	123.7	85.4	101.5	101.5
1983-IV	105.1	124.6	84.6	104.3	102.0

1/ For the calculation of the real exchange rate index, the nominal exchange rate was divided by relative price indexes for industrial products.

2/ Obtained from a basket of the main 17 buyers of Brazilian manufactures in the developed market economies and Latin America, weighted by the average share of exports of manufactures to each country in the period 1977-1981. The basket includes Canada, Japan, Spain, Switzerland, the United States and the countries mentioned under 3) and 4).

3/ The basket includes Belgium, Luxembourg, France, Germany, Italy, the Netherlands and the United Kingdom.

4/ Latin American Association for Integration. The basket includes Argentina, Chile, Mexico, Paraguay, Uruguay and Venezuela.

Notes

1/ Brazil's terms of trade deteriorated throughout the period 1978-1982. The terms of trade for merchandise suffered an accumulated fall of 46% in the years 1978 through 1982, as compared to 1977. See ECLAC, Estudio Economico de America Latina, Brasil. (E.CEPAL.L.286.Add.12)

2/ For the quantitative evaluation of the economic adjustment program, performance criteria were agreed upon with the IMF on net foreign reserves of the monetary authorities, the public sector borrowing requirements, net domestic assets of the monetary authorities and net disbursement of external debt. Monthly targets were also established on monetary aggregates and on the borrowing requirements of the federal, state and municipal governments. Departures from these monthly targets do not automatically lead to the suspension of new IMF disbursements, but oblige the authorities to hold consultations with the IMF.

3/ IPI, ICM, The Harbour Improvement Tax (Taxa de Melhoramento de Portos) and the Merchant Marine Renovation Tax (Imposto para a renovacao da Marinha Mercante, IRMM)

4/ Except for tax credits granted to specific firms under the BEFIEX program. These credits could not be modified for legal reasons as they had been granted under the condition that they would remain in force during the entire period of validity of the firm's export commitment.

5/ This percentage was equal, e.g., to 40% for footwear and 20% for frozen concentrated orange juice and most steel products.

6/ Central Bank Resolution 509 authorizes obtaining external resources for use for post-shipment finance. However, Resolution 637 authorizes the anticipated entry of all available foreign currency also for use for pre-shipment finance through Foreign Exchange Contracts (ACC).

CHAPTER IV

BRAZIL-UNITED STATES COMMERCIAL RELATIONS

a) Introduction

Trade in goods is only one of the major components of international economic relations. Transfers of capital, mainly through loans and direct foreign investment, and its counterparts --interests and profits-- constitute other major elements of international payments. Theses variables have a great impact on foreign trade.

The position of U.S. direct investment and reinvestments registered in Brazil amounted to $ 6.9 billion by June, 1983. This was by far the largest single country share of total foreign direct investment in Brazil (32%) and even exceeded the position off all EEC countries together 1/. By 1981, Brazil was the sixth largest recipient of U.S. direct investment abroad, ranking first among the developing countries.

Brazil has received a large share of foreign lending by U.S. banks, and Brazilian debt represents a significant share of the bank capital of many of them.

For these reasons, William G. Tyler observed that:

"Clearly, any changes in Brazil's ability or willingness to service its debt, or rumors to that effect, are bound not only to reverberate through the U.S. banking community but to send tremors through the international financial system as well. Through trade, direct foreign investment, and bank lending, the United States has gradually involved itself in a mutually interdependent economic relationship with Brazil. U.S. interests serve as both hostage and inducement in that relationship, with ample areas for conflict and consensus. The continuation of such relations on a healthy basis is economically important to both countries" 2/ 3/.

Brazil's long-term trade policy has been intended to support infant industries by granting them protection in the domestic market and to support exporters of manufactures by granting them incentives to overcome the antiexport bias inherent in Brazil's import substituting industrialization. In the short run, trade policy measures are intended to correct the balance-of-payments disequilibrium.

Important elements of these policies--especially the long-term elements--have been a cause of conflict in Brazil-U.S. trade relations. The subsidy/countervailing duty question has been a perennial point on the agenda of bilateral consultations and requires daily attention by trade officials of both governments. The U.S. has put pressure on Brazil's protection policy for infant industries, principally with regard to Brazil's computer

industry. U.S. firms have complained about domestic content and export performance requirements in Brazil.

In recent years, the U.S. has more vigorously pursued the application of the principles of graduation and reciprocity in international trade relations. The nub of the graduation issue is that the more advanced developing countries should gradually be phased out of their special and differential treatment in the international trading system (e.g., with respect to tariff preferences in the market of the industrialized countries) and be phased in with respect to obligations under the trade rules of GATT (e.g., with respect to export subsidies granted to industrial products).

In new trade bills in the United States, the issue of reciprocity in foreign trade received a more aggressive approach designed to open foreign markets, often reinforced with the threat of retaliation 4/. The word "reciprocity" has thus taken on a trade-restrictive rather than a trade-liberalizing tone.

In the short run, trade policy measures in Brazil have served principally balance-of-payments purposes in response to a series of external shocks, especially the rise of interest rates in the international money markets, which led to serious debt-service problems. Under these circumstances, the demands for graduation and trade liberalization are extremely difficult for Brazil to fulfill.

The reaction of the U.S. government to Brazil's balance-of-payments and debt-service problems has been positive in several instances. At the end of 1982, the U.S. Treausury provided bridge loans which represented an important contribution to the financing of Brazil's balance-of-payments' deficit. In November, 1982, the U.S. Government agreed to the mainteinance of Brazil's fiscal export credit through April 1985. The U.S. Government has also showed cooperation regarding suspension agreements in countervailing duty cases. In September, 1983, EXIMBANK approved a special facility to provide Brazil with up to $1.5 billion in financial insurance and guarantees for a variety of trade transactions. This facility became available in 1984. However, at the London economic summit and in letters interchanged between the Presidents of the two countries, the Government of the United States showed little willingness to accept political solutions of the debt problem.

The reason for the conflict/cooperation in Brazil-U.S. trade relations will be further elaborated in Chapter VI. This chapter provides a short review of the main issues.

i) export subsidies

Developing countries defend export subsidies on the ground of their need to compensate for internal and external discouragements to exports, such as the overvaluation of the exchange rate, the high cost of domestic inputs due to protection

of infant industries and import controls for balance-of-payments reasons, as well as tariff escalation and trade restrictions in importing countries. These disincentives are particularly relevant in the Latin American countries, which have based their industrialization processes to a large extent on the substitution of imports. Carlos Diaz-Alejandro has pointed out that export subsidies "resulted from the process of moving from inward to outward looking policies in the 1960s and early 1970s, a process encouraged by the World Bank and bilateral aid agencies 5/.

The United States considers subsidies to be generally undesirable distortions of international competition and trade. The U.S. viewpoint is elaborated in Chapter VI. For a long time, U.S. trade legislation did not require--in the case of dutiable imports--the demonstration of injury (a traditional provision of GATT) for the imposition of countervailing duties 6/.

In MTN, the U.S. agreed to apply countervailing duties against subsidized imports of dutiable articles only when injury to the domestic industry of those articles can be demonstrated. The U.S. limited the benefits of the injury investigations--as well as the possibility of suspending investigations through undertakings between interested parties--to "countries under the agreement" (countries which have assumed the obligations--or substantially equivalent obligations--of the MTN agreement on subsidies and countervailing measures).

In the framework of the MTN subsidy code, Brazil committed itself to phase out its principal export subsidy: the export credit premium. According to the original commitment, this incentive would be gradually eliminated by June, 1983. However, as stated in Chapter III, in light of Brazil's balance-of-payments problems, in November, 1982, the U.S. agreed with the maintenance of the premium (at a rate of 11% of the FOB invoice value) until April 30, 1985.

ii) graduation

The GATT international trade rules recognize the need for developing countries to adopt trade policies different from the industrialized countries. Developing countries are exempted from the outright prohibition on granting export subsidies to non-primary products, may benefit from tariff concessions on a non-reciprocal basis, and enjoy soft conditions for the imposition of quantitative import restrictions for balance-of-payments purposes 7/.

However, in the late seventies, the major industrialized countries started to insist that the relatively advanced developing countries should more fully assume GATT obligations. In MTN, the industrialized countries tried to link departures from basic GATT principles in favour of developing countries, such as MFN treatment and reciprocity, with the graduation principle, by means of the "enabling clause" 8/. The U.S. position on graduation is as follows:

"Developing and developed countries have a common interest in maintaining an open international trading system based on agreed rules and constraints on national action. While under the existing trading system developing countries are accorded certain forms of preferential treatment, it becomes increasingly difficult to justify such treatment as the individual country's development level moves closer to that of an industrial country. The continuation of preferential treatment to all developing countries, regardless of their state of development and international competitiveness, would have adverse consequences for both developing and developed countries. By formalizing a two-tier trading system, it would undermine current efforts to strengthen international discipline over national trade policies and to foster the kind of open markets in which all countries, especially those of the developing world, have a major stake" 9/.

The graduation principle has had significant effects on Brazil-United States commercial relations. In 1979, at the insistence of the U.S., Brazil committed itself to phase out its most important export subsidy: the fiscal export credit. The U.S. requested this commitment in order to consider Brazil as a "country under the agreement" in countervailing duty cases 10/.

The United States has graduated Brazil with respect to some articles from duty-free treatment under its GSP program. (See Section C).

iii) reciprocity 11/

The traditional concept of reciprocity means that trading partners should offer equivalent concessions in multilateral negotiations on trade liberalization, considering all products together. In recent years the U.S. has approached reciprocity as a principle of equivalent market access, in some cases for limited ranges of goods. On the basis of the principle of reciprocity, the U.S. often demands trade liberalization with the threat of retaliation against countries that offer the U.S. unequal access (as compared to the U.S.) to their markets, especially countries which have large bilateral trade surpluses with the U.S.. This policy is focused on sectors where the U.S. is competitive, such as telecommunications and high technology. A major objective of this new reciprocity movement is to open foreign markets in services and trade-related foreign investment, two areas that have been largely outside the trading rules of the General Agreement on Tariffs and Trade (GATT).

Reciprocity has not been demanded from developing countries in multilateral trade negotiations. Tariffs play an important role in the development process, on the basis of the infant industry argument and in some cases for government revenues. Developing countries obtained the benefits of tariff concessions from the industrialized countries on a nonreciprocal basis, under the MFN clause.

Developing countries are sensitive to reciprocity demands under the new concept bbecause of the high protection granted to infant industries. However, "the principle of nonreciprocity' for less developed countries is well established" 12/ as developing countries will normally dedicate the maximum of foreign currency at their disposal to the acquisition of imported products needed for their economic development and for the fulfillment of the basic needs of their population.

This argument is futher elaborated by Cline as follows: 13/

"Brazil and Mexico are countries that probably would be high on the list of targets for application of reciprocity pressure. Both have high protection and both actively affect the pattern of international trade through local content and export requirements in their agreements with multinational corporations.

The cases of Mexico, Brazil, and other developing countries are complicated, however. Their "reciprocity" tends to be automatic at the aggregate level, because their need for foreign exchange is so great that they tend to spend whatever amounts of it they can earn. Their tariff and quota protection and investment requirements distort the composition of imports, but the level of their imports is essentially determined by their export earnings (and capital inflows). To force compositional changes in their industrial structure would benefit some U.S. exporters but hurt others because, if Brazil (for example) imported more automobiles, it would have less foreign exchange left to import wide-bodied aircraft.

Moreover, Brazil, Mexico, and some other newly industrialized countries (NICs) can legitimately point to the infant industry argument to justify some of their protection, considering that their domestic markets are large enough for potential economies of scale and that they have an increasingly sophisticated base of skilled labor. Over the longer run, better rules of the game will have to be worked out for trade with the newly industrialized countries. However, this is not an auspicious time to impose additional pressure on exports from Mexico and Brazil, considering their high external debt (much of it held by American banks) and their severe balance-of-payments problems".

The new concept of reciprocity was incorporated to some extent in the extension of the U.S. GSP program beyond the initial expiration date of January 3, 1985.(This issue is treated in Section C).

iv) other trade conflict

Brazil has restrained exports of hides and skins in order to foster domestic production of leather articles, guaranteeing the availability of raw materials at low prices. The U.S. has alleged that this practice constitutes a distortion of free competition, as it permits Brazilian producers of leather articles to obtain

raw materials at lower than world market prices, whereas U.S. producers have to pay a higher price.

In March, 1980, the U.S. and Brazil negotiated an interim agreement under which Brazil agreed that it would replace the embargo of exports of hides and skins by a 36 percent export tax. A new one-year agreement providing for the reduction of the export tax to 18 percent was negotiated and went into effect on October 1, 1980. This rate was reduced to 14% as of February 1, 1982 and to 9% as of December 30, 1982. (Central Bank Resolution 725 of January 20, 1982.)

U.S. producers of apples and pears have complained about problems in exporting to Brazil.

b) <u>Bilateral trade between Brazil and the United States</u>

Bilateral Brazil-U.S. trade reflects the general patterns of foreign trade of these two countries. The main U.S. exports to Brazil are agricultural products 14/ (principally wheat), technologically more advanced industrial products, and services (Table IV.1). Brazilian exports to the United States are mainly tropical products (principally coffee, cane sugar and cocoa) and industrial products which are labor intensive (footwear, textiles) and/or produced by mature production techniques (steel products) (Table IV.2). An important proportion of Brazilian exports to the United States consists of agro-industrial products based on the availability of cheap inputs, either from domestic production (e.g., frozen concentrated orange juice) or from use of the draw-back system (e.g., corned beef) 15/.

Within these general patterns, important changes in the structure of bilateral trade are underway. Import - substituting industrialization in Brazil contributed to a decline in the share of industrial products in imports from the United States (Table IV.1).

Brazil's remarkable export diversification, achieved principally in the seventies, is reflected in Brazil's exports to the United States. The share of coffee in beans, raw sugar and cocoa decreased from 50 percent in 1971 to 15 percent in 1983. The share of industrial products (excluding food; defined throughout this chapter as those products included in Chapters 28 through 99 of the Brussels' nomenclature of the Customs Co-operation Council) increased from 18 percent in 1971 to 44 percent in 1982 and 54 percent in 1983 16/ (Table IV.2).

The composition of Brazil's exports of industrial products to the U.S. market also became more diversified. The share of footwear, textiles and apparel in the exports of nonagro based industrial products to the United States decreased from 40 percent in 1975 to 27 percent in both 1982 and 1983. In the same period the share of another category of import sensitive products, steel, increased sharply (from 7 to 15 percent in 1982 and 17.6 percent in 1983) 17/. The share of other articles in the

exports of industrial products (excluding food) increased from 53% in 1975, to 58% in 1982, and to 55% in 1983.

Tariff preferences under the U.S. GSP program and the important role of subsidiaries of transnational corporations contributed to the export success in these sectors. A sample of the 400 major exporting firms to the U.S. indicates that in these sectors subsidiaries of U.S. firms contribute significantly to Brazil's exports to the United States, especially in parts and components for the automobile and electronic industries (e.g., radio receivers for cars, exported by Philco, which belongs to Ford). Table IV.6 shows that subsidiaries of U.S. firms accounted for almost 18 percent of the value of manufactures exported to the United States by the 400 largest exporting firms in 1981. If textiles and apparel, footwear, and iron and steel are excluded, this ratio rises to 32%. The major exporting firms and their ownership (according to equity capital) are shown in Table IV.7.

The United States is the largest single country market for Brazilian export products, absorbing 20% of total exports in 1982 and 23% in 1983 (Tables IV.3 and IV.4). In the seventies, exports to the United States showed high growth rates (17.9% annually on the average), although less spectacular than total Brazilian exports (22.1%). Since the early seventies, the nominal value of exports to the United States decreased only in the recession years 1975 and 1982. Exports to the U.S. market increased 26 percent in 1983 and 64 percent in the first quarter of 1984 (in comparison with the first quarter of 1983). Exports to the United States accounted for 60% of Brazil's total export growth in 1983.

The participation of the U.S. in Brazilian imports decreased in the seventies because a greater proportion of Brazil's import bill was absorbed by increased oil prices, because of the continuation of Brazil's import-substituting industrialization, which principally affected products imported from industrialized countries, and because of a more than proportional increase in trade with the Latin American Association for Integration (ALADI). The U.S. share of nonoil imports decreased from 35.3% in 1970 to 31.7% in 1983 (Table IV.4).

In the period 1969 through 1980, Brazil-U.S. bilateral trade (FOB-FOB) showed a deficit for Brazil, attaining a record 1.7 billion dollars in 1975 (according to Brazilian trade figures--Table IV.4). In the eighties, Brazil's balance of trade with the U.S. turned into a surplus, due to both increased exports and reduced imports. The surplus in merchandise trade that Brazil has planned to attain (6.5 and 9 billion dollars in 1983 and 1984 respectively) has to be achieved principally by a growing trade surplus with the industrialized countries. Brazil's trade deficit with OPEC (6.1 billion dollars in 1982, excluding Ecuador and Venezuela) has to be partially financed by a trade surplus with the rest of the world. A surplus in trade in goods is also needed to compensate for the deficit in Brazil's international services trade and, principally, to make a contribution to the servicing

of foreign debt.

In 1983 Brazil attained a surplus of $2.7 billion in its merchandise trade with the United States, equal to 41% of its total merchandise trade surplus and to 25% of the $10.6 billion surplus with non-OPEC countries. (The largest bilateral trade surplus of Brazil was with the EEC; $3.8 billion). The increased surplus with the United States accounted for 26% of the $5.6 billion increase of Brazil's merchandise trade surplus from 1982 to 1983, while the $2 billion decrease in Brazil's deficit with OPEC (excluding Venezuela and Ecuador) explained 36% of the improvement of Brazil's trade balance.

The increased trade surplus with the United States in 1983 and 1984 is the combined result of the overall increase in the U.S. trade deficit and Brazil's economic adjustment program. This has been a common factor in Latin America. According to data compiled by ECLAC, Latin American and Caribbean countries registered a record $31.2 billion trade surplus in 1983 with the rest of the world. As U.S. import (customs value) and export (FAS) statistics has registered a U.S. trade deficit of 14.7 billion dollars with all other OAS countries, it can be concluded that almost one half of Latin America's trade surplus in 1983 resulted from transactions with the United States. From 1982 to 1983 the U.S. trade deficit with all other OAS countries increased $11.4 billion (as a result of a 10% increase in imports and a 24% fall in exports), accounting for 44% of the total increase in the U.S. trade deficit. The U.S. bilateral trade deficit with Brazil increased from 866 million dollars in 1982 to 2.4 billion dollars in 1983 (4% of the total U.S. trade deficit).

Trade with Brazil represents only a small proportion of total U.S. foreign trade. Imports from Brazil represent less than 2% of total U.S. imports. More than one third of Brazilian articles imported into the U.S. are food products (principally coffee, cocoa, sugar and frozen concentrated orange juice (Table IV.5).

Brazil is the main foreign supplier to the U.S. of a series of agricultural and agro-industrial products (e.g., coffee in beans, instant coffee, sugar, cocoa butter, frozen concentrated orange juice, cashews, and castor oil). In these products, Brazil competes with a wide range of third country suopliers, principally Colombia (coffee), the Dominican Republic (sugar), the Ivory Coast (coca), India (cashews and castor oil), Mexico (shrimps and lobsters), Argentina (corned beef) and Ecuador (unsweetened chocolate).

The share of Brazilian manufactures in total U.S. imports is generally low. A GATT sample of U.S. imports from Brazil in 1980 indicates that for industrial products the EEC, Canada and Japan are Brazil's major third country competitors in the U.S. market. In the case of 311 out of 475 manufactured products imported into the U.S. from Brazil and representing $1.1 billion dollars of trade (out of a total of 1.5 billion of U.S. imports of

manufactures from Brazil), the principal third country supplier was the EEC, Canada or Japan. (Table IV.8). Competition with the NICs in the U.S. market is also significant. In the case of the East Asian NICs, this competition is concentrated in steel products, footwear, textiles and semiprecious stones. Mexico is a significant competitor in parts for the automobile industry.

Brazil's exports to the U.S. show a different degree of specialization from those of other NICs. For many of these countries, especially Mexico and Singapore, "off shore" production, or the elaboration of U.S. imports, is an important source of trade with the U.S.. This can be demonstrated by the value of U.S. imports under TSUS items 807.00 and 806.30. U.S. duties on imports under these items apply only to value added abroad but not to the U.S. imports used in foreign production. In 1982, U.S. imports of these items from Brazil amounted to only 125.2 million dollars, of which 18.4 million dollars was duty-free (Table IV.7.a).

For Brazil, vertical specialization--through the international division of the production process--is achieved mainly by exports of automotive and electronic parts. As mentioned before, subsidiaries of U.S. and other foreign-owned firms account for an important share of these exports, as do private Brazilian firms 18/.

A good indicator of the relative importance of imports for the U.S. economy is the market penetration rate of imports at a product specific level. This indicator normally relates imports (from all sources or from a particular country) to U.S. apparent consumption (defined as producers' shipments plus imports less exports) by preference expressed in quantitative terms. Some U.S. market penetration rates of Brazilian articles can be obtained from ITC investigations (see Chapter V, Table V.5).

c) The GSP program of the United States

The GSP program of the United States has played a significant role in the growth and diversification of Brazilian exports to that country, especially in the early years of its operation. From 1976 to 1979, duty-free imports of Brazilian GSP articles into the United States increased at an annual rate of 36.4 percent. Brazil is the number five supplier of GSP duty-free articles imported into the United States, after Taiwan, Korea, Hong Kong and Mexico. However, Brazil's share in duty-free GSP imports was only 6.1% in 1981.

The U.S. GSP program currently grants duty free treatment to some 3000 tariff items 19/, mainly manufactures and semi-manufactures. The Trade Act of 1974 excluded a series of import sensitive items from duty-free treatment, including some important export products of Brazil such as textile and apparel articles subject to textile arrangements, footwear, and import-sensitive steel articles. As can be seen in Table IV.3, textiles, footwear and steel products represented 47 percent of Brazil's

exports of industrial products--excluding food--(16% of total exports) to the U.S. in 1975, immediately before the initiation of the U.S. GSP program.

