III Recent Pressures for Protection

Overview

This section reviews recent trade actions and other commercial policy developments in selected industrial sectors of the main trading nations. Although not intended to be a comprehensive review, it covers what are believed to be the most important recent measures affecting the stance of international trade policies. The first part describes recent developments in the sectors that have come under the most severe protectionist pressures in the period since 1974—i.e., electronics, footwear, shipbuilding, steel, and textiles and clothing. The second part deals with two important sectors that have become subject to increased protectionist pressures more recently—i.e., chemicals and motor vehicles.[17]

Commercial policy is frequently applied on a sector-by-sector basis. Such a sectoral approach may be prompted by the emergence of cyclical difficulties in some industrial sectors earlier than in others, and perhaps also by the desire of policymakers to limit the effect of restrictive commercial or internal measures. International trade policy has long recognized and endorsed sectoral differences—notably in the case of agriculture, which in the GATT is subject to certain special rules (such as the policies on permissible export subsidies). However, in the past few years further distinctions have been made between specific industrial sectors.[18] Proliferation of such special rules for sectors could well lead to new types of restrictions and further distortions in international trade.

Another recent development is the increased focus on bilateral relations between major trading areas. The deterioration in the trade balance of the European Community with both Japan and the United States has, along with other global and sectoral difficulties, increased sensitivities in the Community concerning import competition from these two countries. Of particular concern in the Community has been the sharply increased penetration of Japan into its market for automobiles and consumer and industrial electronic products. Similarly, protectionist sentiment in the U.S. automobile sector has been directed chiefly at Japan. In response to these pressures, Japan is attempting to diversify markets, to develop more sophisticated lines of production, and to promote on-site production in importing countries. Although the 1978/79 export restraint program, which under Japanese law required exporters to use the minimum necessary export restraint, was terminated at the end of March 1979, the Japanese authorities continued to monitor export developments. With the acceleration of Japanese exports in 1980, the number of commodities being monitored was increased. In September 1980 Japan's Minister of International Trade and Industry urged the major Japanese automobile producers to exercise prudence in exporting automobiles to the United States, and more generally, the Japanese authorities continued to advise private enterprises not to export specific goods to the market of any region in a "torrential" manner.

More recently, the Commission of the European Communities has launched a discussion with Japan on bilateral trade issues. Although no specific agreements have yet been reached on either new export restraints in Japan or import restrictions in the European Community, pressures for Community protection remain strong. On February 17, 1981 the Community introduced statistical surveillance of imports from Japan of passenger cars, color television sets and tubes, and certain machine tools. Concerns about future trade frictions persist, in part because any export restraint agreement between Japan and the United States or between Japan and the Community could result in trade deflection and increased protectionist pressures elsewhere.

Some indications of recent changes in the overall frequency of antidumping, safeguard, and countervailing actions in countries for which data are available

[17] Unless otherwise stated, trade data and country groupings used in this paper conform to GATT definitions as given in Appendix II.

[18] For example, selective (discriminatory) safeguard actions are internationally acceptable in the textiles and clothing sector but generally not in other sectors; protection against dumping afforded by normal antidumping legislation, which is in conformity with GATT rules, is considered sufficient for most sectors but not for the steel sector.

appear in Appendix III. With the possible exception of the European Community, a slowdown seems to have occurred in the number of antidumping, countervailing duty, and escape clause actions in the countries for which information was assembled. The frequency of such actions is, however, not always a reliable indicator of protectionist practices.

Electronics

The consumer electronics sector came under increasing protectionist pressures in the mid-1970s in the United States on account of a sharp increase in the share of imports from Japan, Korea, and Taiwan. Consequently, the United States negotiated orderly marketing agreements (OMAs) with Japan in 1977 for a period of three years and with Korea and Taiwan in 1979 for an initial period of 17 months to restrain imports of color television sets.

In 1980, trade actions affecting this sector in the United States involved both liberalization of some restrictions and retention of earlier restrictions. After investigating the domestic color television industry, the U.S. International Trade Commission (USITC) ruled that the industry would not be injured if import restrictions against Japan were lifted. Accordingly, the 1977 OMA with Japan was allowed to lapse on its expiration on June 30, 1980. However, following the recommendation of the USITC, the United States renewed the OMAs with Korea and Taiwan on imports of color television sets for a further two years, beginning July 1980, with a 36 per cent increase in the combined quota for the two countries. A long-standing antidumping case involving imports of Japanese color television sets totaling $2 billion was settled with an agreement by the importers to pay antidumping duties totaling $75 million. The duties were assessed on imports effected between 1971 and March 1979 and arose out of a U.S. Treasury injury determination on imports of Japanese color television sets which were sold at less than fair value. The U.S. tariff rate on imports of citizens' band transceivers, which had been raised to 21 per cent from 6 per cent as a safeguard measure in 1978, was progressively reduced to 15 per cent in 1980 and reverted to its original level of 6 per cent in 1981. In addition, three antidumping investigations affecting electronic products were initiated in the United States during 1980. One case involved portable electronic nibblers from Switzerland; a negative determination of sales at less than fair value was made in this case. A preliminary injury determination was made by the USITC on imports of certain industrial electronic motors from Japan found to be sold in the United States at less than fair value. A final determination of no injury was ruled by the USITC on imports of countertop microwave ovens from Japan.