In order to "reserve the benefits of the program for less competitive producers" and also to grant "some measure of protection for U.S. producers of like or directly competitive products" 20/, the Trade Act of 1974 (Section 504) contained a competitive need formula. According to this formula a country is automatically excluded from the benefits of duty-free treatment for a particular product if imports of that product from that country in the previous calender year exceeded either a certain dollar value (adjusted annually according to the growth in the U.S. GNP) 21/ or 50% of total U.S. imports of the product. The Trade Act was amended by the Trade Agreements Act of 1979, introducing a de minimis provision, which gives the President the discretion to waive the 50% competitive need rule in cases were U.S. imports of an article were less than a certain dollar value (to be adjusted annually to reflect the growth in the U.S. GNP 22/. A country may be redesignated for GSP benefits in an excluded item if its imports fall below the competitive need limits in a subsequent year.

Table IV.11 summarizes the 44 GSP articles for which Brazil has been excluded from duty-free treatment in one or more years since the initiation of the GSP program. Brazilian exports of GSP eligible articles have been severely affected by the competitive need limits. In 1981, 40% of the value of U.S. imports of GSP-articles from Brazil were excluded from duty-free treatment for this reason. In 1982 this share decreased to 20 percent, principally because of a sharp decline in sugar imports. Imports of other articles excluded from GSP duty free treatment also declined in 1982.

Since 1980 the United States has applied the graduation principle to the GSP program, excluding relatively more advanced developing countries from its benefits for particular products on the basis of discretionary authority of the President. This policy was introduced mainly as a result of an evaluation of the first five years operation of the GSP program 23/ that showed an uneven distribution of the benefits of the system among beneficiary developing countries, and is intended to give the least developed countries a better chance to obtain a larger share of the benefits of the GSP program. The same study pointed out, however, that the little use that least developed countries made of the U.S. GSP program can be explained by their lack of exportable surplus and not only to competition from the more advanced developing countries. It must also be noted that GSP duty-free imports from Brazil are small in relation to total imports from Brazil and that it is doubtful that the type of products with respect to which Brazil has been graduated can be supplied by least developed countries.

The graduation principle is made effective principally by denying individual countries, which become eligible for

redesignation for duty-free treatment for particular items on the basis of the trade in that item in the previous calendar year (when trade in this item falls below the competitive need limits), the benefits of the GSP program for that product. Countries can also be graduated in response to petitions filed by U.S. producers and labour unions. Since 1981, seven of the more advanced developing countries have been graduated from GSP eligibility with respect to individual products (Table IV.12).

Brazil has been graduated in one or more years on six products (Table IV.11) affecting a relatively small value of trade. With respect to three of thes products, Brazil had previously been excluded from duty-free treatment because U.S. imports from Brazil exceeded the competitive need limits. With respect to some products, after being graduated, Brazil was excluded from GSP eligibility again on the basis of the competitive need formula in subsequent years. In 1983, Brazil was excluded for the first time on request of petitioners. The articles with respect to which Brazil was graduated in 1984 represented 46 million dollars of trade in 1983 (U.S. imports).

The tariff preferences that Brazil enjoys under the GSP program are, on the average, small. Ad-valorem equivalents of import duties for non GSP beneficiary countries for GSP-articles imported duty-free from Brazil are presented in Table V.4 (Chapter V) 24/. For some individual items, tariff preferences are more significant. As can be seen in the Table, an erosion of tariff preferences will occur as a result of the MTN tariff reductions. However, the benefits that Brazil will obtain from the general tariff reductions are probably more significant than the disadvantage of the erosion of tariff preferences under the GSP program.

GSP can be an important instrument for the diversification of Brazilian exports to the U.S., away from import-sensitive articles. The effect of the different types of GSP exclusions on Brazil's exports are difficult to evaluate. However, in 1982, exports of all excluded GSP articles suffered considerable declines.

Some remarks should be made on the future of the U.S. GSP program under legislation extending the program for eight and a half years beyond January 3, 1985. This is designed to gradually reduce benefits to the NICs and improve them for the least developed countries. The new program includes certain elements of reciprocity (although not explicitly, otherwise it would not be eligible for a GATT waiver) by contemplating that advanced developing countries also would be asked to commit themselves to take certain steps to liberalize their imports in return for GSP.

The new program establishes, on a country specific basis, narrower competitive need limits for products considered to be "competitive", roughly equal to half of the competitive need limit applicable to other articles: $25 million (in 1985, to be increased annually to reflect growth in U.S. GNP) or 25% of U.S.

imports. The Act directs the President to conduct a general review of GSP-eligible articles in order to identify those articles in which specific beneficiary countries have reached "a sufficient degree of competitiveness" in relation to other beneficiary countries. One of the considerations which the USTR will make when identifying "competitive" articles is the willingness of beneficiary countries to liberalize their imports. At the same time the President has the authority, under certain quantitative restrictions, to waive the competitive need limits, considering, among other factors, the access that beneficiary countries grant to their markets and basic resources.

Table IV.1

BRAZILIAN IMPORTS FROM THE UNITED STATES

	FOB US$ millions						percentage breakdown					
	1971	1975	1979	1980	1981	1982	1971	1975	1979	1980	1981	1982
Total	1041.8	3074.8	3216.3	4077.5	3480.1	2837.1	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural and agro-dustrial products	107.7	309.0	505.6	637.5	837.7	557.1	10.3	10.0	15.7	15.6	24.1	19.6
Wheat	106.8	261.3	234.0	320.5	629.0	460.9	10.3	8.5	7.3	7.9	18.1	16.2
Maize		1.0	194.7	224.5	143.0			0.0	6.1	5.5	4.1	
Other agricultural products	0.9	46.7	76.9	92.5	65.7	96.2	0.1	1.5	2.4	2.3	1.9	3.4
Mineral products	90.8	216.3	217.9	279.0	218.2	302.1	8.7	7.0	6.8	6.8	6.3	10.6
Coal	34.1	117.8	161.0	186.2		201.5	3.3	3.8	5.0	4.6		7.1
Other mineral products	56.7	98.5	56.9	92.8	218.2	100.6	5.4	3.2	1.8	2.3	6.3	3.5
Industrial products	843.3	2549.5	2492.8	3161.0	2424.2	1977.9	80.9	82.9	77.5	77.5	69.7	69.7
Chemical products	187.5	653.0	862.6	1103.7	666.1	538.8	18.0	21.2	26.8	27.1	19.1	19.0
Plastic and rubber materials	38.4	84.7	38.7	159.6	132.6	114.9	3.7	2.8	1.2	3.9	3.8	4.0
Boilers, Apparatuses and mechanical instruments	229.6	661.0	528.7	600.5	653.2	533.3	22.0	21.5	16.4	14.7	18.8	18.8
Machines and electrical apparatuses	62.8	214.4	277.8	294.3	311.0	254.7	6.0	7.0	8.6	7.2	8.9	9.0
Transport equipment	36.1	435.8	153.1	421.9	246.1	101.8	3.5	14.2	4.8	10.3	7.1	3.6
Otical, photografic, cinemat. measuring, checking, precision, medical instruments and parts	35.1	110.6	152.4	153.8	134.4	127.9	3.4	3.6	4.7	3.8	3.9	4.5
Other ind. products	253.8	390.0	479.5	427.2	280.8	306.5	24.4	12.7	14.9	10.5	8.1	10.8

Source: ECLAC on the basis of data provided by the Ministry of Finance of Brazil

Table IV.2

BRAZILIAN EXPORTS TO THE UNITED STATES a/

	FOB US$ millions						percentage breakdown					
	1971	1975	1980	1981	1982	1983	1971	1975	1980	1981	1982	1983
Total	721.1	1287.8	3439.9	4040.2	3980.3	4989.7	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural and agro-dustrial products	551.0	619.0	1894.1	1628.8	1557.5	1607.8	76.4	48.1	55.1	40.3	39.1	32.2
Raw sugar	65.2	52.9	397.0	331.1	41.7	89.6	9.0	4.1	11.5	8.2	1.0	1.8
Cocoa	37.0	116.6	215.8	184.8	124.1	163.7	5.1	9.1	6.3	4.6	3.1	3.3
Coffee in bean	259.3	198.2	620.8	310.8	459.2	485.7	36.0	15.4	18.0	7.7	11.5	9.7
Instant coffee	26.0	38.0	139.1	95.7	97.9	103.6	3.6	3.0	4.0	2.4	2.5	2.1
Orange juice (FCOJ)	11.9	9.3	66.8	268.4	328.2	281.9	1.7	0.7	1.9	6.6	8.2	5.6
Other agr. products	151.6	204.0	454.6	438.0	506.4	483.3	21.0	15.8	13.2	10.8	12.7	9.7
Mineral products	40.2	217.3	170.2	429.9	690.8	687.5	5.6	16.9	4.9	10.6	17.4	13.8
Industrial products	129.9	451.4	1375.7	1981.5	1732.0	2694.4	18.0	35.1	40.0	49.0	43.5	54.0
Footwear	26.6	133.2	257.6	389.3	379.2	581.6	3.7	10.3	7.5	9.6	9.5	11.7
Textiles	20.6	48.6	93.9	120.1	87.9	147.5	2.9	3.8	2.7	3.0	2.2	3.0
Steel products	12.4	30.2	236.9	397.0	263.6	472.9	1.7	2.3	6.9	9.8	6.6	9.5
Boilers, Apparatuses and mechanical instruments	8.4	29.7	151.9	229.7	253.4	421.6	1.2	2.3	4.4	5.7	6.4	8.4
Machines, electrical apparatuses	1.7	70.5	124.3	171.5	164.4	224.2	0.2	5.5	3.6	4.2	4.1	4.5
Transport equipment	10.3	17.6	167.6	191.6	126.1	142.0	1.4	1.4	4.9	4.7	3.2	2.8
Chemical products	12.5	29.1	65.3	155.6	113.2	172.6	1.7	2.3	1.9	3.9	2.8	3.5
Other ind. products	37.4	92.5	278.2	326.7	344.2	532.0	5.2	7.2	8.1	8.1	8.6	10.7

Source: ECLAC on the basis of data provided by CACEX
a/ excluded Puerto Rico

Table IV.3

BRAZIL: EXPORTS SHIPPED TO THE UNITED STATES AS A PROPORTION OF TOTAL EXPORTS a/

(percentages)

	1971	1975	1980	1981	1982	1983
Total	24.8	14.9	17.1	17.3	19.7	22.8
Agricultural and agro-dustrial products	31.4	13.1	20.0	16.7	19.1	18.0
Raw sugar	64.8	6.9	53.0	57.2	16.1	26.9
Cocoa	40.7	39.9	40.2	41.0	40.4	29.4
Coffee in bean	33.6	23.2	25.0	20.5	24.7	23.2
Instant coffee	52.3	47.8	48.8	40.2	39.1	42.0
Orange juice (FCOJ)	33.1	11.3	19.7	40.7	57.2	46.4
Other agr. products	27.1	8.0	14.2	11.3	10.8	9.5
Mineral products	12.4	13.0	5.2	13.2	19.6	23.6
Industrial products	15.7	19.9	18.6	19.3	20.4	27.6
Footwear	90.2	79.2	63.2	66.5	72.4	81.6
Textiles	8.9	9.1	10.3	12.5	11.7	13.9
Steel products	23.1	15.9	24.1	34.7	23.8	27.5
Boilers, Apparatuses and mechanical instruments	10.9	7.3	11.0	14.8	21.2	38.1
Machines, electrical apparatuses	6.0	43.6	26.9	30.6	40.5	50.0
Transport equipment	37.9	5.5	11.1	9.2	7.3	9.8
Chemical products	25.3	19.3	13.1	19.5	16.3	19.1
Other ind. products	11.3	27.7	22.7	12.5	16.5	22.6

Source: ECLAC on the basis of data provided by CACEX.
a/ excluded Puerto Rico

Table IV.4

BRAZIL: INDICATORS OF TRADE WITH THE UNITED STATES

	percentage of total foreign trade			annual growth rates		bilateral trade balance
	exports	imports		exports	imports	
		total	excluding crude oil			
1964	33.2	26.2	39.4	-10.7	-6.7	99.4
1965	32.6	17.7	34.3	9.7	-24.9	238.6
1966	33.4	30.0	44.5	11.8	85.7	58.5
1967	33.1	30.9	38.4	-5.8	-2.4	37.2
1968	33.3	32.6	35.7	14.5	20.0	14.3
1969	26.4	26.5	33.2	-2.7	0.1	-3.5
1970	24.7	30.1	35.3	10.9	34.3	-147.7
1971	26.2	32.9	31.9	12.4	15.9	-194.9
1972	23.3	30.4	42.0	22.5	26.9	-280.6
1973	18.1	29.3	32.6	20.5	50.1	-696.0
1974	21.9	38.7	30.5	54.8	69.3	-1341.5
1975	15.4	35.6	32.5	-23.0	0.2	-1748.9
1976	18.2	28.0	31.8	37.8	-8.0	-996.3
1977	17.7	19.8	28.5	16.6	-15.4	-252.7
1978	22.7	22.8	30.0	33.5	20.3	-19.6
1979	19.3	21.3	27.4	2.5	12.1	-298.7
1980	17.4	20.4	30.2	19.3	26.6	-591.4
1981	17.7	15.0	30.5	17.1	-14.6	607.8
1982	20.0	14.2	28.9	-1.9	-18.3	1173.0
1983	23.1	15.6	31.7	25.5	-15.8	
1984 1st quarter	30.4	14.3	29.5	64.1 b/	-18.0 b/	

Source: ECLAC on the basis of data provided by CACEX and the Ministry of Finance of Brazil

a/ included Puerto Rico
b/ as compared to 1st quarter of 1983.

Table IV.5

U.S. TRADE WITH BRAZIL ACCORDING TO U.S. TRADE STATISTICS

	millions of dollars				percentage breakdown			
	1979	1980	1981	1982	1979	1980	1981	1982
U.S. Exports to Brazil (FAS)								
Total	3407.5	4306.3	3752.9	3380.5	100.0	100.0	100.0	100.0
Food and live animals	452.4	652.6	673.8	458.9	13.3	15.2	18.0	13.6
Beverages and tobacco	0.4	0.5	0.6	0.8	0.0	0.0	0.0	0.0
Crude materials	150.1	145.2	122.8	142.8	4.4	3.4	3.3	4.2
Mineral fuels and lubricants	224.9	229.7	182.9	273.9	6.6	5.3	4.9	8.1
Oils and fats	49.4	11.6	0.2	5.3	1.4	0.3	0.0	0.2
Chemicals	950.3	1162.5	719.7	594.2	27.9	27.0	19.2	17.6
Manufactured goods by chief material	211.4	312.3	191.4	185.8	6.2	7.3	5.1	5.5
Machinery and transport equipment	1146.7	1568.6	1637.9	1499.8	33.7	36.4	43.6	44.4
Miscellaneous manufactures	186.9	191.7	187.7	186.6	5.5	4.5	5.0	5.5
Other	35.0	31.6	35.9	32.4	1.0	0.7	1.0	1.0
U.S. Imports from Brazil (Customs value)								
Total	3118.8	3714.6	4474.5	4285.3	100.0	100.0	100.0	100.0
Food and live animals	1516.7	1989.2	1978.0	1451.8	48.6	53.6	44.2	33.9
Coffee	596.9	1053.8	850.1	670.4	19.1	28.4	19.0	15.6
Cocoa	312.4	197.4	194.3	133.4	10.0	5.3	4.3	3.1
Sugar	264.0	442.7	410.0	98.3	8.5	11.9	9.2	2.3
Vegetables, fruits	165.7	122.1	315.8	355.6	5.3	3.3	7.1	8.3
Beverages and tobacco	53.9	67.1	84.4	154.0	1.7	1.8	1.9	3.6
Crude materials	222.7	213.9	247.5	158.3	7.1	5.8	5.5	3.7
Mineral fuels and lubricants	14.1	43.1	287.4	658.6	0.5	1.2	6.4	15.4
Oils and fats	43.1	50.9	42.4	28.8	1.4	1.4	0.9	0.7
Chemicals	57.3	123.4	148.4	111.5	1.8	3.3	3.3	2.6
Manufactured goods by chief materials	452.5	452.9	621.4	621.9	14.5	12.2	13.9	14.5
Machinery and transport equipment	412.1	390.1	508.4	554.5	13.2	10.5	11.4	12.9
Miscellaneous manufactures	309.0	308.1	439.9	433.8	9.9	8.3	9.8	10.1
Other	37.4	75.9	116.7	112.1	1.2	2.0	2.6	2.6

Source: FT 155 Annuals.

Table IV.6

BRAZIL 1981, 400 LARGEST EXPORTERS TO THE UNITED STATES: BREAKDOWN ACCORDING TO OWNERSHIP AND PRINCIPAL EXPORT PRODUCT

Sector (principal export product)	number of firms						FOB-value of exports to the U.S. (US $ millions)						participation of subsidiaries of US firms in value(%)
	total	Brazilian		foreign		not iden- tified	total	Brazilian		foreign		not iden- tified	
		state	private	U.S.	other			state	private	U.S.	other		
Total	400	15	211	39	53	82	3654.0	956.4	1633.3	392.3	432.1	239.9	10.7
Agricult. and agro-ind. products	143	2	79	10	11	41	1560.7	370.3	896.6	93.2	84.3	116.3	6.0
Sugar	1	1					331.1	331.1					
Cocoa	26		14		2	10	179.8		131.2		21.9	26.8	
Coffee in bean	28		19	2	1	6	285.6		248.7	15.3	5.2	16.5	5.4
Soluble, instant coffee	10		7	1		2	92.5		79.9	6.2		6.4	6.7
Frozen concentr. orange juice	6		5	1			274.7		246.1	28.6			10.4
Other	72	1	34	6	8	23	397.0	39.2	190.7	43.1	57.2	66.6	10.9
Mineral products, fuels	13	3	5	1	3	1	419.2	376.5	13.7	3.0	21.5	4.5	0.7
Manufactures	244	10	127	28	39	40	1674.2	209.5	723.0	296.2	326.3	119.1	17.7
Textiles and apparel	21		12		8	1	86.7		54.0		29.3	3.4	
Footwear	75		58			17	328.1		266.9			61.2	
Iron and steel	34	6	19	1	7	1	378.2	116.4	187.8	8.6	63.7	1.5	2.3
Boilers, apparatuses and mec. instr.	25		7	10	6	2	201.2		64.5	43.2	85.5	8.0	21.5
Machines, electrical apparatuses	7			4	3		173.5			164.0	9.5		94.5
Transport equipment	17	2	6	5	3	1	176.9	70.3	23.8	21.7	59.4	1.8	12.3
Other	65	2	25	8	12	18	329.6	22.8	126.1	58.5	79.0	43.3	17.7

Source: ECLAC on the basis of data provided by:

CACEX

Quem e Quem na Economia Brasileira, Ano XXXII, n. 35A, August 1983, 514 p.

BERNET, Jean. Guia Interinvest; O Brasil e o Capital Internacional. 5. ed. Rio de Janeiro, INTERINVEST, C 1983. 964 p.

Table IV.7

BRAZIL, 1981: PRINCIPAL EXPORTERS TO THE UNITED STATES

Exporting firm	Ownership (more than 50% of equity capital)	Principal product exported to the U.S.
	Major exporters to the United States (all firms)	
Inst. de Acucar e do Alcool	Brazilian state enterprise	sugar
Petrobras	Brazilian state enterprise	petroleum derivates
Philco Radio e Televisao	Subsidiary of foreign firm (U.S.)	radio receivers for cars
Citrosuco Paulista	Brazilian private firm	frozen concentrated orange juice
Sucocitrico Cutrale	Brazilian private firm	frozen concentrated orange juice
Cia Sider. Paulista, COSIPA	Brazilian state enterprise	carbon steel plate
Embraer	Brazilian state enterprise	commuter aircraft
Inter-Continental Cafe	Brazilian private trading company	coffee in bean
Volkswagen do Brasil	Subsidiary of foreign firm (West-Germany)	internal combustion engines
Mercedes Benz do Brazil	Subsidiary of foreign firm (West-Germany)	trucks, CKD
Persico Pizzamiglio	Brazilian private firm	steel pipes and tubes
Mineracao Rio Norte	Brazilian state enterprise	uncalcined bauxite
Interbras	Brazilian state trading company	ethilic alcohol
Dow Quimica	Subsidiary of foreign firm (U.S.)	organic chemicals (epoxides)
Swift Armour	Brazilian private firm	industrialized beef
Cia Vale do Rio Doce	Brazilian state enterprise	iron ore and concentrates
Frutesp	Brazilian private firm	frozen concentrated orange juice
Tristao Cia Com. Exterior	Brazilian private trading company	coffee in bean
Cia Bras. Metal Mineracao	Brazilian private firm	iron ore and concentrates
Unicafe Cia Com. Exterior	Brazilian private trading company	coffee in bean
	Brazilian subsidiaries of U.S. companies	
Brazilian subsidiary	U.S. investor group	
Philco Radio Televisao	Ford Motor Corp., Dearborn (Mich.)	radio receivers for cars
Dow Quimica	Dow Chemical Co., Midland (Mich.)	organic chemicals (epoxides)
Cargill Industrial	Cargill Inc., Minneapolis (Minn.)	frozen concentrated orange juice
Burroughs Eletronica	Burroughs Corp., Detroit (Mich.)	electronic microcircuits
Ligget Myers Cigarros	Ligget Myers, recently acquired by Grand Metropolitan (United Kingdom)	tobacco, unmanufactured
Ford Brasil	Ford Motor Corp., Dearborn (Mich.)	internal combustion engines
General Motors do Brasil	General Motors Corp., Detroit (Mich.)	metalworking machinery
Leon Israel Agricola	Donaldson, Lufkin & Jenrette, New York	coffee in bean
Reynolds Tabacos	Reynolds Industries Inc., Winston-Salem (N.C.)	tobacco, unmanufactured
USIPA	Philipp Brothers, subsidiary of Engelhard Minerals & Chemicals Corporation, N.Y.	pig iron
RCA Eletronica	RCA Corporation, New York	electronic guns
Texas Instr. Eletr. do Brasil	Texas Instruments Inc., Dallas (Tex.)	electronic microcircuits
Becton Dickinson	Becton, Dickinson & Co., Paramus (N.J.)	medical instruments (artificial kidneys)
Coca-Cola	Coca-Cola Co., New York	soluble, instant coffee
Amazonas Compensadas Laminadas	Georgia Pacific Corporation, Portland Oregon	laminated wood products
Metalquimica da Bahia	Xerox Corp.,Stamford (Conn.)	chemical products for use in photography
Gecomol	Westway Trading Corp., Englewood Cliffs (N.J.)	cane sugar molasses
Caterpillar Brasil	Caterpillar Tractor, Peoria (Ill.)	track-laying tractors
McFadden	Valmac Industries, Memphis (Tenn.)	coffee in bean
TRW do Brasil	TRW Inc., Cleveland (Ohio)	internal combustion engines, parts
Borg Warner do Brasil	Borg-Warner Corporation, Chicago (Ill.)	motor vehicle parts
Anderson Clayton	Anderson, Clayton & Co., Houston (Tex.)	coffee in bean
Armada Fumos	Thorpe and Ricks Inc.	tobacco, unmanufactured
Kodak Brasil	Eastman Kodak, Rochester (N.Y.)	gray and residuals containing metal
Soc. Bras. Benefic. de Cha	Nabisco Brands Co.	tea
Singer Brasil	Singer Co., N.Y.	sewing machines
Hughes Tool do Brasil	Hughes Tools Co., Houston (Tex.)	accessories for metalworking machinery
Equipamentos Clark	Clark Equipment Co., Buchanan (Mich.)	motor vehicle parts
Hewlett-Packard do Brasil	Hewlett Packard, Palo Alto (Cal.)	pocket calculators
Xerox do Brasil	Xerox Corporation, Stamford (Conn.)	copying machines
Remington	Sperry Rand Corp., N.Y.	portable type writers
Monroe Auto Pecas	Tenneco Inc., Houston (Tex.)	motor vehicle parts
NCR do Brasil	NCR Corporation, Dayton (Ohio)	machines for classification of coins
Du Pont do Brasil	Du Pont de Nemours, Wilmington (Dil)	amide function compounds
Lawton Madeiras Amazonia		plywood
Bendix do Brasil	Bendix Corporation, Southfield (Mich.)	vacuo pumps
Torrington Brasil	Ingersoll Rand Corporation, Woodclifflake (N.J.)	textile machinery
IBM Brasil	IBM Corp., Armonk (N.Y.)	dater processing equipment, paste

Source: CACEX
Quem e Quem na Economia Brasileira, Ano XXXII, n. 35A, August 1983, 514 p.
BERNET, Jean. Guia Interinvest; O Brasil e o capital internacional, INTERINVEST, C 1983. 964 p.

Table IV.8

U.S. IMPORTS FOR CONSUMPTION UNDER TSUS ITEMS 807.00 AND 806.30

(in millions of U.S. dollars)

	1979			1980			1981			1982		
	total	duty-free	dutiable	total	duty-free	dutiable	total	duty-free	dutiable	total	duty-free	dutiable
					TSUS item 807.00							
Grand total	11559.3	3091.0	8468.3	13762.3	3584.1	10178.2	15924.3	4270.4	11653.9	17917.1	4461.1	13456.0
Developed countries	6365.1	527.9	5837.2	7529.7	491.7	7037.9	8731.5	689.9	8041.7	10121.9	610.6	9511.3
Other countries	5194.2	2563.1	2631.1	6232.6	3092.4	3140.3	7192.8	3580.5	3612.3	7795.2	3850.5	3944.7
Mexico	2001.7	1005.1	996.6	2276.3	1141.1	1134.8	2655.9	1399.3	1256.6	2804.8	1429.8	1375.0
Malaysia	603.5	369.9	233.6	795.3	465.2	330.1	900.5	542.8	357.7	1096.2	661.5	434.8
Singapore	547.0	278.0	269.0	760.4	402.2	358.2	843.1	393.3	449.8	836.2	363.7	472.5
Philippines	264.2	159.3	104.9	409.9	251.2	158.7	523.3	326.4	196.6	660.2	407.5	252.7
Taiwan	395.9	88.6	307.3	473.7	107.1	366.6	536.6	110.3	426.3	543.0	101.1	441.8
Hong Kong	326.6	102.8	223.7	407.8	113.7	294.2	517.8	126.0	391.9	508.3	102.6	405.7
South Korea	322.3	173.6	148.7	311.2	166.5	144.6	301.8	174.2	127.6	375.3	218.3	157.0
Haiti	133.7	94.5	39.2	153.8	105.3	48.5	171.3	117.1	54.2	179.9	125.7	54.3
Dominican Republic	87.7	59.6	28.0	97.5	66.1	31.5	119.7	78.6	41.1	131.0	88.2	42.8
Brazil	138.0	15.2	122.8	110.8	15.5	95.2	142.1	20.4	121.7	123.1	18.4	104.8
Thailand	47.6	34.9	12.6	82.4	67.3	15.2	106.5	79.9	26.7	107.3	73.4	33.9
					TSUS item 806.30							
Grand total	407.7	234.8	172.8	254.2	170.7	83.6	256.5	176.2	80.3	358.4	242.2	116.2
Developed countries	287.4	158.7	128.7	144.9	99.2	45.8	169.5	118.3	51.2	292.9	198.6	94.3
Other countries	120.2	76.1	44.1	109.3	71.5	37.8	87.0	57.9	29.1	65.4	43.6	21.8
Mexico	63.4	44.3	19.1	65.1	44.9	20.3	53.8	38.4	15.4	32.7	24.3	8.4
Malaysia	31.6	18.4	13.1	24.7	15.3	9.5	15.7	9.7	6.0	15.7	8.8	6.9
Singapore	12.6	7.1	5.5	12.9	7.2	5.7	15.1	8.1	7.0	9.0	4.5	4.6
Philippines	2.3	1.5	0.8	3.0	2.2	0.7	0.1	0.1	..	1.1	0.2	0.8
Taiwan	5.6	1.9	3.8	0.2	0.1	0.1	1.6	1.2	0.4	0.3	0.2	0.1
Hong Kong	0.2	0.1	0.1	0.9	0.4	0.6	..	..	..	..	..	..
South Korea	2.0	1.3	0.7	1.4	0.8	0.6	0.5	0.3	0.2	0.6	0.5	0.2
Haiti	..	..	..	..	..	..	..	..	..	..	..	..
Dominican Republic	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	1.6	0.8	0.8	0.7	0.4	0.3	0.1	..	..	0.1	0.1	..
Thailand	..	..	..	..	..	..	..	..	..	..	..	..

Source: ITC, figures compiled from official statistics of the U.S. Department of Commerce.

Table IV.9

ULITED STATES, 1980: THIRD COUNTRY SUPPLIERS OF MANUFACTURES IMPORTED FROM BRAZIL

(a) Third country	Country under (a) is the principal third country supplier of articles imported into the U.S. from Brazil		Country under (a) is one of the principal five supplier countries (including Brazil) of articles imported into the U.S. from Brazil	
	Number of articles imported from Brazil	Value of U.S. import from Brazil (US$ millions)	Number of articles imported from Brazil	Value of U.S. imports from Brazil (US$ millions)
World	473	1547.5		
EEC	169	596.3	389	1158.4
Canada	60	311.2	279	704.9
Japan	82	210.3	258	907.0
Mexico	14	61.6	108	314.0
Argentina	3	3.2	22	82.8
Hong Kong	17	36.7	89	88.9
Korea	8	55.2	71	425.4
Singapure	1	0.5	27	101.0
Other Asian nations	31	12.5	142	380.6
Other countries	88	260.0	-	-

Source: ECLAC on the basis of data provided by a GATT sample of U.S. imports from Brazil in 1980.

Table IV.10

UNITED STATES: IMPORTS FROM BRAZIL ACCORDING TO TARIFF TREATMENT

(US$ millions)

	1976	1977	1978	1979	1980	1981	1982
Total trade	1 721.4	2 230.7	2 788.8	3078.8	3686.0	4332.6	4174.4
MFN	1 432.2	1 722.8	2 106.7				
dutiable	378.8	414.7	651.6				
duty-free	1 053.4	1 308.1	1 455.1				
GSP	289.1	507.9	682.1	947.4	969.7	1 102.5	828.8
duty-free	214.7	343.8	468.9	545.5	438.0	514.6	563.9
dutiable	74.4	164.1	214.1	401.9	531.7	587.9	264.9
competitive need	36.5	131.8	166.3	354.1	486.2	445.7	168.8
graduation	n.a.	n.a.	n.a.	n.a.	n.a.	79.0	20.4
administrative reasons a/	37.9	32.3	47.8	47.8	45.5	73.2	75.7

a/ such as failure to claim GSP, improper documentation, or failure to meet 35 percent value added requirement

Source: 1976-1979 Committee on Ways and Means, U.S. House of Representatives; Report to the Congress on the First Five Years Operation of the US Generalized System of Preferences (GSP).

1980-1983 ECLAC on the basis of various publications.

Table IV.11

UNITED STATES: GSP-ARTICLES WITH RESPECT TO WHICH BRAZIL WAS EXCLUDED FROM DUTY-FREE TREATMENT IN ONE OR MORE YEARS DUE TO THE APPLICATION OF THE COMPETITIVE NEED FORMULA (X) OR GRADUATION (G)

TSUS	Description	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Imports from Brazil ($ thousands)	
	excluded in: / due to import value in:	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1981	1982
10745	Beef or veal		X	X								-	90
10748	Corned beef			X				X	X	X	X	59 945	38 838
13035	Corn or maize			X								-	-
14785	Guavas		X	X	X	X						318	353
15254	Guava paste and pulp			X		X				X	X	512	1059
15308	Guava jelly, jam, etc.				X							-	-
15520	Sugar, sirup, etc.	X	X	X	X	X	X	X	X	X	X	387 810	88 857
15640	Cocoa unsweetened				X	X	X					9 923	6 554
15645	Cocoa sweetened				X							-	-
17601	Castor oil, valued not over 20 cts. per pound	X	X									-	-
17602	Castor oil, valued over 20 cts. per pound	X	X									-	-
17615	Castor oil, valued over 20 cts. per pound			X	X		X	X				-	573
18620	Fur cut				X	X						13	7
24010	Plywood, spanish cedar face	X										209	754
24012	Plywood, parana pine face	X	X			X						92	121
24520	Hardboard, n/face finished					X	X	G	G	X	G	17 959	13 784
24530	Hardboard, face finished								X			3 733	888
30444	Ramie fibers				X	X						96	62
30448	Sesal and henequen			X								14	36
30830	Silk yarn				X	X						78	329
40212	Phtalic anhydride								X			979	147
42098	Sodium chromate and dichromate					X						-	-
42574	Citric acyde		X									-	50
42586	Oxalic acyde			X			X					160	653
42830	Butylene and propylene glycol								X			6 313	1 455
42834	Ethylene glycol						X					3 052	2 979
42858	Ethyl acetate									X	X	556	1 437
42886	Propylene oxide								X			16 080	4 144
43724	Cuprous oxide					X						-	-
43751	Gluconic acid		X									-	-
43764	Menthod	X	X	X	X	X			X			10 878	2 909
45244	Orange oil									X		1 256	767
46070	Safrol				X							-	-
46565	Coconut, palm-kernel and palm oil		X									-	-
52051	Precious stones			X								7	29
60636	Ferrosilicon									G	G	2 923	2 490
60637	Ferrosilicon									G	G	18 684	7 886
60644	Ferrosilicon manganes									G	G	13 681	4 496
62240	Tin pipes tubes					X	X					136	-
65414	Articles of aluminum										X	...	...
66042	Piston-type compression engines					X	X	G	G	G	G	9 807	6 656
66048	Piston-type engines									X	X	17 225	111 051
69232	Motor vehicle body parts						X	G	X	G	X	52 002	39 330
69650	Floating ducks and parts					X		X				-	-
70320	Headwear fur				X							-	-
73027	Rifles, val. over $10 not over $25	X		X								-	-
73029	Rifles, val. over $25			X	X	X	X					204	23
73039	Shotguns, val. over $5 not over $10	X										-	-
73041	Shotguns, val. over $10 not over $25	X		X	X	X	X					-	-
73077	Shotgun rifle combination parts				X							..	-
79120	Patent leather cut	X		X								..	-
Number of articles		10	10	15	15	17	11	7	10	12	12		

a/ Item number changed to 13032+13037.
b/ Item was withdrawn from GSP when tariff was reduced to zero.
c/ Item number changed to 17615.
Source: ECLAC, on the basis of:
1976-1979 Committee on Ways and Means, U.S. House of Representatives. Report to the Congress on the First Five Years' Operation of the Generalized System of Preferences (GSP)
1980- data provided by the Office of the U.S. Trade Representative

Table IV.12

UNITED STATES: COUNTRIES GRADUATED FROM DUTY FREE TREATMENT ON CERTAIN GSP-ARTICLES AND PREVIOUS YEAR'S TRADE

(US$ millions)

	1982			1983			1984		
	total	redesig- nation denied	petition	total	redesig- nation denied	petition	total	redesig- nation denied	petition
Total	651.1	597.2	53.9	900.1	805.4	94.7	1208.5	1025.9	182.6
Brazil	27.8	27.8	-	60.9	46.0	14.9	46.0	46.0	-
Hong Kong	257.8	257.8	-	294.9	294.9	-	283.8	265.4	18.4
Israel	3.0	2.6	0.4	4.3	4.3	-	4.4	4.4	-
Korean RP	90.8	87.3	3.5	125.3	91.3	34.0	213.5	181.6	31.9
Mexico	84.4	84.4	-	80.6	53.6	27.0	134.0	134.0	-
Singapore	23.1	-	23.1	20.4	20.4	-	106.0	106.0	-
Taiwan	164.2	137.3	26.9	313.7	294.9	18.8	420.8	288.5	132.3

Source: Office of the USTR

Notes

1/ The U.S. direct investment and reinvestment position in Brazil has exceeded that of the EEC since 1982. In recent years their respective positions (in $ billions) were as follows:

	United States	EEC
December, 1978	3.8	4.5
December, 1979	4.4	5.3
December, 1980	5.1	5.8
December, 1981	5.8	5.9
December, 1982	6.6	6.5
June, 1983	6.9	6.6

Source: Central Bank of Brazil, Monthly Bulletin. Vol 20, No 4. April 1984

2/ William G. Tyler, "Changing perspectives of Brazil's international economic relations", In: Howard J. Wiarda and Janine T. Perfit, eds. Changing Dynamics of the Brazilian Economy. Washington, D.C.. The Center for Hemispheric Studies, (February, 1983) p.3, (Occasional Papers Series No.5).

3/ According to a study by Data Resource, Inc. and published in Business Week, a default on Brazil's foreign debt would cost the U.S. economy $24.7 billion in GDP, $ 14 billion in export earnings and 399 thousand jobs; the deficit on the federal budget would increase $8.4 billion and interest rates on federal funds would raise by 0.6 percentage points. Cited by Mr. Laerte Setubal Filho, President of the Brazilian Exporters Association, in his opening speech before the seminar "How to increase the Brazil - U.S. trade". Rio de Janeiro, March 28, 1984.

4/ William Cline, "Reciprocity a new approach to World Trade Policy", Institute for International Economics, Policy Analysis in International Economics, Nr. 2, (September, 1982), Washington, D.C.

5/ Cited in C. Fred Bergsten and William R. Cline, "Trade Policy in the 1980s.", p.31.

6/ The Tokyo Round subsidies code essentially represented a bargain whereby the United States accepted the general GATT practice of applying countervailing duties only when injury exists (a requirement previously absent under U.S. "grandfather clause" rights) in exchange for European acceptance of the principle that subsidies, ostensibly for domestic purposes, are also subject to countervailing if they cause trade injury. (Gary Clyde Hafbauer, "Subsidy Issues after the Tokyo Round," Trade Policy in the 1980s), Cline, ed..

7/ In the IMF, many developing countries have not accepted Article VIII status. They maintained Article XIV status and therefore are exempted from the prohibition on imposing

restrictions on payments and transfers for current international transactions, unless authorized by the Fund, and to engage in discriminatory currency arrangements or multiple currency practices. See: The "Graduation" Issue in Trade Policy Toward LDCs, World Bank Staff Working Paper, N. 334.

8/ The enabling clause, among other matters permits industrialized countries to grant tariff preferences to developing countries under the GSP programs, without the necessary extension of a waiver of their MFN obligations.

9/ Committee on Ways aand Means, U.S. House of Representatives, "*Report to the Congress on the first Five Year's Operation of the* U.S. Generalized System of Preferences (GSP)". Page 23. U.S. Government Printing Office (WMCP 96-58, April 21, 1980, 187 pp.).

10/ In 1982 the U.S. Government claimed that Brazil signed contracts under the BEFIEX program granting the export credit premium despite a commitment to phase out this subsidy and requested Brazil to take corrective measures. Firms which joined BEFIEX after March 30, 1982 will not receive the export credit premium during the entire period of validity of their export programs, but only until the expiration date of this export incentive.

11/ This section is based to a large extent on: William R. Cline, "Reciprocity A new approach to world trade policy", Institute for International Economics, Policy Analysis in International Economics, Number 2, (September, 1982).

12/ William R. Cline, et. al., Trade negotiations in the Tokyo Round: A Quantitative Assessment, Washington, D.C., The Brookings Institution, (1978), 314 p. il..

13/ William R. Cline, "Reciprocity a new approach to world trade policy", p. 15.

14/ Both Brazil and the United States are important exporters of agricultural products. Trade in agricultural products between the two countries is determined to a large extent by climatic factors. Brazil exports tropical products to the United States and imports wheat, to compensate for insufficient domestic production. Trade in other agricultural and agro-industrial products led to conflict between the two countries, either because of competition with producers in the U.S. home market (meat, sugar, frozen concentrated orange juice, instant coffee) or competition in third country markets (soybean, poultry-section 301 investigations by the Office of the USTR, see Chapter V). In some cases the two countries have common interests and are allies, for instance, with regard to the Common Agricultural Policy of the EEC.

15/ The draw-back system is also important for footwear exports.

16/ The diversification of exports in favour of manufactures was

accompained by a spectacular growth of Brazil's exports to other developing countries. These exports consist principally of manufactures. The U.S. market has been extremely important for the diversification of Brazil's exports. The share of industrial products in the exports to the U.S. is much higher than is the case with Brazilian exports to other industrialized countries.

17/ As a result, imports of footwear, textiles and apparel, and steel products, all of which are generally import-sensitive items, still accounted for 47 percent of Brazil's export of industrial products (excluding agro-industrial products) to the U.S. in 1982.

18/ This kind of vertical specialization is important for Hong Kong and Taiwan. See: Bela Balassa, "Industrial Prospects and Policies in the Developed Countries", World Bank Staff Working Paper N. 453, Washington, (April, 1981). Balassa observes that: Parts, components, and accessories figure prominently in U.S. imports originating in Hong Kong, Korea, and Taiwan, each of which ships several times more manufactured goods to the United States than do Mexico and Malaysia, which surpass them in terms of U.S. imports under tariff items 807.00 and 806.30. There is also a reverse flow of parts, components and accessories from the developed countries for assembly in the developing countries. For example, Taiwanese firms import technologically sophisticated as well as capital-intensive parts, components, and accessories from the United States and Japan for assembly in Taiwan. This is the converse of the pattern observed in the developed countries that purchase simple, labor intensive parts, components, and accessories from the developing countries. (p. 17 and 18).

19/ Increased from 2800 articles at the beginning of its operation in 1976.

20/ Committee on Ways and Means, U.S. House of Representatives, Report to Congress on the first Five Years' Operation of the U.S. Generalized System of Preferences (GSP), U.S. Government Printing Office (WMCP 96-58, April 21, 1980, 187 pp.).

21/ The dollar value for 1982 imports was 53.3 million dollars (increased from 25 million dollars for 1976 imports).

22/ The dollar value was 1,266,622 dollars for imports in 1982 (increased from 1 million dollars for 1979 imports).

23/ Report to the Congress.

24/ These are nominal rates. The effective tariff rates are probably higher due to the escalation of U.S. rates in line with value added.

CHAPTER V

U.S. IMPORT RESTRICTIONS FACING BRAZIL

This chapter presents data and background information on U.S. import restrictions affecting Brazil (Sections a through g). In section h, imports from Brazil which are affected by measures under U.S. trade laws or practices - including export taxes in Brazil in the framework of suspension agreements - are related to total exports from Brazil to the United States.

a) Tariff Protection

One of the main characteristics of international trade in the post-war period is the continuous reduction of tariffs in the industrialized countries, the benefits of which have been extended to developing countries under the MFN clause. These reductions were achieved first product by product and, afterwards, through across-the-board tariff reductions in successive rounds of multilateral trade negotiations (the most recent being the Dillon, Kennedy and Tokyo Rounds).

As a result, tariffs charged on imports into industrialized countries tend to be low and are being reduced even more in accordance with the tariff cuts agreed upon in the Tokyo Round, which will be fully implemented by January 1, 1987.

With regard to tariffs facing developing countries, two remarks are commonly made: first, duties on products of current export interest to developing countries remain relatively high, whereas tariffs on products of greatest interest to industrial countries, which were cut more sharply in the Tokyo Round, generally are low; and second, exports of manufactures by developing countries suffer high effective duty rates due to the existence of tariff escalation in industrialized countries.

There is no detailed analysis on effective tariffs affecting articles imported into the United States from Brazil. This section refers only to nominal tariffs. The analysis is based on U.S. import statistics for 1982 and on a GATT sample of U.S. imports from Brazil in 1980.

In 1982, 52.4% of U.S. imports from Brazil were dutiable, 34.1% were free on an MFN basis, and 13.5% were duty free under GSP. On the dutiable imports, the average (mean) duty (in 1981) was 8.2%.

The standard deviation of import duties is high. According to a recent OAS publication 1/, in 1982 out of 669 tariff items imported from Brazil, and excluded from GSP treatment, 127 suffered tariffs of over 15%, 51 of over 25%, and 18 of over 35%. However, present and/or potential trade in these items is not always significant.

MTN tariff concessions will have a modest effect on products

of present export interest to Brazil. The average (mean) duty on dutiable imports will decline from 8.2% in 1981 to 7.5% in 1987. The trade weighted average duty on dutiable imports will fall from 13.1% in 1980 to 12.3% in 1987 (according to 1980 trade figures; Table V.1). U.S. trade legislation excluded products subject to import relief programs from the MTN tariff negotiations. For example, footwear was excluded because orderly market agreements (OMA's) with Korea and Taiwan were in force. A series of steel products were also not negotiable. With regard to textiles, some tariff reductions were negotiated, but a "snapback" clause was established at the MTN which permits tariffs for textiles and apparel to revert to pre-MTN levels if there are import surges. Although U.S. tariff reductions - as is the case of tariff reductions granted by other industrialized countries - will have only a small impact on products of immediate export interest to Brazil, in the long run they may be more significant as they benefit potential exports.

The main characteristics of U.S. tariff protection facing Brazil are summarized in Table V.1. The figures presented there are calculated on the basis of a GATT sample of 549 major tariff lines (on the 5 digit aggregation level of the TSUS) representing 3.6 billion dollars of U.S. imports from Brazil in 1980.

It is interesting to note that in the case of U.S. imports from Brazil the trade weighted average tariff on dutiable articles in 1980 was higher than the simple arithmetic average. If nominal duties have a significant effect on the structure of imports, that is, if imports in tariff lines with low duties tend to be higher than those in tariff lines suffering high duties (in the extreme case duties can be so high as to be prohibitive), the trade weighted average duty will be lower than the simple arithmetic average. The fact that this could not be verified in the case of U.S. imports from Brazil in 1980 indicates that trade is important in some tariff lines affected by higher tariffs, which is an indication of the high competitiveness of some major export articles of Brazil. This is typically the case of sugar and frozen concentrated orange juice 2/.

Articles imported from Brazil with nominal tariffs of 15% or more and which represented no less than one million dollars of trade in 1980 were:

TSUS	Description	U.S. imports from Brazil in 1980 (US$ thousands)	import duty ad valorem equivalent (%) pre-MTN	post-MTN	1980
15520	sugar, syrups and molasses	409986	17.7	17.7	17.7
16535	citrus fruit juices	65070	51.9	51.9	51.9
17032	cigarette leaf	5571	16.8	16.8	16.8
17060	scrap tobacco	23703	19.4	19.4	19.4
33815	woven fabrics of manmade fibers	5393	18.6	15.0	18.6
38206	cotton wearing apparel, knit, for women and girls	6714	21.0	14.4	21.0
42530	monosodius glutamate	3446	16.0	12.0	15.5
53224	ceramic floor and wall tiles	2299	22.5	19.0	22.5

Source: GATT, 1980 sample of U.S. imports from Brazil.

It can be concluded that tariffs charged on imports from Brazil are generally low. However, a small number of products of great export interest to Brazil, principally sugar, orange juice and tobacco, face high import duties. Some textiles and apparel categories also suffer from relatively high tariffs.

Some recent developments regarding U.S. tariffs have caused concern in Brasil. In late 1981, tariffs on sugar imports were increased (see section g). In 1983, the U.S. Customs Service changed the tariff classification of certain tobacco used for cigarettes, resulting in a sharp increase in the import tariff 3/.

Of great concern in Brazil is the U.S. policy regarding alcohol fuels. In October, 1983, a bill (HR 4105) was presented in the House of Representatives to amend the Internal Revenue Code of 1954. The bill proposed, among other things, an increase in the tariff on alcohol imported for fuel use (TSUS item 901.50) from 50 to 90 cents per gallon. The tariff increase was approved in 1984. As the tariff increase refers to an item that was bound under GATT, Brazil is entitled to compensation in the form of concessions on other items. Negotiations are underway between the two countries. The United States has offered tariff concessions on corned beef (a GSP-article for which Brazil has been excluded from duty-free treatment for competitive need reasons).

b) Countervailing Duties

Countervailing duties have been applied to Brazilian products since 1974 (footwear, Table V.2). Since then Brazil's exports to the United States have been especially sensitive to countervailing duty petitions because of the combined effects of the significant reliance on subsidies for export promotion and

the concentration of exports in articles for which import penetration into the United States from all sources is high. The number of products subject to countervailing duty proceedings increased sharply in 1981, due to the long economic recession in the United States, the high value of the dollar and the re-introduction of fiscal subsidies in Brazil. An additional factor is the difficult situation of the U.S. steel industry and the role of the U.S. market as an outlet for steel makers in many developed and developing countries which possess overcapacity in relation to their domestic markets. Antidumping and countervailing duty investigations on steel products exploded in recent years affecting many countries. In November, 1981, the Department of Commerce self-initiated antidumping and countervailing duty investigations (including carbon steel plate from Brazil) in response to significant imports of steel products at prices below those established by the Trigger Price Mechanism (TPM). On January 11, 1982, domestic producers filed 132 anti-dumping and countervailing duty petitions covering carbon steel products from seven EEC countries, South Africa, Romania, Spain and Brazil. The U.S. Administration suspended the TPM that had been established as a substitute for individual unfair trade investigation on the basis of petitions by U.S. steel producers. The suspension of the TPM contributed to a further increase of unfair trade investigations. In September, 1982, the Department of Commerce was investigating 56 countervailing duty and 25 anti-dumping cases 4/.

Around September, 1982, some 16 articles exported by Brazil to the United States suffered either countervailing duty proceedings in the U.S. or off-setting export taxes in Brazil, representing more than one fourth of the value of Brazilian exports to the United States, and about 40 percent of the exports of manufactured articles (1981 trade; throughout this chapter the definition of industrial and manufactured articles corresponds to the rather broad CACEX classification). In mid 1984, Brazilian exports to the U.S. market affected by either countervailing duties or offsetting export taxes amounted to 1.2 billion dollars, equal to 25% of total exports and 35% of exports of manufactured products to the United States. (1983 trade according to Brazilian export statistics).

The most important articles affected by countervailing duty proceedings - according to their trade coverage (1983 FOB export value, according to Brazilian export statistics) - are nonrubber footwear ($560 million), frozen concentrated orange juice ($282 million) and a series of steel products ($324 million). Steel products subject to countervailing duty proceedings in 1984 represented, in 1983, 69% of the total value of steel exports to the United States (80% in the case of manufactured steel products).

Brazil was one of the first countries which signed the GATT subsidy code agreed upon in the Tokyo Round (Agreement on Interpretation and Application of Articles VI, XVI and XXIII of GATT). Under Article 14:45 of Part III of the Agreement, Brazil

committed itself to phase out (by June, 1983) its principal export subsidy: the export credit premium. The U.S. considers Brazil as a "Country under the Agreement" 5/, and applies Subtitle A of Title VII of the Tariff Act of 1930, as amended by the Trade Agreements Act of 1979, to imports alleged to be subsidized by Brazil.

Under Title VII, countervailing duties are imposed when the Department of Commerce determines that a country under the agreement 6/ provides subsidies with respect to a class or kind of merchandise imported into the United States, and the U.S. International Trade Commission (ITC) determines that an industry in the United States is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of imports of that merchandise.

Several U.S. agencies have responsibilities for dealing with countervailing duty questions. The U.S. Department of Commerce (International Trade Administration) is responsible for investigations about the granting of subsidies by exporting countries. The U.S. International Trade Commission is charged with the authority to determine whether subsidized imports cause or threaten to cause material injury to a domestic industry. The Office of the U.S. Trade Representative provides policy guidance on subsidy issues, such as on the use of "suspension agreements" (see below).

U.S. trade legislation on subsidies and countervailing duties is less tolerant than that of most other countries, such as the EEC, in that the imposition of countervailing duties is mandatory when subsidies and injury are shown (unless suspension agreements are reached) and is to the full level of net subsidies as computed by the U.S. Department of Commerce.

Net subsidies, as calculated by the Department of Commerce, for selected articles imported into the United States from Brazil are presented in Table V.5. This table shows that three elements of the Brazilian export promotion programs normally have been considered to constitute Brazil's most important export subsidies: the export credit premium; preferential working-capital financing; and income tax exemption for export earnings. (For a description of these programs see Chapter III). In recent investigations of several steel products, domestic subsidies have also been included in the calculation of the total net subsidy. The principal programs that provide incentives to the Brazilian steel industry and which the Department of Commerce considered to constitute countervailable subsidies are industrial product tax (IPI) rebates for capital investment (Decree Law 1547 of April, 1977), tax incentives on certain imported machinery for certain industrial projects approved by the Industrial Development Council (CDI), and accelerated depreciation for capital goods manufactured in Brazil in favor of expansion projects approved by CDI. In recent investigations on certain carbon steel products, a major concern has been the question of whether or not the participation of the Government of Brazil in equity capital

corresponds to commercial criteria. (The Department of Commerce considers Government participation in equity capital to constitute a subsidy when such participation is not based on commercial reasons, that is, when no profits are obtained).

Tables V.4 and V.5 give data and background information on countervailing duty petitions filed in the period 1981-1983. In all cases presented in the Table (representing $410 million of U.S. imports in 1981) the Department of Commerce found subsidies ranging from 3.51% of the FOB invoice value in the case of frozen concentrated orange juice to between 15 and 20% for some steel products.

In recent investigations, very high subsidies have been calculated. In the case of certain carbon steel products, the net subsidy was preliminarily estimated at 27.42% of the FOB invoice value for all major exporters (January, 1984), later revised to enterprise specific rates, as follows: CSN 62.18%; Cosipa 36.48% and Usiminas 17.49% (June, 1984).

ITC determinations in countervailing duty investigations on articles imported from Brazil and their trade coverage are summarized in Table V.4.

In most cases leading to affirmative determinations, the government of Brazil reached suspension agreements with the U.S. Department of Commerce (Table V.6). In these agreements, Brazil committed itself to offset by export taxes the ad valorem value of incentives considered to be subsidies by the U.S. Department of Commerce, and to adjust these export taxes for future changes in the underlying export promotion programs. In exchange, the U.S. Government did not issue countervailing duty orders. No suspension agreement was reached on certain carbon steel plates and sheets in spite of the fact that the Government of Brazil decided in March, 1984 to impose an offsetting export tax of 27.42%, equal to the net subsidies according to the preliminary subsidy determination of the Department of Commerce.

Normally, ITC suspends its investigation when suspension agreements are reached, but petitioners and/or governments are entitled to request the continuation of countervailing duty investigations. Such requests were filed in at least two cases by petitioners for prestressed concrete steel wire strand and stainless steel products, and by the Government of Brazil in the case of frozen concentrated orange juice.

In two of these final investigations, ITC's determination was affirmative: stainless steel products and frozen concentrated orange juice. The corresponding suspension agreements remained in effect. In the case of orange juice only the threat of material injury was confirmed. With regard to the apparently low threshold in this case, it must be noted that ITC would have given special consideration to the agricultural nature of this industry. In the case of prestressed concrete steel wire strand, ITC reached a negative final determination. As a result, the suspension

agreements did not remain in effect and the investigation was terminated. The government of Brazil removed the corresponding export tax in April, 1983.

In 1983, ITC also conducted an investigation of the likely effects of the revocation of the countervailing duty order on imports of footwear from Brazil on the request of the Government of Brazil (by letter of October 26, 1981). In this case, ITC reached a negative determination, mainly on the basis of the fact that the net potential subsidy, as calculated by the Department of Commerce, was almost fully offset by an export tax. The remaining net subsidy was only 0.48%, which is less than the 0.5% considered _de minimis_ by the Department of Commerce. The fact that the Minister of Finance of Brazil gave assurances (by letter of April 22, 1983) that the offsetting export tax would remain in force in case of revocation of the outstanding countervailing duty order, and that it would be adjusted for any changes in the underlying subsidies, was taken into account in the U.S. decision.

Countervailing duty proceedings constitute the most important obstacle to easy access of Brazilian articles, especially industrial products, into the U.S. market. It is not difficult for U.S. petitioners to demonstrate some evidence of subsidization provided to manufactures in Brazil; the theshold of proof in preliminary injury investigations is low. The filing of a petitioner for countervailing duties often leads to complicated and time-consuming investigations, even if the (final) determination of ITC is negative. Countervailing duty proceedings lead to uncertainty for importers and exporters, which is increased by the possibility of retroactive adjustments through the annual reviews of outstanding orders by the Department of Commerce. The effects of this uncertainty on Brazilian exports to the U.S. are difficult to quantify.

In early 1984, the Government of Brazil tried - unsuccessfully at that time- to reach an agreement on an export control program for carbon steel products in return for a withdrawal of unfair trade petitions. In April, 1984, the Government of Brazil initiated a three-year export control program for coils and hot and cold formed carbon steel plate and sheet, limiting exports to the United States in the first year (from May 1, 1984 through April 30, 1985) to 430 thousand tons, a reduction of 52% with respect to the 888 thousand tons exported to the United States in 1983 (CACEX Communication 82, May 29, 1984).

c) _Antidumping actions._

In U.S. trade legislation, dumping is referred to as exports priced at "less than fair value".

Subtitle B of Title VII of the Tariff Act of 1930, as amended by the Trade Agreements Act of 1979, provides that anti-dumping duties will be imposed when the Department of Commerce

determines that a class or kind of foreign merchandise is being, or is likely to be, sold in the United States at less than fair value and the U.S. International Trade Commission determines that an industry in the United States is materially injured or threatened with material injury, or that the establishment of an industry is materially retarded, by reason of imports of that merchandise.

The number of Brazilian products involved in antidumping cases was for a long time small. The reason for this may be that it is more difficult for U.S. petitioners to indicate evidence of dumping than of subsidization since the Brazilian export incentive program is well known. However, in 1982 the number of antidumping cases involving Brazilian products increased sharply (Table V.7). A high proportion of these articles, especially steel products 7/, were previously subject to countervailing duty investigations. The reason seems to be that petitioners, who were discontented with suspension agreements between the two governments, believed they could obtain more explicit protection under the antidumping law.

In November, 1983, antidumping duties were imposed on imports of carbon steel wire rod from Brazil. The level of these duties (63.5%) was prohibitive to further exports to the United States. Exports of carbon steel wire rod to the United States decreased from 109 thousand tons in 1982 to only 18 thousand tons in 1983. However, on the request of the Government of Brazil, the Department of Commerce conducted an accelerated revision of the dumping margins in order to consider the effects of the cruzeiro's devaluation. As a result, the antidumping duties were reduced to 7.4% for Belgo-Mineira and to 0% for Cosigua.

In January, 1984, the Department of Commerce made an affirmative preliminary determination on sales at LTFV of hot-rolled carbon steel plate and sheet (ranging from 65.58 to 100.04 percent) and coils (from 50.55 to 52.57 percent). In April, dumping margins, ranging from 0 to 8.07 percent, were found on cold formed carbon steel plate and sheet.

d) Escape Clause

The escape clause is designed to provide import relief for industries that suffer injury because of rapidly increasing imports, although neither subsidized nor dumped.

GATT Article XIX permits temporary restrictions of disruptive imports on a nondiscriminatory basis. When countries apply Article XIX restrictions on bound items, they must compensate the exporting country by an equivalent tariff concession or are otherwise subject to retaliation in the form of cancelation of equivalent concessions by affected countries.

In recent years, industrialized countries have tended not to use Article XIX but have preferred other protective devices generally not sanctioned by GATT, such as "Voluntary" Restraint

Agreements (VRAs) and Orderly Marketing Agreements (OMAs) 8/.

Since 1974, import relief has been provided by Section 201-203 of the Trade Act. According to the Escape Clause currently in force, ITC, if there is an affirmative injury determination, recommends import relief to the President. ITC can recommend a tariff increase, tariff quotas, quantitative restrictions, or a combination of these measures. If ITC believes that trade adjustment would provide adequate relief, it can recommend this solution. The President can reject or accept the ITC recommendations. He can also negotiate OMA's or VRA's with exporting countries. The President has to consider factors of national economic interest in his decision. For example, he can refuse to impose restrictive measures if this would have inflationary effects or if a real possibility of retaliation exists.

If the President declines to take any action or takes action which is different from that recommended by ITC, Congress may, within 90 legislative days, pass a concurrent resolution, approved by a majority of each house, directing the President to proclaim the relief recommended by ITC.

Relief is temporary and may be provided for up to five years, with the possibility of one extension of not more than three years. Tariffs may be increased to a level no more than 50 percent above the existing rate, and any quantitative restraint (quota) must permit imports of no less than those realized in the most recent period that can be considered representative for the importation of the restrained articles.

As can be seen in Table V.8, until 1982, Brazilian products were not frequently involved in Escape Clause investigations. The reason for this is the generally low import penetration rates of Brazilian products. Since it is easier to present evidence of subsidization of Brazilian products, U.S. industries prefer to initiate countervailing duty cases against Brazil. Countervailing duty-orders are mandatory, if subsidization and injury are shown, whereas import relief under Section 201 is optional. The threshold for affirmative determinations regarding injury is also higher in Escape Clause cases.

ITC has conducted several investigations on footwear, but no special measures were taken against imports from Brazil. In May, 1984, ITC determined that increased imports of footwear were not a substantial cause of injury to the footwear industry in the United States.

Recently, Brazil was involved in an Escape Clause case regarding specialty steels 9/. In spite of rapidly increasing exports to the United States, the import penetration of Brazilian stainless steel and alloy tool steel was less than 1% of U.S. apparent consumption of the specialty steels subject to investigation. (At the *product level* the penetration rate of imports from Brazil reached a maximum of 3.4% for alloy tool

steel in 1982, Table V.5) 10/. In other words, when import penetration from all sources is high, Brazil may be caught in import relief programs even if exports from Brazil to the United States are not great.

In June, 1984, ITC determined that increased imports of a broad range of steel products constitute a substantial cause of injury to the U.S. steel industry and recommended the imposition of quotas. As steel export control programs are already in effect with the major suppliers of the U.S. market (e.g., the EEC), the Brazilian Government fears that import reduction through quotas will principally affect Brazil and other smaller suppliers who also have fewer possibilities to take retaliatory trade measures. The establishment of import quotas on the basis of the volume of imports in a given period of reference tend to principally affect the most dynamic suppliers like Brazil.

In September, 1984, the U.S. administration decided to limit steel imports to 18.5% of apparent consumption (estimated to attain 88 million tons in 1984). USTR was requested to negotiate, within 90 days, "voluntary" export restraint arrangements with the main foreign suppliers. In December, the United States was demanding that Brazil limit its exports to 1% of U.S. apparent consumption while Brazilian negotiators were insisting on 1.5% 11/.

e) *Trade in Textiles*

Trade in textiles was an early exception in the post-war process of liberalization of international trade.

In 1955, Japan was pressed to impose a series of restrictions on the exports of certain cotton articles to the United States that culminated in the institution of a five-year export control program in 1957. These measures brought only temporary relief as new suppliers rapidly emerged. The United States then tried to avoid disruptive imports on the basis of multilateral action. These actions resulted in the creation in 1961 of the Short-Term Arrangement Regarding International Trade in Cotton Textiles (STA), which covered the period from October 1, 1961 to September 30, 1962. The Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) originally covered a period of five years, starting October 1, 1962. At first, trade in cotton textiles covered by the arrangement was controlled only on a product-by-product basis, but the United States later negotiated bilateral agreements with many exporting countries. The LTA was renewed in 1967 and 1970. In the early seventies, imports into the United States of textile products not covered by the LTA increased rapidly, principally manmade fibers from Japan and apparel from Taiwan, Korea and Hong Kong. Under U.S. leadership, negotiations started in 1973 that culminated in the creation of the Multifiber Arrangement (MFA) in 1974. The first MFA covered the period January 1, 1974 to December 31, 1977, and included most textiles of cotton, wool and man-made

fibers. It was renewed in 1977 and 1981. (Effective January 1, 1982).

Agreements on international trade in textiles are authorized internationally by GATT, currently through the MFA, and internally in the U.S. by Section 204 of the Agricultural Act of 1956, as amended. The Textiles Trade Policy Group (TTPG), under the chairmanship of the U.S. Trade Representative, makes broad policy decisions on U.S. textile and apparel trade, and the Committee for the Implementation of Textiles Agreements, under the chairmanship of the Department of Commerce, is responsible for the implementation of U.S. textile and apparel policy. The administration of trade agreements is the responsibility of the Office of Textiles and Apparel (OTEXA) of the Department of Commerce.

In late 1983, the U.S. administration approved an overall program to control textile imports that also applies to articles not covered by bilateral agreements. These tighter import restrictions were issued, among other reasons, in return for a withdrawal of unfair trade petitions by U.S. textile manufacturers against imports of textiles from China 12/.

Exports of certain cotton textiles from Brazil to the United States were restrained beginning with carded cotton sheeting in November, 1963, followed by several other products in subsequent years. The first bilateral agreement between Brazil and the United States went into effect on November 1, 1970, initially for a period of 5 years. It established an aggregate level of 75 million square yard equivalents for cotton textiles. It was amended in 1972 and replaced by a new agreement in 1974 under the Multifiber Arrangement (Table V.9).

Under the MFA, Brazil has signed three subsequent bilateral agreements with the U.S., effective April 1, 1976, 1979 and 1982 respectively. The first two agreements restrained trade in cotton textiles, on an aggregate level, on subgroup levels and on individual categories (Table V.9). Categories for which no specific levels were established were subject to consultation if exports exceeded a certain volume (one million square yard equivalents for each nonapparel category and 700,000 square yard equivalents for each apparel category). In a separate agreement, Brazil committed itself to consult with the United States for possible limitations on man-made fiber textiles should imports into the United States during a 12-month period exceed by 10% or more the level of such imports during any of the 3 years preceding the agreement. Restraint levels and flexibility conditions are specified in Table V.9.

For a long time, imports of cotton textiles from Brazil into the United States were small in relation to global and subgroup restraint levels. Even for specific product categories, U.S. imports from Brazil were normally less than the levels permitted in the agreements (Table V.10 and V.11). These figures seem to indicate that restrictions under the bilateral agreements had

little negative effect on exports of textiles from Brazil to the United States. Internal factors in Brazil constituted more significant obstacles.

Under the current bilateral agreement, restraint levels became more significant. Since 1982, Brazil has completely filled the permitted imports for cotton yarns (product categories 300 and 301) and import restrictions are believed to be a major obstacle to increased exports of these articles to the United States 13/.

f) Section 301 of the Trade Act of 1974 (Unfair Trade Practices)

Under Section 301 of the Trade Agreements Act of 1974, as amended, the President of the U.S. is "required to take all appropriate action, including retaliation, to obtain the removal of any act, policy or practice of a foreign government which violates an international agreement or is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce."

Section 301 investigations are carried out by USTR with the advice of an interagency committee. The U.S. has tried to resolve actions affecting imports from Brazil in the framework of the formal dispute settlement procedures provided by GATT.

Petitions under Section 301 that affect GATT member countries normally allege that foreign governments provide subsidies which are inconsistent with their obligations under the GATT subsidy code.

With respect to Brazil, the GATT subsidy code exempts developing countries from the outright prohibition on granting export subsidies to manufactured products. However, with respect to primary products, the subsidy code establishes that GATT member governments must avoid granting export subsidies which would result in obtaining more than an equitable share of world exports in these products.

Export subsidies on manufactured products granted by the Government of Brazil are thus not necessarily inconsistent with Brazil's obligations under the GATT subsidy code. No manufactured products imported from Brazil have been included in Section 301 investigations 14/.

However, USTR has been conducting investigations on agricultural products - poultry and soybean derivatives - under the allegation that, through subsidies, Brazil has obtained a more than equitable share of world exports. These complaints were presented to GATT for treatment under the dispute settlement procedures.

g) Restrictions on imports of agricultural products and commodities

Under Section 22 of the Agricultural Act of 1933, as amended, imports of certain agricultural commodities are restricted by quotas or fees to prevent interference with price support programs operated by the U.S. Department of Agriculture. Import restrictions are in force on cotton and certain cotton products, peanuts, certain dairy products and sugar. The Agricultural Adjustment Act of 1981 reinstituted support programs for sugar cane and sugar beets for the 1982 through 1985 crops 15/. Section 22 restrictions on sugar imports - consistent with these support programs - operate through a system of flexible fees and quotas.

Import fees were increased several times beginning September 11, 1981 16/. Import quotas were reinstituted effective May 11, 1982 17/. Generally, the global import quotas are distributed among exporting countries on the basis of average exports to the United States in the period 1975-1981, excluding the years of maximum and minimum shipments 18/.

Table V.13 indicates that the protectionist sugar policy of the United States had a serious impact on exports of raw sugar from Brazil to that country in 1982.

Under Section 204 of the Agricultural Act of 1956, the President of the United States is authorized to negotiate agreements with foreign governments limiting the exports to the United States of agricultural commodities and manufactured products as well as textiles. Except for textiles (Section e), no such agreements were negotiated with Brazil.

h) Trade affected by U.S. import restrictions

This section presents preliminary estimates of the value of Brazilian exports to the United States affected by the different kinds of import restrictions mentioned in the previous sections. The estimates also include trade in articles for which Brazil has been graduated from the benefits of duty free treatment under the U.S. GSP program. (Graduation refers to exclusions on the basis of the discretionary authority of the President and not exclusions on the basis of competitive need limits 19/.) The import restrictions were those prevailing in 1984. The corresponding trade figures refer to 1982 and 1983. The trade figures probably underestimate the impact of import restrictions on Brazilian exports to the United States, as they refer to effective trade realized in spite of the restrictions and not to trade that could have been realized in the absence of trade restrictions. In some cases, however, trade in the corresponding tariff lines of the Brazilian trade classification can be slightly larger than trade actually subject to restrictions.

1) Tariff barriers

As mentioned in Section a, no data are available on effective tariffs for imports from Brazil. High nominal tariffs are charged on frozen concentrated orange juice, sugar and tobacco. A possible increase of import duties for alcohol for fuel use is also a matter of great concern in Brazil. Exports from Brazil to the United States of these four products amounted to $690 million in 1981, $524 million in 1982 and $497 million in 1983. Trade in other items facing high nominal tariffs is not very significant.

2. Nontariff barriers

i) Quantitative restrictions

The volume of Brazilian exports to the U.S. is controlled through quotas for sugar (under Section 22 of the Agricultural Act of 1933, as amended), certain cotton textiles and apparel (under the bilateral agreement between the two countries in the framework of the MFA), and specialty steels (by the import relief program under Section 201 of the Trade Act of 1974).

Sugar quotas, reinstituted in May 1982, contributed significantly to the sharp decline of Brazilian sugar exports to the U.S. in 1982. Preliminary estimates indicate that the value of cotton textiles and apparel exports was less than 50 million dollars in 1982. The specialty steel import relief program has affected only a modest amount of trade. The establishment of quotas on the basis of average trade volumes in recent years, however, will most severely impede the most dynamic exporters to the United States, especially Brazil.

The 1981-1983 value of exports currently subject to quantitative import restrictions in the United States was as follows (in million of dollars, FOB):

	1981	1982	1983
sugar	331.1	14.7	89.6
cotton textiles and apparel (*)	60.0	50.0	97.6
specialty steels	2.4	2.7	6.3

(*) included man-made fibers subject to consultation if exports exceed a certain volume.

In May, 1984, the Government of Brazil started to control the volume of coils and carbon steel plate and sheet exported to the United States. The volume and value of corresponding exports in the period 1981-1983 were as follows:

	1981	1982	1983
value ($ millions)	93.7	81.0	237.6
volume (thousand tons)	280	281	888

The volume of exports in the first year (May 1, 1984 through April 30, 1985) will be controlled at 430 thousand tons, less than half the volume of exports to the United States in 1983.

ii) Countervailing and antidumping duties

Countervailing and antidumping investigations affecting imports from Brazil have increased rapidly since 1981. The effects on exports from Brazil were in many cases mitigated by the establishment of suspension agreements between the two governments. As a result, a high proportion of exports of manufactures to the U.S. is currently subject to offsetting export taxes in Brazil. (This includes nonrubber footwear; the corresponding countervailing duty order was revoked in 1983 but the export tax remained in force). Several countervailing duty cases involving steel products, which led to suspension agreements, later returned as antidumping cases.

The export of products which in 1983 were subject to export taxes because of countervailing duty proceedings (for some of them countervailing duty orders were also in force) amounted in 1982 and 1983 to 911 and 1238 million dollars respectively (For details see Table V.6). The number of countervailing and antidumping actions against Brazilian products and its trade value is much higher in the United States than in any other country. According to estimates of the Ministry of Finance of Brazil, the (1983) trade coverage of countervailing duty (included those suspended by export taxes) and antidumping actions against Brazil in different countries in mid 1984 was as follows:

	millions of US dollars			% of exports	
Importing country	trade actions	anti-subsi-dies	anti-dumping	all	industrial-ized prod.
Unites States	1255.5	1255.5	200.2	25.2	35.6
E.E.C.	1234.4	1220.5	13.9	21.7	--
basic products */	996.5	996.5	-	17.5	--
industr. prod.	237.9	224.0	13.9	4.2	12.0
Canada	18.4	-	18.4	9.5	5.9
Australia	6.4	-	6.4	4.7	5.4
Chile	5.8	5.8	-	3.0	3.5

*/ soybean, all other articles subect to unfair trade actions in the countries included in this table are industrial products.

Summary

Total 1982 and 1983 trade subject to import restrictions in 1984, avoiding double-counting for articles subject to different kinds of restrictions, can be summarized as follows (the data are based on 1982 and 1983 trade) (For details see Table V.14):

Trade coverage of U.S. import restrictions affecting Brazilian exports (in 1984)

	total (U.S. $ millions)	subject to restrictions (U.S. $ millions)	% of total exports
		1982- exports	
Total	3980.3	1108.8	27.9
Primary products	1187.9	167.5	14.1
Industrial products	2792.4	941.3	33.7
Semi-industrialized	244.6	27.4	11.2
Manufactures	2547.8	913.9	35.9
		1983- exports	
Total	4989.7	1575.3	31.6
Primary products	996.1	208.7	21.0
Industrial products	3993.6	1366.6	34.2
Semi-industrialized	402.6	78.2	19.4
Manufactures	3591.0	1288.4	35.9

Table V.1

AVERAGE UNITED STATES IMPORT DUTIES CHARGED ON IMPORTS FROM BRAZIL

(1980 Sample of GATT)

	Number of tariff lines	U.S. imports from Brazil in 1980		U.S. import duties, ad valorem equivalents (%)					
				simple arithmetic average			trade weighted average		
		(U.S. $ millions)	percentage breakdown	pre-MTN	post-MTN	1980	pre-MTN	post-MTN	1980
Total	549	3642.4	100.0	3.1	2.4	3.0	4.9	4.6	4.8
MFN	254	3187.9	87.5	6.7	5.2	6.5	5.6	5.2	5.4
dutiable	147	1360.4	37.2	11.7	8.9	11.3	13.1	12.3	12.8
duty-free	107	1827.5	50.3						
GSP duty-free	295	454.4	12.5	7.8	4.5	7.2	5.7	3.6	5.3
MFN-dutiable:									
tariffs of up to 15%	108	820.3	60.7	8.0	6.2	7.7	7.2	6.1	6.8
tariffs of 15% or more	39	531.1	39.3	21.9	16.4	21.3	22.1	16.4	21.3
tariffs of 25% or more	7	66.4	4.9	32.9	24.6	32.5	51.5	51.3	51.4
tariffs of 35% or more	2	65.2	4.8	44.3	38.8	44.3	51.9	51.8	51.9
		United States concessions at MTN: 1/							
MFN-dutiable	147	1351.4	100.0	11.7	8.9	11.3	13.1	12.3	5.4
included items	96	431.4	31.9	12.3	8.1	11.9	7.7	5.2	6.9
excluded items	51	920.0	68.1	10.5	10.5	10.2	15.6	15.6	15.5
GSP-duty free	295	454.4	100.0	7.8	4.5	7.2	5.7	3.6	5.3
included items	259	371.0	81.4	7.9	4.2	7.2	6.3	3.7	5.8
excluded items	36	84.5	18.6	7.0	7.0	7.0	3.2	3.2	3.2

Source: ECLAC, on the basis of data provided by GATT

1/ on items which were dutiable in 1980

Table V.2

UNITED STATES: COUNTERVAILING DUTY PROCEEDINGS AFFECTING IMPORTS FROM BRAZIL

	Article	TSUS	Observations
1974	Nonrubber footwear	700.05-700.45 700.56; 700.72-700.83 700.95	CVD-order: two alternatives according to proportion of total sales of each particular firm accounted for by export sales if <40% : 11.2% (1-24-79); 10.6% (3-31-79); 10.1% (6-30-79); 9.5% (9-30-79); 1.0% (12-7-79) if >40% : 4.3% (1-24-79); 4.1% (3-31-79); 3.9% (6-30-79); 3.7% (9-30-79); 1.0% (12-7-79) CVD-order revoked in 1983, but offsetting export tax in Brazil will remain in force
1975	Leather handbags	706.0700 706.0900	waiver in 1976 ; CVD-order revoked in 1980
1975	Castor oil and castor oil products	178.20 490.26	10.2% (1-24-79); 9.6% (3-31-79); 9.1% (6-30-79) 8.5% (9-30-79); 1.0% (12-7-79) currently: 2.53
1976	Scissors and shears	650.90;92	14.5% (1-24-79); 13.8% (3-31-79); 13.2% (6-30-79) 12.5% (9-30-79); 2.5% (12-7-79) currently: 3.88%
1976	Cotton yarn	300.60-302.98 through 302.98	1983 administative review: 10.97%
1976	Leather wearing apparel for men and boys	791.7620	ITC: negative injury determination in 1979
1977	Certain textile articles	various -generally all apparel items specified in bilateral textile agreements	revoked in 1980
1979	Pig iron	607.15	17.9% (1-24-79); 17.0% (3-31-79); 16.2% (6-30-79) 15.3% (9-30-79); 2.5% (12-7-79) currently: various rates (from between 2.85% and 15.42%; weighted average:6.07%)
1979	Ares and parts	various	investigation suspended in 1980
1979	Ferrochromium	606.24;30;37;44	investigation suspended in 1980
1981	Carbon steel plate		self-initiated by the U.S. Department of Commerce replaced by investigation mentioned next.
1982	Certain carbon steel products		
	- hot-rolled carbon steel plate	607.6615;9400 608.0710;1100	ITC: affirmative preliminary determination (February 1982) suspension agreement (September 1982)
	- hot-rolled carbon steel sheet and strip	607.6610;6700;8320 607.8342;9400	ITC: negative preliminary determination
	- cold-rolled carbon steel sheet and strip	607.8320;8344 608.1940;2140;2340	ITC: negative preliminary determination
	- structural shapes	609.80	ITC: negative preliminary determination
	- hot-rolled carbon steel bar	606.8310;8330;8350	ITC: negative preliminary determination
	- cold-formed carbon steel bar	606.8805;8809;8815	ITC: negative preliminary determination
1982	Carbon steel wire rod	607.17	ITC:affirmative preliminary determination suspension agreement (September 1982)
1982	PC steel wire strand	642.11	ITC: affirmative preliminary determination (April 1982) suspension agreement (October 1982) ITC: negative final determination (March 1983) suspension agreement remained without effect
1982	Welded carbon steel pipe and tube	610.32 (small diameter only)	ITC: affirmative preliminary determination suspension agreement (December 1982)
1982	Certain stainless steel products		ITC: affirmative preliminary determinations in all three cases suspension agreement (February 1983) ITC: affirmative final determination
	- hot-rolled bar	606.9005	
	- cold-formed bar	606.9010	
	- wire rod	607.2600;4300	
1982	Frozen concentrated Orange Juice (FCOJ)	163.34	ITC: affirmative preliminary determination (December 1982) suspension agreement (March 1983) ITC: affirmative final determination
1982	Tool steel	606.9300;9000;9505 606.9510;9525;9535 606.9540 607.2800;3405;3420 607.4600;5405;5420	ITC: affirmative preliminary determination (January 1982) suspension agreement (April 1983)
1982	Commuter airplanes	694.1410	ITC: negative preliminary determination (October 1982)

Source: ECLAC, on the basis of:
US International Trade Commission,
OEA, Inventario de Investigaciones Comerciales de Estados Unidos y Otras Medidas con Posibles Efectos Restrictivos para Paises Latinoamericanos y del Caribe

Table V.3

UNITED STATES: SUBSIDIES CALCULATED BY THE DEPARTMENT OF COMMERCE ON SELECTED ARTICLES IMPORTED FROM BRAZIL

(as a percentage of FOB invoice value)

Product	reference period for subsidy investigation (computed subsidies can be adjusted to later changes in underlying programs)		export subsidies			domestic subsidies			Other export and domestic subsidies	Total subsidy
			export credit premium	preferential working capital financing	income tax exemption for export earnings	IPI rebates for capital investment	Industrial Development Council (CDI) Program	Accelerated depreciation for capital goods manufactured in Brazil		
Nonrubber	7-31dec79	P 1/	n/a	4.00	0.43				0.34 a/	4.77
footwear	1980	P	n/a	2.32	0.82				0.34 a/	3.48
	(potential)	P	n/a	7.32	0.82				0.34 a/	8.48
Castor oil	1979	P	n/a	3.55	0.16					2.71
products	1979	P	n/a	2.36	0.17					2.53
Pig iron		P								
		F	15.20 b/	6.50 b/					2.50 b/ c/	24.20 b/
	(revision)	F	n/a							6.07
Certain scissors	03.01.79-	P	n/a							
and shears	02.29.80	F	n/a	2.03	0.76					2.79
Cotton yarn	10.01.79-	P	n/a							
	12.31.80	F	n/a	3.28	0.27					3.55
Carbon steel plate	1981	P	5.40	1.71		1.47				8.58
		F								
Carbon steel	1981	P	10.63	1.31	0.34	1.77	0.08	0.18		14.31
wire rod		F								
Certain stainless	1981	P								
steel products		F	10.65	1.85	0.55	0.80	0.18	0.03	1.38	15.44
PC steel	1981	P	12.50	1.06	0.52	1.83		0.32		16.23
wire strand		F	11.00	1.13	0.55	0.91		0.31		13.90
Orange Juice	around	P								
(FCOJ)	March 81-Feb.82	F		1.64	1.13					2.77

1/ P=Preliminary investigation, F=Final investigation

n/a not applicable as incentive was not granted at the time of the investigation

a/ Tax reduction on equipment used in export production; Decree Law No. 1248 of December 2,1975 (0.03) + Preferential export financing under CIC-CREGE 14-11 (0.30)+incentives for Trading Companies under Resolution 643 (0.01).

b/ weighted average of 16 exporting firms

c/ Export financing against foreign exchange contracts (ACC)

d/ BNDE loan adjusted at only 20% of the ORTN variation. This program, instituted in 1975 is no longer in force. Subsidy refers to outstanding balance on such a loan received by one major producer

Table V.4

UNITED STATES: ITC COUNTERVAILING DUTY INVESTIGATIONS ON IMPORTS FROM BRAZIL IN 1981-1983

product	petition filed on	U.S. imports from Brazil in 1981 (U.S. $ millions)	Other countries involved in in investigations
a) affirmative injury dedeminations			
hot-rolled carbon steel plate	January 11, 1982	112.9	7 EEC countries, Romania
carbon steel wire rod	February 8, 1982	10.6	Belgium, France, Venezuela
small-diameter pipes and tubes	May 7, 1982	37.0	France, Italy, Korea, West Germany
stainless steel products	June 16, 1982	8.1	-
frozen concentrated orange juice	July 14, 1982	168.9	-
tool steel	July 30, 1982	4.3	West Germany
total		341.8	
b) negative injury determinations			
hot-rolled carbon steel sheet and strip	January 11, 1982	1.3	several EEC countries
cold-rolled carbon steel sheet and strip	,,	3.7	,,
carbon steel structural shapes	,,	4.8	,,
hot-rolled carbon steel bar	,,	2.2	,,
cold-formed carbon steel bar	,,	0.4	,,
prestr. concrete steel wire strand	March 4, 1982	3.3	-
commuter aircraft	August 13, 1982	54.1	-
subtotal		69.7	
non-rubber footwear 1/	on request of Brazil	327.3	(Spain and India)
total		397.0	
total imports subject to investigations		738.8	

Source: ECLAC on the basis of ITC publications

1/ negative determination, but offsetting export tax remains in effect

Table V.5

UNITED STATES: ITC INVESTIGATIONS ON BRAZILIAN ARTICLES IN 1981-1983 AND CORRESPONDING US IMPORTS IN 1979-1982

	value (thousands of US.dollars)					quantity				import penetration rate Brazilian products 1/			
	1979	1980	1981	1982		1979	1980	1981	1982	1979	1980	1981	1982
Unfair trade investigations													
Nonrubber footwear		239.596	327.251	349.710	a/	32.000	31.338	43.028	41.114		4.2	5.7	5.1
Certain steel products													
- hot-rolled carbon steel plate	61.754	101.796	112.855		b/	206	323	309		2.6	4.2	4.2	
- hot-rolled carbon steel sheet and strip	7.313	1.818	1.311 /		b/	28	7	4 1/		0.2	..	..	
- cold-formed carbon steel sheet and strip	2.481	506	3.695 /		c/	8.765	1.491	9.289 1/		..	..	..	
- carbon steel structural shapes	4.861	7	4.772 /		b/	20	..	..		0.3	..	..	
- hot-rolled carbon steel bar	6.900	3.983	2.151		b/	24	14	7		0.4	0.3	0.2	
- cold-formed carbon steel bar	311	310	414		b/	656	669	749		..	0.1	0.1	
Carbon steel plate													
Carbon steel wire rod	10	-	10.553		c/	33	0	32.579		-	-	0.6	
PC steel wire strand	3.072	1.899	3.335		d/	12.704	7.809	13.680		..	..	..	..
Small diameter pipes and tubes	13.000	17.000	37.000		c/	40	49	74		1.1	1.2	1.6	
Stainless steel prod.	3.061	3.157	8.052	8.447	c/	2.030	1.716	4.263	5.218	0.8	0.7	1.9	2.9
- hot-rolled bar	779	782	1.088	1.327		541	450	536	949	0.9	0.8	1.0	2.3
- cold-formed bar	2.282	2.353	4.546	5.220		1.489	1.253	2.378	3.129	1.1	0.9	2.0	2.2
- wire rod	-	22	2.418	1.900		-	13	1.349	1.140	-	0.03	2.7	2.8
Tool steel	20	571	4.285	5.824	c/	14	340	1.751		-	0.3	1.9	
FCOJ	103.630	64.753	168.870		e/	152.3	97.7	203.1		14.1	7.2	16.6	
FCOJ-crop year	(111.010)	(66.791)	(162.084)	(282.439)	e/	(163.9)	(100.1)	(197.9)	(352.2)	(15.4)	(7.8)	(16.7)	(27.9)
Commuter airplanes	5.298	21.653	54.016	20.756	f/	5	20	37					
Certain carbon steel prod.		2.246	8.837	32.049	b/	8	22	108			-	-	0.5
Escape Clause													
Stainless steel and alloy tool steel	3.081	3.746	12.336	14.287	c/	2.044	2.076	6.014	8.074	0.1	0.2	0.5	0.8
- stainless steel bar	3.061	3.135	5.634	6.547		2.030	1.703	2.914	4.078	1.1	1.0	1.9	3.1
- stainl. steel wire rod		22	2.418	1.900			13	1.349	1.140		0.02	2.4	2.6
- alloy tool steel	20	571	4.285	5.824		14	340	1.751	2.803	0.01	0.3	1.8	3.4
Carbon and certain alloy steel products	125.731	154.917	226.867	222.330 4/	b/	437	459	549	602	0.4	0.5	0.5	0.8

Source: ECLAC on the basis of ITC publications.

1/ In volume terms in relation to US apparent consumption
2/ January-November
3/ Jan.-Sept. 1983: 101.169 thousand dollars or 396 thousand short tons, resulting in an import penetration rate of 2%
4/ 1983 imports: value: $ 333.1 million; volume: 1258 thousand short tons; import penetration rate: 1.5%
a/ 1000 pairs
b/ 1000 short tons
c/ short tons
d/ 1000 pounds
e/ million gallons (single strength equivalent)
f/ units

Table V.6

BRAZIL: PRODUCTS SUBJECT TO EXPORT TAXES TO OFFSET INCENTIVES CONSIDERED AS SUBSIDIES BY THE U.S. DEPARTMENT OF COMMERCE

(on export to the United States through 04.30.85)

Description	Export tax rate		Corresponding Central Bank Resolution (date resolution)	Exports to the U.S. (U.S.$ millions fob)		
	initial a/	revised		1981	1982	1983
Non-rubber footwear	15.00	19.00	750 (07.23.82)	385.4	372.5	560.3
Castor oil and castor oil prod.	15.00	11.00	699 (06.25.81)	34.1	13.4	23.0
Pig iron	15.00	11.00	699 (06.25.81)	31.1	14.5	21.8
Certain scissors and shears	15.00	18.19	863 (11.09.83)	2.0	2.1	1.1
Cotton yarn	15.00	11.00	699 (06.25.81)	5.5	9.7	8.8
Leather wearing apparel for men and boys	15.91	11.91	692 (04.30.81)	2.1	2.5	3.4
Certain textile products	15.63	11.63	692 (04.30.81)	21.9	7.7	27.6
Leather handbags for ladies	15.00	11.00	708 (11.13.81)	6.6	3.8	5.1
Carbon steel plate		12.16	765 (09.23.82)	86.4	42.4	42.8
		12.53	798 (02.10.83)			
Carbon steel wire rod		14.90	768 (10.13.82)	18.7	25.2	4.2
		15.50	798 (02.10.83)			
PC wire strand		13.89	773 (11.26.82)	4.1	2.1	3.2
		14.41	798 (02.10.83)			
		0.0	812 (03.30.83)			
Small diameter welded carbon steel pipes and tubes		13.30	798 (02.10.83)	80.0	34.4	41.5
Frozen Concentr. Orange Juice b/		3.51	838 (06.09.83)	268.4	329.2	281.9
Certain stainless steel products		13.42	812 (03.30.83)	2.4	2.7	6.3
		16.26	878 (12.20.83)			
Tool steel		15.31	819 (04.27.83)	9.0	10.8	11.7
		18.77	847 (07.20.83)			
		19.83	878 (12.20.83)			
Carbon steel plates and sheet, coils c/		27.42	897 (03.13.84)	7.2	38.7	194.8
Total trade				964.9	910.7	1237.5

Source: ECLAC

a/ On the reinstitution of the export credit premium; Central Bank resolution 692 (04.30.81)

b/ Exports of FCOJ became subject to a 20% export tax afder the maxidevaluation of the cruzeiro in February, 1983. This rate was reduced to 16.49% on June 9, 1983, the total tax!rate for exports to the U.S. thus remaining 20%. On July 9, 1983, the global rate was reduced to 1%.

c/ There is no suspension agreement in force.

Table V.7

UNITED STATES: ANTIDIUMPING ACTIONS AGAINST IMPORTS FROM BRAZIL

Antidumping investigations on articles imported from Brazil

Year	Product	TSUS
1972	Pig iron	606.13;15
1973	Vinyl film	771.4312
1977	Methol alcohol	497.96;99;499.97
1982	Certain carbon steel products	607.6615;9400 608.0701;1100
1982	Welded carbon steel pipe and tube	610.3208;3209;3231;3232 610.3241;3244;3247
1982	Melamine	425.1020
1982	Carbon steel wire rod	607.17
1983	Carbon steel plate and sheets	607.6610;6615;9400 608.0710;1100
1983	Carbon steel sheets	607.6700;8342;9400

Antidumping duties in effect, July 1984

Product	Exporter	Rate of duty (%)	Date	Exports to the United States in 1983 ($ thousands)
Printed vinyl film	-	52.00	August, 1973	-
Carbon steel wire rod	All firms	63.50	November, 1983	4,202
	Cosigua	0.00	April, 1984	1,822
	Belgo-Mineira	7.40	April, 1984	1,235
Carbon steel plate	Cosipa	100.04	January, 1984	20,636
	Usiminas	65.58	January, 1984	19,421
Coils	CSN	52.57	January, 1984	1,983
	Cosipa	89.04	January, 1984	-
	Usiminas	50.55	January, 1984	-
Hot-rolled carbon	Cosipa	8.07	April, 1984	20,539
steel plate and sheet	Usiminas	1.44	April, 1984	10,513

Source: OAS, Inventario de Investigaciones Comerciales de Estados Unidos y Otras Medidas con Posibles Efectos Restrictivos para los Paises Latinoamericanos y del Caribe. (Washington, Sept. 1983, 52p. (OEA/Ser.H/XIII,CIES/CECON/459)
ECLAC, on the basis of data provided by the press and by CACEX.

Table V.8

UNITED SATES: ESCAPE CLAUSE INVESTIGATIONS INVOLVING PRODUCTS FROM BRAZIL

Year	Product	TSUS	ITC-determination; Decision by the President
Trade Expansion Act of 1962:			
1970	Nonrubber footwear	700.51;52;53;60	Adjustment Assistance
Trade Act of 1974 (Section 201):			
1975	Steel, stainless and alloy tool	607.01;04 608.18;52;76;78;85 609.06;08	Adjustment Assistance
1975	Footwear	700.05 through 85	Adjustment Assistance
1975	Honey	155.70	No action
1976	Footwear	700.05 through 85 (excl. 700.51;52;53;60)	Adjustment Assistance
1977	Color television receivers	685.20	
1977	Ferrochromium, low-carbon	607.30	No action
1977	Ferrochromium, high-carbon	607.31	No action
1977	Zinc, unalloyed, unwrought	626.02	No action
1978	Ferrochromium, high-carbon	607.31	Tariff increase (3 years' period)
1979	Leather wearing apparel	791.7620;40;60	No action
1979	Motor vehicle chassis	692.02;03;10;11;20;21	No action
1982	Steel, stainless and tool	606.90 through 95 607.26 through 90 608.26 through 64 609.45	Tariff increase and import quotas
1983	Nonrubber footwear		ITC: negative injury determination; no action recommended.
1984	Certain steel products		ITC: affirmative injury determination

Source: OEA, Inventario de Investigaciones Comerciales de los Estados Unidos y Otras Medidas Vigentes con Posibles Efectos para los Paises Latinoamericanos y del Caribe. (OEA/Ser.H/XIII,CIES/CECON/459, Washington, 1 de septiembre 1983)
ECLAC on the basis of ITC documents.

Table V.9

UNITED STATES: RESTRICTIONS ON IMPORTS OF TEXTILES FROM BRAZIL (SPECIFIC LIMITS)

Type of restrictions		Products affected	Levels of restrictions (millions of square yard equivalents)	Reference period	Growth	Swing 1/	Carry-over 2/	Carry-forward 3/
Restrictions as originally notified under Article 2:1								
Articles 3 and 6 (LTA)	I	Yarn of cotton (Cat. 1-4)	34.7 a/	1 Oct. 70- 9 Sep. 77				
	II	Fabrics of cotton (Cat. 5-27)	43.4 a/					
	III	Apparel, made-ups and misc. textiles (Cat. 28-64)	6.9 a/					
		Total	85.0 a/					
Restrictions in period January 1974-March 1979								
Article 4 MFA	I	Yarn of cotton (Cat. 1-4)	40.0	1 Apr. 76- 31 Mar. 79				
	II	Fabrics of cotton (Cat. 5-27)	49.0					
	III	Apparel, made-ups and misc. textiles (Cat. 28-64)	25.0					
		Total	114.0					
Resstrictions in period April 1979-March 1982								
Article 4 MFA (extension of Agreement)	I	Yarn of cotton (Cat. 300-301)	45.8 b/	1 Apr. 79- 31 Mar. 82	7%	15% (10% in group)	11%	6%
	II	Fabrics of cotton (Cat. 310-320)	36.1 b/		7%	15% (10% in group)	11%	6%
	III	Apparel, made-ups and misc. cotton textiles (Cat 330-369)	28.6 b/		7%	7%	11%	6%
		Total	110.5 b/					

1/ swing: the use of a proportion of an unfilled limit for a category to increase the restraint limit of another category up to a certain percentage (usually 7 percent)

2/ carryover: use in the present bilateral agreement of an unused proportion of an import limit for a category from the corresponding category of the previous year up ta certain percentage specified in the agreement.

3/ carryforward: use of a category in the present bilateral agreement year of a proportion of a next year's limit for a corresponding category up to certain percentage increase specified in the agreement.

a/ Level for twelve-month period ending in 1974

b/ 3rd agreement year

Source: GATT, Textiles Surveillance Body, Report of the Textiles Surveillance Body to the Textiles Committee for the Major Review Addendum, Evolution of Restrictions Since the Entry into Force of the Arrangement Regarding International Trade in Textiles, (COM.TEX/SB/610/Add.4, Geneve, 14 October 1980)

Table V.10

UNITED STATES: BILATERAL AGREEMENT UNDER THE MFA, IMPORTS FROM BRAZIL SUBJECT TO SPECIFIC RESTRAINTS AND QUOTAS FILLED

Product category		Type of restraint a/		Final adjusted restraint level			US imports from Brazil			Imports charged against restraint level		Percentage filled		
		1978/79	1982	1978	1979	1982	1978	1979	1982	1978	1979	1978	1979	1982
				1000 square yards										
300,301	Yarns		D			35.000			35.279					100.8
313	Sheeting	SL	SL	17.517	18.743	24.500	22.213	1.560	9.613	13.427	133	76.7	0.7	39.2
315	Printcloth	SL	D	14.769	15.803	12.000	619	224	1.580	279	460	1.9	2.9	13.2
316	Shirting	SL	M	-	1.000	1.000	0	-	3	0	-	0.0		0.3
318	Yarn-dyed fabrics	MCL	D	1.000	1.000	1.500	276	276	394	420	541	42.0	54.0	26.3
319	Duck	SL	S	3.664	3.920	7.000	1.180	808	3.363	722	975	19.7	24.8	48.0
331	Gloves	MCL	M	1	200	700	1	0	0	1	0	100.0	0.0	0.0
				1000 dozens:										
333,334,335	Coats	MCL	D&M	53	53	116	5	2	3	6	1	10.8	1.7	2.3
338/339	Knit shirts	MCL	D&M	348	340(SL)	361	250	203	117	256	173	73.7	50.7	32.4
340	Shirts, not knit	SL	M	199	132	29	2	1	..	1	..	0.7	0.1	0.2
341	Blouses, not knit	MCL	M	48	48	48	1	..	1	..	..	0.2	0.5	2.1
345	Sweaters	SL	M	46	50	19	6	8	..	7	6	15.2	12.7	0.0
347,348	Trousers	SL	D	242	259	258	129	75	79	106	59	43.7	22.8	30.6
349	Brassieres, etc.	MCL	M	146	146	146	1	0	1	1	0	0.8	0.0	0.7

a/ SL=specific limit, MCL=minimum consultation level, S=specific, D=designated and M=minimum.

Source: 1978-1978: United States International Trade Commission, The Multifiber Arrangement, 1973 to 1980. Washington March, 1981, 2 v. il. (USITC publication 1131)

1982: ITC (Compiled from Performance Reports and Textile Quotas Reports of the U.S. Department of Commerce, Office of Textile and Apparel).

Table V.11

UNITED STATES: RESTRICTIONS ON IMPORTS OF TEXTILES ORIGINATING IN BRAZIL
(BILATERAL AGREEMENT WITH REFERENCE PERIOD 4/1/82-3/31/85)

A) Specific Limits (Annex B)

Category	Description	Unit	Reference Period		
			4/1/82- 3/3/83	4/1/83- 3/31/84	4/1/84- 3/31/85
Aggregate		SYE	171.1	183.1	195.9
Group I	Cotton Yarn and Fabrics	SYE	133.6	142.9	152.9
	Sheeting	SYD	24.5	26.2	28.1
	Twill and Sateen	SYD	9.1	9.7	10.4
	Duck	SYD	7.0	7.5	8.0
Group II	Apparel, Made-ups etc. of cotton	SYE	37.5	40.1	43.0

B) Designated Consultation Levels (Annex C)

Category	Description	Quantity (million SYE)
300/301	Yarn, Carded and Combed	33.0
314	Poplin and Broadcloth	1.5
315	Printcloth	12.0
318	Yarn-dyed Fabrics, n.e.s.	1.5
320	Woven Fabrics, Other	4.0
334	Other Coats, MB	2.0
335	Coats, WGI	2.0
337	Playsuits	2.3
339	Knit shirts, Blouses, WGI	1.9
347	Trousers, MB	2.5
348	Trousers, WGI	2.1
350	Dressing Gowns	2.0
359	Other Cotton Apparel	1.0
363	Terry towels	5.0
369 pt.	Other Cotton Manufactures	2.5
369 pt.	Floor Coverings	3.4
613	Fabric, Noncellulosic, n.k.	5.0
614	Fabric, Other, n.k.	3.0

Source: GATT, Textiles Surveillance Body, Arrangement Regarding International Trade in Textiles. Notification under Article 4:4. Bilateral Agreement between the United States and Brazil. (COM.TEX/SB/777, 3 August 1982).

Note: MFA articles for which no specific limits or designated consultation levels are established are subject to category consultations levels for possible restrictios as follows:
Cotton categories: 1 million SYE for each nonapparel category and 700,000 SYE for each apparel category.
Man-made fibers are subject to the consultation mechanism when imports are cause market disruption, unless the imported volume is less than 1,000,000 SYE for nonapparel categories and 700,000 for apparel categories.

Table V.12

COTTON TEXTILES: US IMPORTS FROM BRAZIL BY MFA CATEGORIES

(in thousands of square yard equivalents)

Subgroups	1976	1977	1978	1979	1980	1981	1982
Total	66239.6	36526.2	57461.8	16726.2	13569.2	59660.5	69361.9
I Yarn of cotton	48804.9	13044.5	7835.8	126.0		13395.0	35279.4
300 Carded yarn	48701.2	13044.5	7835.8	126.0		13077.2	34113.8
301 Combed yarn	103.7					317.8	1165.6
II Fabrics of cotton	8607.8	13514.2	36171.0	6244.0	5257.2	36789.3	19878.2
310 Gingham		2.2					114.5
312 Corduroy							0.2
313 Sheeting	3098.2	8274.6	22213.4	1560.5	1580.7	20894.7	9613.0
314 Poplin and broadcloth	213.5	321.0	779.3	515.9	245.9	979.1	959.9
315 Printcloth	52.8	471.0	618.6	224.1	417.0	4372.7	1580.1
316 Shirting	226.9				24.4	74.2	3.5
317 Twill and sateen	2061.6	2132.0	5705.8	1877.0	1283.1	5065.6	2488.8
318 Yarn-dyed fabric n.e.s.	102.2	215.0	276.3	538.5	496.9	595.5	393.6
319 Duck	216.5	999.6	1180.2	807.7	904.5	3402.3	3363.2
320 Woven fabrics n.e.s.	2636.1	1098.8	5397.4	720.3	304.7	1405.2	1361.4
III Apparel, made-ups misc. of cotton	8826.9	9967.5	13455.0	10356.2	8312.0	9476.2	14204.3
330 Handkerchiefs			0.0				
331 Gloves			2.5				
332 Hosiery	0.7				0.6		
333 Suit-type cloths	15.2	3.6	6.3			2.9	7.8
334 Other coats	14.4	74.1	70.3	74.0	44.8	8.0	28.5
335 Coats	14.6	125.6	125.3	28.8	6.4	49.6	66.2
336 Dresses	18.2	9.6	3.8	9.7	10.1	13.7	11.5
337 Playsuits	276.9	980.1	1137.2	1494.2	1241.8	1020.2	525.2
338 Knit shirts	101.6	159.4	205.0	234.9	111.1	100.4	184.1
339 Knit shirts and blouses	1225.4	601.8	1595.3	1226.2	1075.8	562.4	656.7
340 Shirts, not knit	43.9	63.4	47.4	23.1	2.0	4.2	1.8
341 Blouses, not knit	33.5	29.7	10.3	4.5	0.6	11.0	8.3
342 Skirts	21.3	13.2	4.8	13.3	18.6	2.8	2.7
345 Sweaters	0.3	64.4	239.8	286.6	4.3	0.1	0.5
347 Trousers	1462.4	1436.1	1576.5	527.3	259.4	73.0	368.7
348 Trousers	39.7	132.0	714.0	807.7	795.8	822.4	1043.7
349 Brassieres	11.6	4.7	5.8			2.8	0.8
350 Dressing gowns	962.7	1643.3	1442.4	588.3	559.8	912.7	1401.5
351 Nightwear				87.8	0.5	4.1	29.1
352 Underwear	34.2	54.5	28.7	0.5		29.4	5.0
359 Other Apparel	247.4	153.6	690.7	40.7	25.8	87.3	175.5
361 Sheets							0.6
362 Bedspreads and quilts			0.4				
363 Terry and othen pile towe	792.2	1450.2	1929.0	1470.5	1119.9	2450.5	1490.8
369 Other manufactures	3510.7	2968.2	3619.5	3438.1	3034.7	3318.7	8195.3

Source: ITC

Table V.13

BRAZIL, 1980-1983, EXPORTS OF SUGAR

(tons)

	1980	1981	1982	1983
Total exports				
raw sugar	1,960.452	1,785.208	1,619.841	1,720.833
refined sugar	611.884	915.634	1,089.840	782.642
exports to the United States				
raw sugar	797.170	960.334	286.143	286.806
refined sugar	4.300	-	51	6.813
exports to other countries				
raw sugar	1,163.282	824.874	1,333.698	1,434.027
refined sugar	607.584	915.634	1,087.789	775.829

Source: Banco do Brasil/CACEX.

Table V.14

BRAZIL: EXPORTS TO THE UNITED STATES OF PRODUCTS FACING IMPORT RESTRICTIONS IN 1984

	Brazilian trade classification (NBM)	Type of product (B=basic; S=semi-ind.; M=manufact.)	Value of exports in 1983 (million dollars, FOB)	High Tariff protection	Graduated from GSP	Duties related with countervailing duties		Antidumping duties	Escape Clause (Section 201 of the Trade Act of 1974)	Export control program	Restraints under the MFA (bilateral agreement)	Quotas for agricultural products a/
						CVD-order	offsetting export tax					
Total			1575.3		63.5	92.9	1234.3	200.2	18.0	237.6		20.9
Basic products			208.7									20.9
Industrial products			1366.6		63.5	92.9	1234.3	200.2	18.0	237.6		
Semi-industrial products			78.2		52.2	23.9	26.0	2.1		2.1		
Manufactured products			1288.4		11.3	69.0	1208.3	198.1	18.0	235.5		
Castor oil	15.07.01.11	S	2.1			2.1	2.1					
Castor oil products	15.07.02.11	M	20.9			20.9	20.9					
Sugar	17.01.01.02	B	89.6	x								20.9
Frozen concentrated orange juice (FCOJ)	20.07.05.01	M	281.9				281.9					
Alcohol for fuel use	22.08.03.00	M	6.4	x								
Tobacco	24.01.01	B	119.1	x								
Leather handbags for ladies	42.02.02.01	M	5.1				5.1					
Leather wearing apparel for men and boys	42.03.02.00	M	3.4				3.4					
Hardboard	44.11.01.00	S	21.2		21.2							
Cotton yarn	55.05	M	8.8	x			8.8				x	
Other cotton textiles	rest chapter 55	M	27.6	x			27.6				x	
Man-made fibers	56	M	16.9	x							x	
Other textiles and apparel	60;61;62	M	44.3	x							x	
Non-rubber footwear	64.02	M	560.3				560.3					
Pig iron	73.01.02.01	S	21.8			21.8	21.8					
Ferrosilicon	73.02.08.00 \	S	31.0		31.0							
Ferrosilicon manganes	73.02.16.00 /											
Carbon steel wire rod	73.10.01.01	M	4.2			4.2	4.2	4.2				
Carbon steel plate	73.13.01.00;01;99 \ 73.13.05.01 /	M	42.8			42.8	42.8			42.8		
Coils	73.08.00.00	S	2.1				2.1	2.1		2.1		
Hot-rolled carbon steel plate and sheet	73.13.02.00 \ 73.13.03.01 /	M	75.3				75.3	75.3		75.3		
Cold formed carbon steel plate and sheet	73.13.03.02	M	117.4				117.4	117.4		117.4		
Certain stainless steel products	73.15.06.02 \ 73.15.08.02 /	M	6.3				6.3		6.3			
Tool steel	73.15.06.99 \ 73.15.08.03;99 /	M	11.7				11.7		11.7			
Small diameter welded carbon steel pipes and tubes	73.18.02.01 \ 73.18.02.02 /	M	41.5				41.5					
Large diameter unwelded carbon steel pipes and tubes	73.18.03.99		1.2					1.2				
Certain scissors and shears	82.12	M	1.1			1.1	1.1					
Piston type compression engines	*84.06.08.00*	*M*	*11.3*		*11.3*							

Source: ECLAC on the basis of tables presented in Chapters IV and V.
a/ excluded quotas in the framework of commodity agreements.

Notes

1/ OAS, Inventario de Investigaciones Comerciales de Estados Unidos y Otras Medidas con Posibles Efectos Restrictivos para paises latinoamericanos y del Caribe, Washington, (Sept., 1983), p. 52, (OEA/Ser.H/XIII, CIES/CECON/459).

2/ The effect of duties on U.S. imports of frozen concentrated orange juice from Brazil is mitigated by the fact that a significant proportion of U.S. imports takes place under the draw-back system which grants a 99% restitution of import duties.

3/ On petition of the U.S. tobacco industry, the tobacco in question was reclassified from TSUS item 170.80 into TSUS item 170.35, resulting in an 83% increase in import duties, from 17.5 to 32 cents per pound). In 1980, the U.S. imported 8.7 million dollars of tobacco from Brazil classified under TSUS item 170.80. The ad valorem equivalent of the specific import duty was 11.2%.

4/ Twenty-Sixth Annual Report of the President of the United States on the Trade Agreements Program, 1981-82. The report states that: "Never before has an Administration undertaken investigations of this magnitude into charges of unfair trading practices in a single industrial sector" (p. 114).

5/ The U.S. considers as "Countries under the Agreement" those countries which have assumed the obligations (or substantially equivalent obligations) of the MTN agreement on subsidies and countervailing measures.

6/ Countries not under the Agreement are not entitled to an injury investigation on dutiable imports. Once the determination is made by the Department of Commerce that subsidies are granted, this is the only legal requirement for the imposition of countervailing duties.

7/ Antidumping investigations on steel products imported from several countries increased sharply in recent years, especially after the suspension of the Trigger Price Mechanism on January 11, 1982. (See section b).

8/ The U.S. textile industry was an early petitioner for import relief because of competition from increasing imports from Japan. The Trade Expansion Act of 1962 provided tariff relief to industries injured by increasing imports that resulted from U.S. tariff concessions. (In the Reciprocal Trade Agreement of 1955 between the U.S. and Japan; following Japan's acceptance into GATT, the U.S. provided tariff concessions on certain textile products). The U.S. textile industry preferred quotas to tariff relief available under the escape clause. "However, the imposition of import quotas would not have been consistent with the United States commercial policy and its commitment to trade expansion under GATT. The situation was particularly sensitive

since the United States had been the major supporter of GATT and, in particular, the outspoken opponent of quantitive restrictions used for protective purposes. It had also been one of Japan's supporters in the latter's efforts to join GATT. The problem was temporarily resolved by the so-called "Japanese voluntary export controls". (USITC: The History and Current Status of the Multifiber Agreement, p. 2).

9/ Under article XIX of GATT.

10/ The import relief program for specialty steels provides import quotas for a four-year period. As is the case with the EEC and Korea, Brazil has not agreed with the restraint levels requested by the United States. The United States proposed a quota of 2500 short tons. On the basis of its exports in 1981 and 1982, Brazil requested a quota of 6000 short tons. The United States put Brazil, the EEC and Korea under a joint quota of 3943 short tons from October 20, 1983 through January 20, 1984; 5042 short tons from January 20 through April 19, 1984; and 4882 short tons from April 20, 1984 through July 19, 1984. In 1984, the basket arrangement was replaced by quarterly import quotas. Brazil has reserved its rights to trade retaliation.

11/ Business Week, (December 24, 1984), p. 19.

12/ The new rules establish procedures for monitoring nonquota imports of textiles and for issuing "calls" for negotiating of restraint agreements. A "call" will be issued when imports of a particular product grow by more than 30 percent in a single year, or when total imports of the product exceed 20 percent of U.S. production. In addition, a "call" will go out when imports of a product from one country equal one percent of U.S. production. (CECON Trade News, Vol. VIII, No. 12, (December, 1983), p. 3).

13/ Many Brazilian exporters of cotton yarn are on the CACEX waiting list for additional quotas, which become available when other exporters are unable to fill their quotas. (See Gazeta Mercantil, Feb. 10, 1984).

14/ In February 1982, USTR initiated investigations under Section 301, instituted on the basis of petitions alleging that the governments of Austria, Belgium, Brazil, France, Italy, Sweden and the United Kingdom had subsidized the production of stainless and alloy tool steel (specialty steel) in a manner inconsistent with their obligations under the Agreement on the Interpretation and Application of Articles VI, XVI, and XXIII of GATT (Subsidies Code). USTR decided not to initiate investigations concerning the petitioner's allegations with respect to Brazil.

15/ There were no support programs for the 1980 and 1981 crops.

16/ Effective December 24, 1981, import fees were increased to 2.1418 and 3.1104 cent per pound for raw and refined sugar respectively and customs duties for raw sugar with 96 degree

polarity were raised from 0.625 to 2.8125 cents per pound.

17/ For the period May 11, 1982 through June 30, 1982, the U.S. established a global quota of 199,581 short tons. The quota for the third quarter of 1982 was 331,000 short tons. Since October 1, 1982, quotas were established for 12 month-periods (October-September). The overall sugar quota for 1983-84 is 2.952 million short tons, up from 2.8 million for 1982-83.

18/ If exporting countries foresee that they are unable to fulfill their quotas due to crop shortfalls or other reasons, these shortfalls can be redistributed among sugar-producing countries.

19/ Excluded are quotas in the framework of international commodity agreements, articles retained in the U.S. custums service for specific reasons (e.g., because of improper sanitary or technical conditions) and investigations by the ITC of unfair import practices, under section 337 of the Tariff Act of 1930 (such as copyright and trade mark infringements). Excluded, also, are import restrictions for health reasons, e.g., the United States banks imports of fresh meat from South America; beginning September 1, 1984, the United States will ban imports of fresh fruit - papayas and possibly mangoes- for human consumption, treated with ethylene dibromide, following a decision by the U.S. Environmental Protection Agency (EPA). Brazil has recently inaugurated an installation for fumigation of stored fruit at the Viracopos airport in Sao Paulo, according to the technical standards required by the United States for fresh fruit imports into that country. In 1983, Brazilian exports to the United States of papayas and mangoes amounted to 81 and 61 thousand dollars respectively.

CHAPTER VI

PROBLEMS IN BRAZIL-U.S. TRADE RELATIONS: LOOKING AHEAD

Two conflicting conclusions can be drawn from the analysis of the previous chapters: Brazil-U.S. trade relations are tense because of a combination of philosophical and practical differences; yet, at the same time, the efforts to resolve trade differences are being carried out in a more cordial atmosphere than at any time during the past decade. This chapter will discuss in turn the reasons for the tension and the details of the conflict/cooperation, and conclude with recommendations.

Tension in Brazil-U.S. Trade Relations

Philosophic differences between the two countries on appropriate instruments to promote industry and exports are great. Important techniques used to promote Brazilian industry and exports are a variety of subsidies, many specifically on exports 1/, others on production rather than exports but which may affect exports. U.S. firms have complained about domestic content provisions, export performance requirements, and in certain key sectors--such as small computers--market reservations for Brazilian firms.

Brazil grants protection to domestic producers on infant-industry grounds, in the conviction that its large domestic market provides potential economies of scale.

Export subsidies are defended on the ground of the need to compensate for internal and external discouragements to exports, such as the overvaluation of the exchange rate, the high cost of domestic inputs due to protection of infant industries and import controls for balance-of-payments reasons, as well as tariff escalation and trade restrictions in importing countries.

The GATT international trade rules recognize the need for developing countries to adopt trade policies different from the industrialized countries, but do not prohibit industrialized countries from reacting to specific actions of developing countries.

The United States opposes the validity of these export-promotion measures to the degree thay are practiced by a relatively more advanced developing country like Brazil. The issue of principle for the United States is minimum government interference with the marketplace. The practical issue is that private U.S. producers feel they are asked to compete with governments, particularly in the U.S. home market, when Brazil subsidizes exports to the United States. The United States did agree in the subsidies/countervailing duties code to give developing countries some freedom to use export subsidies for manufactured goods, but not complete freedom; and, in any event, the United States did not agree to refrain from countervailing against subsidies.

Another difference in philosophy exists on the issue of reciprocity. Brazil, as a developing country, received the benefits of the United States trade concessions on a non-reciprocal base. The United States argues that while Brazil may not have to give equivalent concessions for benefits received, Brazil does owe something more than a token gesture in return.

Still, another difference in philosophy arises on the question of graduation of Brazil from U.S. tariff preferences. The argument here is the same: Brazil considers itself to be a developing country; the United States considers Brazil to be a relatively advanced country economically, one which requires fewer special privileges than less advanced countries.

The differences arise regularly, particularly in public statements designed for home-country audiences, but they cannot be resolved on the level of principle. One reason for the cordiality of the current bilateral trade discussions is that each country recognizes this. Problems are being addressed on a practical level 2/.

The times have conspired to make the trade problems more difficult than they would be if the solutions required only the setting aside of principle. The severe recession of 1981-82, accompanied by the high level of unemployment, intensified protectionist sentiment in the United States. So has the burgeoning U.S. trade deficit. Practices by trading partners which might be tolerated in the United States in more prosperous times became fair game during the recession for those who wish to keep out imports. Brazil has its own contextual problems. Its balance-of-payments crisis, and the need to generate a large trade surplus to help service its external debt, coincides with the increase in U.S. protectionism. Until recently, Brazil was loath to devalue its exchange rate sufficiently to stimulate exports for fear of worsening an already intolerably high rate of inflation and complicating the servicing of its external debt, and this made subsidization inevitable if the desired merchandise trade surplus was to be achieved.

Brazil, based on its industrial strategy and accompanied by the need to generate a large trade surplus, restrains imports of U.S. and other foreign products and at the same time maintains export subsidies. U.S. producers and labour, who have their own problems, place pressure on their government to keep out subsidized imports from Brazil. These practical positions are then justified on the basis of trade philosophies that are antithetical to each other. Tension exists in trade relations but this tension has been kept mostly in check by the efforts of the two countries to resolve particular trade issues as they arise. They have had some successes and some failures in resolving specific trade issues.

Trade Conflict

While Brazil has enjoyed a growing surplus in its trade with the United States in recent years, Brazil is not, on the whole, a major factor in the U.S. market. It is for some products, however. U.S. imports from Brazil in 1982 were less than 2 percent of total U.S. imports and a majority of these imports--as evidenced by the fact that they are not dutiable on entry into the United States--are not competitive with U.S. production 3/. Despite this, restrictive U.S. action against Brazil has been substantial. In 1982 and 1983, as noted in Chapter V, 25 percent of Brazilian exports to the United States were subject to U.S. countervailing duty procedures, although in the majority of cases the action was suspended. The figure on countervailing duty examinations rises to 40 percent for Brazilian exports of manufactured goods to the United States. In addition, the United States has raised its duties on alcohol and tobacco, restricted imports of sugar, and imposed quotas on imports of specialty steel, all of which affect Brazil; and the United States has challenged alleged Brazilian subsidies on soy products and frozen poultry exported into third markets. Many examinations were opened on charges of Brazilian dumping into the United States and antidumping duties have been imposed.

No other country has had to overcome this high a proportion of protective action taken against its exports to the United States, even though many countries export more goods--and more manufactured goods--to the United States. This must have something to do with the techniques used by Brazil in its export drive. These have tended to conflict with U.S. trade philosophy as embedded in laws and regulations, whereas practices of other developing country exporters--such as South Korea and Taiwan--have been less conflictive with U.S. philosophy in their export drives.

U.S. restrictions against imports from Brazil are set forth in detail in Chapter V. It is useful to summarize U.S. restrictions by type and severity since this gives a good picture of the way the United States approaches trade relations with Brazil. Brazil's trade policy is set forth in Chapter III and a comparable summary will be provided here. U.S. restrictions will be covered first and in greater detail because the import practices are more complex.

U.S. Treatment of Imports from Brazil

1. Tariffs. In 1982, U.S. imports from Brazil were $4.2 billion. Of this, $1,4 billion or 34.1 percent entered free of duty on a most-favored-nation (MFN) basis. An additional $563.9 million or 13.5 percent was imported duty free under the U.S. general system of preferences (GSP). Consequently, a total of $2.0 billion or 47.6 percent of U.S. imports from Brazil in 1982 entered free of tariff charges. Of the dutiable imports, the average (mean) duty (in 1981) was 8.2 percent. This will decline to an estimated 7.5 percent in 1987, when all the tariff

reductions agreed to in the multilateral trade negotiations (MTN) have been phased in.

It is noted in Chapter V that in 1982 out of 669 dutiable tariff items imported from Brazil and not granted duty-free treatment under GSP, U.S. duties exceeded 15 percent on 127 items, 25 percent on 51 items, and 35 percent on 18 items. In other words, the duty on imports has a fairly large standard deviation; the simple mean does not bring out the many high duties. Despite this variability of duty rates, the conclusion reached in Chapter V--that the most serious impediments against U.S. imports from Brazil are nontariff in nature--is undoubtedly valid. Changes in the relationship between the dollar and the cruzeiro tend to dwarf the impact of the effect of most U.S. tariffs against Brazilian goods and potentially the cruzeiro could be sufficiently depreciated to eliminate almost completely the effect of the U.S. tariff on most items. That the exchange rate has not been used fully to this end in any systematic way is evident from the many U.S.-Brazil disputes on subsidies and countervailing duties. Brazil started to use its exchange rate more effectively to promote exports in 1983.

2. Countervailing Duties. The philosophic and practical differences between the two countries are most intense in the use of export subsidies by Brazil and the requests by U.S. competitors for imposing countervailing duties against these. The number of countervailing cases brought against U.S. imports from Brazil has exploded in the past two years (See table V.2). There were about 15 outstanding cases in November, 1983, and they are still growing, although there were suspension agreements in effect on most of these. A suspension agreement permits Brazil to take action itself to nullify the effects of the export subsidy on the U.S. market, usually by collecting the equivalent in Brazil of what the countervailing duty would be. What this means, in economic terms, is that Brazil may have a different exchange rate, product by product, based on the combination of the prevailing exchange rate for exports generally, the subsidy provided to encourage exports of particular products, and the nullification of the effect of the subsidy by an export tax for products on which there is a suspension agreement. This system involves internal Brazilian bargaining between the government and particular industries, and then further negotiation between U.S. and Brazilian officials, but only after U.S. officials have done some bargaining (or information gathering) of their own with the U.S. industry. It clearly is a procedure made to order to engender uncertainty in trade for specific products. The many sets of necessary negotiations also assure the lack of transparency in decision-making.

Each side accepts in principle that there must be a better way to order trade between the two countries. This was reflected in a memorandum of understanding between the two countries agreed to on December 2, 1982, but still not signed a year later. The memorandum of understanding has not been made public. Its essential feature is a Brazilian undertaking to phase out export

subsidies in return for more certain treatment by the United States on imports benefiting from Brazilian subsidies. There is some business and government dissatisfaction in the United States about the proliferation of suspension agreements, particularly for steel imports 5/, and in Brazil that it is being asked to undertake a major trade reform at the most inopportune time.

The subsidy/countervailing duty issue is the most intractable one in Brazil-U.S. trade relations. (The elimination of this problem would not resolve all trade conflicts, however). The issue has been kept under control, albeit in a manner not completely satisfactory to either side, through the technique of suspension agreements. What the United States is requesting of Brazil is not easy to accomplish. Elimination of export subsidies will require either a more rapid depreciation of the cruzeiro to generalize the export incentive, but this has the side effect of complicating the effort to reduce inflation; or an alteration of the tax system so that export incentives are not countervailable, which could antagonize the United States if the technique were too blatant.

What has kept the issue manageable on both sides is the evident effort to avoid a political explosion over trade issues at a time when each country faces trade and balance-of-payments problems.

The foregoing discussion deals with trade in manufactures. There is both tension and a potential for cooperation in agricultural trade. The United States has asserted that Brazil is subsidizing exports of agricultural products--soybean oil, soybean meal, and poultry--into third-country markets and thereby capturing more than Brazil's traditional share. The U.S. assertion--both as to subsidies and share--is disputed by Brazil. The two countries do have some common cause in opposing excessive agricultural subsidies of the European Economic Community in third country markets.

3. Antidumping Duties. As with countervailing duty cases, the number of actions being brought against Brazil by U.S. petitioners has increased during the last two years 6/, and antidumping duties have been imposed on important categories of steel products which are prohibitive to futher exports to the United States. This probably reflects the intensity of the Brazilian export drive, the concern of U.S. competitors because of the depressed economic conditions in the United States for much of this period, and the fact that antidumping cases can be brought after subsidy petitions are handled by other than a countervailing duty in the United States.

4. General System of Preferences. The nature of the GSP system in the United States and the specific treatment of Brazil under GSP is provided in Chapter IV. As noted in that chapter, Brazil in recent years has been the fifth largest supplier of goods to the United States under GSP--the average annual rate of increase in GSP imports from Brazil in current dollars has been

15 percent from 1976, when the program started, through 1982. Despite its ranking as the number five GSP beneficiary, Brazil captures only a small share of total U.S. GSP imports from all sources--6.1 percent in 1981.

There is no meeting of the minds between U.S. and Brazilian authorities on the GSP issue. Indeed, there is a vast philosophic and potentially practical gulf. As a developing country, and as a country extremely hard hit by oil price increases, high international interest rates, and the general economic slowdown in the industrial countries in recent years, Brazil would like even more generous treatment from the United States under GSP. Brazil's potential is being lost under various existing provisions of the U.S. GSP legislation. In 1982, out of a potential $828.8 million of duty-free imports under GSP, only $563.9 actually entered duty free. Of the remainder, $168.8 million were excluded on competitive need grounds, $20.4 million on the basis of graduation, and $75.7 million for administrative reasons. The competitive need exclusions were even greater in 1983--seven items were excluded with a U.S. import value of $256 million (See table IV.10).

Brazil is being treated by the United States as a developing country, but as an advanced developing country. Thus far, the graduation exclusions have been modest. The competitive need exclusions have been more substantial. Under the legislation enacted by the U.S. to replace the current GSP legislation when it terminates in January of 1985, advanced developing countries will be treated less generously than less advanced developing countries. What is intended under the new law is to provide a transition period for advanced developing countries but then to systematically differentiate between them and less advanced countries in the U.S. GSP system.

The philosophic difference can be phrased simply. Brazil, as a developing country, seeks more generous GSP treatment from the United States; the United States considers Brazil to be an advanced developing country and therefore contemplates giving Brazil even less generous treatment than it now receives.

5. Other U.S. Import Restrictions. These include restrictions on trade in textiles and apparel, Escape Clause actions on specialty steels, and quotas for sugar. There are also actions brought under Section 301 of the Trade Act of 1974 (unfair trade practices). These are covered in Chapter V and need no elaboration here.

The intensity of these measures varies widely. Sugar quotas, reinstituted in May, 1982, contributed significantly to the sharp decline of Brazilian sugar exports to the United States in 1982. Restraints under the MFA used to have no significant impact on Brazil's exports of textiles and apparel to the United States. However, since 1982, Brazil has reached the maximum permitted volume of exports of cotton yarn, the most important MFA category covered by the bilateral agreement on textile trade. The

specialty steel import relief program affects only a modest amount of trade, according to 1981 and 1982 trade statistics. The establishment of quotas on the basis of average trade volumes in recent years, however, more severely affects the most dynamic exporters to the United States, especially Brazil.

Treatment of Imports from the United States

Just as an understanding of the economic situation in the United States is necessary to explain the proliferation of actions seeking to restrict imports from Brazil, so must one understand the economic situation in Brazil to understand its commercial policy. Brazil's commercial policy cannot be understood without also relating this to the country's financial external debt restructuring, its search for new financing, and the program with the International Monetary Fund. Brazil set out to reduce the current account deficit in its balance of payments along the following path: $14.8 billion in 1982; $6.2 billion in 1983; and $5.3 billion for 1984. The 1982 deficit was 4.5 percent of gross domestic product, and this is projected to fall to around 1.7 percent in 1984. The key aspect of this reduction is the achievement of an increasingly large trade surplus based on a combination of increased exports ($20.2 billion in 1982, $21.9 billion in 1983 and a forecast of $24.6 billion in 1984) and diminishing or stagnant imports ($19.4 billion in 1982, $15.4 billion in 1983, and $15.5 billion forecast in 1984). A large proportion of the import decline in 1983 was for oil and its derivatives, but declines in non oil imports were also involved.

The combination of stagnant or declining real GDP and an objective of a growing trade surplus to be achieved in part by stagnant or declining imports makes normal access to the Brazilian market impossible. This is understood by U.S. officials and is one of the reasons that official complaints against Brazil's import practices tend to be muted. However, Brazil's financial crisis has not completely silenced the critics of Brazil's import policies. There is considerable feeling in both private and official circles in the United States that Brazil is coupling its external financial stabilization program with much old-fashioned protectionism.

The United States has complained about the lack of access to Brazil for small airplanes at the same time that Brazil was successfully exporting its own small airplanes to the United States and other markets. A commission made up of the most senior officers of large private U.S. companies recently recommended to the U.S. Secretary of the Treasury that Brazil should be pressed to relax its import restrictions to the maximum extent consistent with its current economic situation. The tone of this recommendation is that Brazil should cease to hide behind developing country status in ordering its commercial policy but rather should begin to conform more closely to practices of the industrial countries with which it is increasingly competing.

The official U.S. position combines complaints against

Brazil's trade practices with those concerning investment related to trade. There are U.S. complaints against Brazil's informatics policy under which investment in the small computer industry is being limited to Brazilian firms. Similar complaints have been lodged by the pharmaceutical industry. Official complaints have been made against Brazil's domestic content and export performance requirements in agreements with multinational corporations. U.S. officials have expressed concern over what they believe is Brazil's practice of targeting certain industries for exports and then providing the official financial assistance needed to make this targeting effective. One can summarize the U.S. complaints as being based on the belief that Brazil's industrial structure should permit it to increasingly take on trade obligations and practices more like those of developed rather than less developed countries. This attitude is evident already, but will not reach its full flowering until Brazil emerges from its present economic crisis.

A reasonably safe prediction, therefore, is that U.S. complaints about Brazilian commercial policy--and industrial and investment policies as they affect trade--will grow in intensity over time.

Looking Ahead

Several significant conclusions about U.S.-Brazil trade relations emerge from this study. At present, the U.S. market is important to Brazil, although at 23 percent of total Brazilian exports (the 1983 percentage) it is less overwhelming compared with the dependence of other Latin American countries. Mexico, for example, normally sends between 60 and 70 percent of its exports, by value, to the United States. The United States supplied 16 percent of Brazil's imports in 1983 -- 32 percent of Brazil's nonoil imports -- which again is significant but not startling. Less than 2 percent of U.S. imports now come from Brazil and in 1983 only 1.3 percent of U.S. exports went to Brazil. The composition of the bilateral trade is given in Chapter IV.

One must conclude that while the present trade relationship is important--more so for Brazil than for the United States--it is the promise of a much greater future interchange that most interests traders in each country.

One is also struck by the pervasiveness of restrictions placed in the way of trade by each of the countries. Despite the low import penetration of Brazil in the U.S. market, Brazil has become a favorite target for U.S. competitors seeking countervailing duties. For trade in the other direction, there is a wide belief in the United States that Brazil restricts imports not only to achieve equilibrium in its balance of payments, but also on protectionist grounds. The bilateral trade balance changed after 1980 from a surplus in favor of the United States to one in favor of Brazil. If trade in services is included, the surplus is still in favor of the United States.

Bilateral trade conflicts are substantial at present, but muted. Most subsidy complaints raised in the United States are dealt with by mutual agreement, on a case-by-case basis, rather than by the imposition of a countervailing duty. This is because of U.S. recognition of Brazil's difficult economic situation and the acceptance that Brazil must reduce its current account deficit--that Brazil must run a trade surplus because its deficit in services is large--if it is to limit future borrowings and meet interest payments on a current basis on outstanding external debt. Similarly, Brazil's import restrictions are accepted as necessary in the current economic context. However, the potential is great for a transformation from muted conflict to open trade warfare once Brazil emerges from the current crisis. The two countries should prepare now to institute policies that will prevent this from happening.

Avoidance of trade conflict will not be easy to achieve because of the philosophic and practical differences that guide the commercial policies of the two countries. The Brazilian system is replete with export subsidies and this is justified on the dual ground of necessity and of right as a developing country. The one trade practice that is anathema to U.S. officials and the U.S. Congress is the use of fiscal incentives to penetrate the U.S. market; this is seen as forcing private U.S. producers to compete with foreign governments. The long history of efforts to introduce an injury test in U.S. subsidy/countervailing duty legislation is testimony to the intensity of U.S. antagonism to subsidized imports. The injury test, when finally accepted, took place in the context of the subsidy/countervailing duty code in GATT, in which there was a quid pro quo; and even then, the injury provision was granted only to other signatories of the code.

Brazil uses domestic content and export performance requirements as part of its trade and industrial policies, and presumably these measures, coupled with infant industry protection, is what has made possible Brazil's trade and industrial expansion of the past two decades. U.S. officials can be expected to oppose each of these techniques--domestic content requirements, export performance conditions, and protracted infant industry protection by Brazil--on grounds of principle.

The philosophic and practical differences also show up on the issue of reciprocity. Brazil justifies its lesser degree of reciprocity on its status as a developing country. The United States is becoming increasingly vexed by the lack of reciprocity from Brazil--not necessarily complete reciprocity, since the countries are unequal economically, but much more reciprocity than Brazil has granted thus far--which is seen as a relatively advanced country, with a sophisticated industrial basc. This same philosophic difference explains Brazilian opposition to graduation from GSP and U.S. preparations to graduate Brazil and other similary advanced developing countries.

There is no need to further belabor these philosophic differences. One must accept and understand them and then seek to fashion cooperative trade relations in spite of them. Neither country is likely to convince the other that its view of international trade practices is the correct one.

What Can Be Done?

The most comprehensive answer is the most self evident, for each country to correct the conditions--other than those inherent in its philosophic view of the international trading system--that have made the current situation such a conflictive one.

For the United States, this requires economic growth sustained over a period of years, which would at least partially remove one of the conditions on which protectionism thrives; and a lowering of interest rates, which would ameliorate one of the main aggravations of Brazil's current account outflow. With an external debt estimated by the Brazilian authorities at $94 billion in 1983 and projected to grow to more than $100 billion in 1984, each percentage point of interest-rate reduction is as significant to Brazil's current account correction as any conceivable one-year increase in exports to the United States generated by increased U.S. growth. Indeed, a one percentage point decrease in interest costs sustained for a full year would be the equivalent of about one-sixth of Brazil's merchandise exports to the United States in 1983 7/. Brazil's trade surplus targets--which motivate many of the import restrictions and the continuation of export subsidies--could be reduced if interest rates in international money-market centers declined. It is hard to exaggerate the potential importance to Brazil, and the opportunities opened for Brazil to practice a less restrictive commercial policy, of declines in interest costs on external debt. A more active policy of positive U.S. adjustments to trade to reflect changing comparative advantages also constitutes an important instrument to reduce trade conflicts.

For Brazil, the requirement is to complete successfully its stabilization program since only then can significant import liberalization take place.

Beyond these admonitions on overall economic policy, there are specific trade actions that each country could take that might alleviate the pressures for conflict that exist in the bilateral trade relationship.

For the United States, these actions include the following:

1. There is a high correlation between U.S. protectionism as it affects specific imports from Brazil and the competitiveness of the Brazilian product. This is precisely what one would expect. It is of little use to argue with the U.S. competitor that Brazil's overall import penetration in the United States is low because it often is not in the specific case; or if it is, the potential for increased penetration exists. However, the U.S.

Government is able to take a larger view than product competitors of trade relations with Brazil and should resist case-by-case protectionism impeding imports of precisely those products which Brazil is able to export.

2. Graduation from special or preferential treatment should be a logical consequence of economic development and not constitute precipitative demands, certainly not in the light of Brazil's balance of payments and debt-service problems. The issue is one of timing; the course of study to prepare a country for graduation does not have a specified period. The issue, therefore, is the transition time the United States gives to Brazil before it is considered graduated. The transition time should be reasonably lengthy--five years at least after the new U.S. GSP legislation comes into effect in January, 1985, and probably more. There are several reasons for this recommendation. The most important is that in terms of perferential imports from Brazil, the issue is a trivial one for the United States. GSP imports from Brazil in 1982 were two-tenths of 1 percent of total U.S. imports. When imports of a particular product exceed competitive need limits, they lose preferential treatment even without graduation. The second reason is that while the issue is minor for the United States, it is significant for Brazil. In 1982, U.S. imports under GSP were 13.5 percent of total imports from Brazil and 20.5 percent of dutiable imports. It makes little sense for the United States to behave mechanically on the basis of some principle honored mostly in the breach to take an action that would have little benefit for the United States and could inflict serious damage on Brazil.

3. Finally, in its trade actions, the United States must take into account the transfer problem which its own domestic economic policy had a role in creating by forcing up interest rates. Brazil can service its debt--at least the interest portion--only if its current account deficit is significantly diminished. The principal of the external debt cannot be reduced (except as inflation does so in a real sense) unless Brazil actually runs a current account surplus; and this will be difficult to achieve because of the interest payments on existing debt. U.S. protectionism must affect Brazil's ability to meet its interest obligations. It must affect the ability of Brazil itself to liberalize its import regime. These systemic issues cannot be ignored as the U.S. Government frames its trade policy vis-a-vis Brazil.

For Brazil, these actions include the following:

1. Brazil has a right to subsidize exports, but importing countries also have the right to countervail if a domestic industry is injured. There are other techniques which can encourage exports and which are more acceptable in international trade practice. The memorandum of understanding agreed to (but not signed) with the United States in December, 1982 under which Brazil undertook to gradually terminate its export-subsidy regime tacitly recognizes that this is what Brazil plans to do. The

maxidevaluation of the cruzeiro in February, 1983, followed by minidevaluations in line with domestic inflation, have helped to restore Brazilian competitiveness. This exchange-rate policy explains much of the Brazilian export success in 1983; and success in the future will be dependent on aggressive continuation of that policy. The use of the exchange rate to stimulate Brazilian exports is far less conflictive than selective export subsidization in trade relations with the United States (and, for that matter, with other industrial countries). Brazil can also encourage its industrialization by more taxes and other fiscal incentives at earlier stages in the production process--which is what most countries already do--rather than to rely too heavily on subsidies at the final export stage.

2. Once Brazil emerges from its current stabilization program it will find itself under severe pressure to ease (ease, not eliminate) its import restrictions. The understanding now exhibited by the U.S. Government over Brazil's trade policy will dissipate once it is felt that a balance-of-payments crisis no longer exists. Brazil can prepare for that time by easing some import restrictions now and looking to its tariff and exchange rate as the main future instruments for controlling imports.

3. The proliferation of trade complaints against Brazil by U.S. competitors is a manifestation that despite its modest penetration of the U.S. market--modest by comparison with many advanced developing countries in Asia, against which there tend to be fewer complaints--Brazil is not seen in a favorable light as a trading country in the United States. Competitors complain about Brazil's subsidies and occasional dumping; and investors about domestic content requirements and Brazil s market reservations. *What this implies is that Brazil could use allies* in the United States to counteract the conflict that is likely to erupt after Brazil emerges from its current economic crisis. Modifying content requirements; easing some market reservations which now exist; loosening nontariff import restriction; making common cause with U.S. importers of Brazilian products; and aggressively explaining Brazil's development, trade, and investment policies to influential groups in the United States would all serve to mitigate future bilateral trade conflicts

Conclusion

This study was undertaken because of the great importance of the economic relationship between Brazil and the United States. The study describes current trade policies in each country and their trade with each other, but the intent was to use the present as a springboard for looking ahead.

The present is not necessarily a good indicator of the future. The United States has only recently emerged from its worst recession since the great depression of the 1930s, and is in the midst of an important internal debate about the future of

its basic industries (such as steel and automobiles) and how it should encourage the high-technology industries of the future. Protectionist pressure has thrived in this atmosphere. This can be seen clearly in the steel industry, in which protection against Brazil has been intense.

Brazil also went through its worst economic crisis in eight decades and the stabilization effort involves an export drive and a limitation of imports. These actions must be aggravations to the United States, Brazil's most important trading partner, especially at a time of economic difficulty for the United States.

Each side recognizes the other's current economic problems. This is reflected in the many suspension agreements in subsidy/countervailing duty cases in which each side has been willing to take action to prevent an open conflict. This understanding is apt to evaporate--on both sides--when the economic situation in each country returns to what might be considered "normal". The actions suggested in this study are designed to prevent or mitigate future conflict and thereby make a contribution to the improvement of the trade relations between these two important countries.

Notes

1/ The nature of the Brazilian subsidy system is described in Chapter III.

2/ Bilateral discussions take place on a semi-annual basis in the trade subgroup of the United States-Brazil consultative mechanism.

3/ The data are given in Chapter IV.

4/ Increased U.S. protectionism against Brazilian exports has been the main driving force for the introduction of a new trade bill, presented to the Brazilian Congress by Mr. Pratini de Moraes, member of the House of Representatives for the governing PDS party. The trade bill has been approved unanimously by the commissions for industry and commerce, constitution and justice, and foreign affairs, in which participate representatives of several political parties. It grants the Executive broad retaliatory powers (in the fields of trade in goods and service and finance) against countries that hamper or impede Brazilian exports. The bill updates former trade laws (some provisions were incorporated into Law 3244 of 1957 and Decree Law 1427 of 1975, both prior to the MTN codes) and is similar to Section 301 of the U.S. Trade Act of 1974.

5/ In 1982, of $234 million of U.S. steel imports from Brazil, $94 million, or 40 percent, were subject to countervailing duty suspension agreements.

6/ The full list of antidumping actions, as of August 1984, is presented in Chapter V (Table V.7).

7/ Brazil's total foreign debt amounted to $93.9 billion in December, 1983, of which $10.3 billion was nonregistered (short term) debt. The composition of medium and long term debt according to interest rate categories was as follows:

	US $ billion	% Share
Total	81.3	100.0
Variable rate	65.1	80.0
Prime	6.7	8.3
Libor	57.6	70.8
Other	0.7	0.9
Fixed term	16.3	20.0

Source: Central Bank of Brazil, Brazil Economic Program, Internal and External Adjustment (Table 37, p.55), Volume 3, Brasilia (May, 1984).

Each percentage variation of the interest rate (normally variations in the New York prime rate are followed by similar variations in the libor rate) sustained for a full year, thus imply a $650 million variation in interest payments on Brazil's medium and long term debt.

CHRONOLOGY

March, 1981.
- Ambassador Brock annnounces annual GSP changes. Effective March 31, Brazil will be removed from GSP duty-free treatment on seven articles for either competitive need reasons or graduation.

April, 1981.
- Brazil reinstitutes the export credit premium. A timetable is designed for its gradual elimination until June, 1983, roughly equal to Brazil's original commitment in GATT. The United States continues to consider Brazil as an agreement country in relation to countervailing duty provisions. Offsetting taxes are charged on exprts to the United States of nonrubber footwear, castor oil and castor oil products, pig iron, certain scissors and shears, leather wearing apparel for men and boys, certain textile products, leather handbags for ladies, and cotton yarn.

October, 1981.
- The Government of Brazil requests ITC to conduct an investigation on the likely effects of the revocation of the outstanding countervailing duty order on nonrubber footwear.

November, 1981.
- The Department of Commerce self-initiates antidumping and countervailing duty investigations covering carbon steel products imported from seven EEC countries, South Africa, Romania, Spain and Brazil (carbon steel plate), in response to significant imports of these products at prices below those established by the Trigger Price Mechanism (TPM).

December, 1981.
- The Tool and Stainless Steel Industry Committee and the United States Steelworkers of America file a petition with USTR pursuant to Section 301 of the Trade Act of 1974, alleging that the Governments of Austria, Belgium, Brazil, France, Italy, Sweden and the United Kingdom grant subsidies on exports of certain stainless steel products, which are inconsistent with the GATT Subsidy Code. USTR decides not to initiate an investigation on alleged subsidies provided by Brazil.

January, 1982.
- Seven U.S. steel prducers file 59 countervailing duty and 33 antidumping petitions with respect to certain steel products imported from Brazil, France, Italy, Luxembourg, the Netherlands, Romania, the United Kingdom and West Germany. The Department of Commerce terminates the investigations on carbon steel products, initiated in November, 1981. The TPM is suspended.

February, 1982.
- ITC makes an affirmative preliminary determination concerning hot-rolled carbon steel plate imported from Brazil. The

preliminary determination is negative with respect to a series of other carbon steel products.
- U.S. steel producers file a countervailing duty petition alleging injury by allegedly subsidized import of carbon steel wire rod from Brazil, Belgium and France and by imports, allegedly sold at less than fair value from Venezuela.

March, 1982.
- U.S. steel producers file a countervailing duty petition with respect to prestressed concrete steel wire strand from Brazil.
- Ambassador Brock announces annual GSP changes. Effective March 31, Brazil will be excluded from duty-free treatment on ten articles, representing $565.5 million of U.S. imports in 1981. Brazil will be removed on eight items because U.S. imports exceeded the competitive need limits in 1981 ($537.7 million) and on two articles because of graduation ($27.8 million).
- Firms joining Brazil's BEFIEX program after March 31 will no longer receive the export credit premium during the whole period of their long-term export commitments. This measure follows a claim of the U.S. Government that Brazil had signed contracts granting the export credit premium through 1991.
- ITC makes an affirmative preliminary investigation with respect to carbon steel wire rod imported from Brazil.

April, 1982.
- A new bilateral textile agreement between Brazil and the United States goes into effect, in the framework of the MFA.

May, 1982.
- United States Steel Corporation (U.S. Steel) files a countervailing duty petition with respect to welded carbon steel pipes and tubes imported from Brazil.
- The United States reinstitutes sugar quotas under Section 22 of the Agricultural Act of 1933. Brazilian raw suger exports to the United States will fall from 960 thousand tons in 1981 to only 286 thousand tons in 1982.

June, 1982.
- ITC issues an affirmative preliminary determination regarding welded carbon steel pipes and tubes imported from Brazil.
- U.S. steel producers file a countervailing duty petition with respect to stainless steel bar and rod imported from Brazil.
- The Department of Commerce takes an affirmative preliminary determination with respect to carbon steel plates imported from Brazil.

July, 1982.
- Florida Citrus Mutual files a countervailing duty petition with respect to frozen concentrated orange juice imported from Brazil.
- U.S. steel producers file a countervailing duty petition alleging injury from subsidized imports of tool steel bar and rod from Brazil.
- The President of the United States directs the Office of the USTR to conduct an expeditious examination of Brazilian poultry export subsidies, under Section 301 of the Trade Act of 1974.

- The export tax on nonrubber footwear shipped to the United States is increased from 11 to 19% to offset changes in subsidies granted by working capital financing.

August, 1982.

- ITC issues an affirmative preliminary investigation on certain stainless steel products imported from Brazil.
- The Department of Commerce makes an affirmative preliminary determination with respect to subsidies paid by Brazil on exports of prestressed concrete steel wire strand.
- The United States holds informal consultations with Brazil concerning Brazilian export subsidies on poultry.
- Central Bank Resolution 765 charges a 12.16% offsetting export tax on exports of carbon steel plate exported to the United States, in the framework of a suspension agreement.

September, 1982.

- ITC issues a negative (preliminary) injury determination on certain commuter aircraft imported from Brazil. The investigation is terminated. ITC makes an affirmative preliminary determination on certain stainless steel products imported from Brazil and West Germany.
- U.S. steel industries file an antidumping petition with respect to carbon steel wire rod imported from Brazil and Trinidad and Tobago.

October, 1982.

- A suspension agreement is reached on prestressed concrete steel wire strand. Central Bank Resolution 798 imposes an offsetting export tax of 14.41%.
- A suspension agreement imposes a 15.50% offsetting tax on exports of carbon steel wire rod to the United States.
- The U.S. Treasury Department provides a bridge loan of $1.4 billion to contribute to the financing of Brazil's balance-of-payments deficit.

November, 1982.

- Brazil and the United States agree to the mainteinance of the export credit premium through April, 1985 (at a rate of 11% of the adjusted FOB value).
- At the GATT Ministerial meeting, Brazil votes in favour of a resolution that requests GATT member countries to conduct an investigation -- to the extent possible -- of the services sector of their economies.
- USTR completes its Section 301 investigation on specialty steels and recommends - among other measures - an ITC investigation under Section 201 of the Trade Act of 1974.
- ITC issues an affirmative preliminary determination in the antidumping investigation of carbon steel wire strand imported from Brazil.

December, 1982.

- Brazil and the United States agree to a memorandum of understanding. The main feature is a Brazilian understanding to phase out export subsidies in return for more certain treatment

by the United States on subsidized imports.
- ITC institutes a Section 201 investigation on specialty steel.

January, 1983.
- An antidumping petition is filed on behalf of Bethlehem Steel Corp. concerning flat-rolled carbon steel products imported from Brazil.

February, 1983.
- A suspension agreement is reached on frozen concentrated orange juice. *The government of Brazil imposeses an offsetting* tax of 2.77% on exports to the United States.
- The cruzeiro is devalued by 23%.
- The dollar equivalents of preferential working-capital financing are reduced in line with the maxidevaluation of the cruzeiro.
- Exports of many primary products become subject to export taxes to compensate for the maxidevaluation.
- The offsetting export taxes on carbon steel plate, carbon steel wire rod and prestressed concrete steel wire strand are increased. (Central Bank Resolution 798)

March, 1983.
- The Government of Brazil requests the continuation of the countervailing duty investigation on frozen concentrated orange juice.
- ITC issues a negative final injury determination on prestressed concrete steel wire strand from Brazil. The suspension agreement signed in October, 1982, will not remain in force. Brazil removes the offsetting export tax.
- Ambassador Brock announces annual GSP changes. Effective March 31, Brazil will be removed from GSP eligibility on 12 items as follows: (U.S. imports in 1982)

Competitive need reasons.............	7 articles ($255.8m)
Graduation	5 articles ($60.9m)

- A suspension *agreement is signed on certain* stainless steel products. An offsetting export tax of 13.42% will be levied (Central Bank Resolution 798).

April, 1983.
- A suspension agreement is reached on tool steel. A 15.31% export tax will become effective. (Central Bank Resolution 819).

May, 1983.
- ITC ddetermines that the United States footwear industry would not be injured by the revocation of outstanding countervailing duty orders on nonrubber footwear imported from Brazil, India and Spain.
- ITC determines that increased imports of specialty steels are a substantial cause of injury to the domestic industry. ITC recommends a three-year import relief program beginning retroactive to January 1, 1983.
- The United States and Brazil sign memoranda of understanding which allow U.S. firms to contribute to the development of major energy, projects. In the past, U.S. companies have been excluded

from significant participation in the energy development program of Brazil. The memoranda of understanding expressed the intent of the Brazilian and U.S. Governments to assist their private sectors in reaching commercial agreements. (OTAP, 35th Report, p. 323).

June, 1983.

- The export tax under the suspension agreement on frozen concentrated orange juice is increased to 3.51% to offset changes in subsidies in working capital financing.
- Central Bank Resolution 832 increases annual interest rates charged on preferential working capital financing (former Resolution 374) from 40 to 60%.

July, 1983.

- ITC issues a final determination that a US industry is threatened with material injury by reason of subsidized imports of frozen concentrated orange juice from Brazil. The suspension agreement signed in February, 1983, therefore, remains in effect.
- The offsetting export tax on tool steel is increased to 18.77%
- The United States formally communicates the specialty steel import relief program to GATT under Article XIX. Brazil reserves its rights under Article XIX.

August, 1983.

- The U.S. Customs Service changes the tariff classification of certain tobacco, resulting in an increase of 83% of the import duty (from 17.5 to 32 cents per pound).

September, 1983.

- The Office of the USTR does not accept a petition from domestic footwear industries for an investigation of unfair trade practices by the governments of Brazil, France, the United Kingdom, Taiwan, Korea and Japan.
- The U.S. Department of Commerce (ITA) issues an affirmative preliminary determination on sales at less than fair value (LTFV) of hot-rolled carbon steel plate (57.82%) and hot-rolled carbon steel sheet (39.28%) imported from Brazil.
- Brazil and the United States initiate discussions on a possible OMA under the U.S. specialty steel relief program. No OMA was concluded. The 35th OTAP report explains that "A major point of contention in the negotiations centered on proposed specific quota allocations for Brazil. The United States wanted a significant reduction from 1982 quota levels, while Brazil argued for a quota representing the average of 1981 and 1982 shipments" (p. 329).

November, 1983.

- U.S. Steel Corporation files a countervailing duty petition against imports of carbon steel plate imported from Brazil, Argentina and Mexico. An additional dumping complaint is filed against Brazil.
- The American Iron and Steel Institute requests Congress to enact legislation that limits steel imports to 15% of U.S. domestic consumption.

- The export tax on certain scissors and shears is increased to 18.19% (Central Bank Resolution 863)

January, 1984.

- Central Bank Resolutions 882 and 883 increase interest rates on working capital financing (former Resolution 674) to 3% annually plus 100% of the variation of the monetary correction factor (ORTN). The amounts available for individual sectors are reduced, in some cases to zero.
- Antidumping duties become effective on carbon steel plate (ranging from 65.58 to 100.04%) and coils (ranging from 50.55 to 89.04%) imported from Brazil.

February, 1984

- Brazil seeks -- unsuccessfully-- an export restraint agreement on steel plate in return for a withdrawal of unfair trade petitions.

March, 1984.

- The Government of Brazil levies a 27.42% tax on exports of certain carbon steel products to the United States in the expectation that the United States will eliminate a cash deposit. There is no formal suspension agreement. The United States does not agree to eliminate the cash deposit.
- The U.S. Department of Commerce announces its intention to terminate the suspension agreements on carbon steel wire rod and carbon steel plate, alleging that the Government of Brazil had failed to comply with the terms of the agreement because of the late payment of the export taxes.

April, 1984.

- Outstanding antidumping duties on carbon steel wire rod are reduced to account for the effects on the cruzeiro's devaluation, as a result of an accelerated investigation requested by the Government of Brazil.
- The Department of Commerce revises the net subsidy calculations on certain carbon steel plate, preliminarily established at 27.42% of the FOB invoice value to enterprise specific rates, ranging from 17.49 to 62.18%.

May, 1984.

- The Government of Brazil announces a three-year program to control the volume of exports of carbon steel coils and hot and cold formed carbon steel plate and sheet to the United States. In the first year of the program (from May 1, 1984 through April 30, 1985) exports will be limited to 430 thousand tons, 52% less than the 1983 exports. (CACEX Communication 82 of May 29, 1984).

June, 1984.

- ITC determines that imports are not a substantial cause of injury to the domestic footwear industry, turning down a petition for import relief under Section 201 of the Trade Act of 1974.

July, 1984.

- ITC determines that imports are a substantial cause of injury

to the U.S. steel industry and an import relief program under Section 201 of the Trade Act of 1974 is thus justified.

August, 1984.

- Central Bank Resolution 950 obliges banks to finance working capital for export production completely out of their own resources and establishes that interest rates must be equal to the normal rates of each bank, less a percentage borne by FINEX (10% for operations for which certificates are issued after August 1).

September, 1984.

- The President of the United States decides to restrain imports of steel products to 18.5% of U.S. apparent consumption. USTR is requested to negotiate, within 90 days, "voluntary" export restraint agreements with the main foreign suppliers.
- The Minister of Finance of Brazil decides to reduce the export credit premium as follows: 9% in November, 1984;7% in December, 1984; 5% in January, 1985; 4% in February, 1985, 3% in March, 1985, 2% in April, 1985; and nil thereafter.

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