Certain electrical machinery and equipment, such as television and radio sets, tubes, transistors, generators, and batteries, have not been included in the list of products liberalized at the European Community level and are therefore still subject to imposition of quantitative restrictions by the national authorities. In 1980, there was a sharp increase in market penetration in the Community by Japan in television sets and integrated electronic circuits and by Korea in television sets. Exports of Japanese color television sets to the Community, which had declined slightly in 1979, rose by almost 50 per cent in the first eight months of 1980 (Appendix IV, Table 11). Similarly, exports of Korean black and white television sets to the Community's member countries rose from 120,000 units in 1976 to 814,000 units in 1980, with Korea's market share rising during this period from 5 per cent to 22 per cent. These developments have led to considerable pressures for protection on the part of the Community's producers. Television imports from Japan were among the products placed under statistical surveillance by the Community in early 1981. An antidumping investigation was initiated on imports of black and white portable televisions sets from Korea by the Commission of the European Communities in February 1981. Antidumping investigations were terminated on mounted piezo-electric quartz crystal units originating in Japan, Korea, and the United States.

In the future, new strains could also emerge in the field of technologically advanced electronic equipment for industrial use, in which Japan has become increasingly competitive. Major products involved include semiconductors, computers, industrial robots, and numerically controlled machine tools.[19] Although Japan and the United States supplied about 5 per cent of each other's semiconductor market in 1979, Japan's penetration in the most advanced spectrum of the market was 42 per cent. Japan is considered competitive with the United States in computer hardware. It has also become the major producer of industrial robots, which are being increasingly used in the production of automobiles and other standardized industrial products. The U.S. share of the world market for numerically controlled machine tools declined from 21 per cent in 1964 to 7 per cent in 1979. Japan's exports of such machine tools to Western Europe are also increasing rapidly, and this has led to requests for import quotas on certain categories of machine tool imports into France.

[19] U.S. House of Representatives, Subcommittee on Trade of the Committee on Ways and Means, *United States-Japan Trade Report,* September 5, 1980.

Footwear

Over the last several years, developing countries have accounted for an increasing share of world exports of footwear and leather and nonleather apparel, while import penetration in industrial countries has increased significantly (see Appendix IV, Table 12). These developments are attributable to long-term changes relating to (a) raw material shortages in industrial countries associated with restrictions on exports of raw hides in some developing countries—a step aimed at encouraging domestic processing—and (b) the establishment of manufacturing plants in developing countries where the availability of raw materials and cheap skilled labor provides an advantage in the production of relatively simple and standardized footwear. At the same time the increased cost of petroleum products has tended to adversely affect the industry, particularly in those industrial countries where nonleather footwear is produced.

Since 1978 strong strains in certain importing countries have led to demands for protection, especially in the European Community, where import penetration of nonleather shoes from China, Korea, and Taiwan has increased sharply. In the United States there has been little recovery in production but some decline in unemployment in the latter part of 1980 in response to shifts in fashions, an increase in demand for new products, and some modernization of plants to reduce the cost of production (Appendix IV, Table 13). On the whole, in 1980 trade restrictions in the footwear sector were not relaxed in the major industrial countries.

European Community

Reflecting the sharp increase in imports from some developing countries, the overall import penetration ratio in the European Community is estimated to have exceeded 50 per cent in 1980. During the first half of 1980, compared with the same period of 1979, imports of nonleather shoes rose by 100 per cent from China, by 83 per cent from Korea, and by 47 per cent from Taiwan. Consequently, the sectoral trade balance for the Community is expected, for the first time in several years, to register a deficit. This deterioration can be traced to slower than planned structural adjustment and to tariff and nontariff restrictions maintained by other industrial countries, which appear to have deflected developing countries' exports toward the Community.

Pressures for additional protectionist measures were resisted in 1980, but existing restrictions were maintained. Reacting to the rapidly increasing import penetration of nonleather footwear, the Community negotiated voluntary export restraint agreements in 1979 with Korea to regulate imports of all rubber, textile, and plastic footwear into the United Kingdom and Ireland. The United Kingdom-Korea Agreement was renewed in 1980 for one year and has been further renewed for 1981. The Ireland-Korea Agreement, initially negotiated for two years (1979–80), was renewed for another two years (1981–82). Also, autonomous quotas maintained since 1977 in the United Kingdom on imports of all shoes and in Ireland on imports of rubber and plastic shoes were renewed for 1981.

United States

Restraints on imports of footwear remained unchanged in 1980. In January 1980, the USITC determined under the escape clause provisions that imports of certain leather wearing apparel were a substantial cause of serious injury to the domestic industry and recommended the imposition of higher import tariffs for a period of three years. However, the President—citing the inflationary impact of such a measure and the ineffectiveness of import relief as a means for promoting adjustment—rejected the recommendation, which would have mainly affected imports from Korea. In November 1980, the USITC made a preliminary determination of material injury to the U.S. leather wearing apparel industry because of subsidized imports from Uruguay; however, no action has so far been instituted. No injury was found to result from subsidized imports of "unlasted" leather footwear uppers from India.[20] In late 1979 U.S. officials expressed their concern to the European Community about the high level of imports of shoes from Italy. Assisted by a change in tastes in the U.S. market and discontinuation of certain designs in Italy, imports slowed down without trade restraints.

In November 1980 the USITC began an investigation for the imposition of countervailing duties on imports of leather wearing apparel from Argentina, Colombia, Mexico, and Uruguay. In early 1981, it also investigated whether quantitative restrictions on footwear imports from Taiwan and Korea, scheduled to expire on June 30, 1981, should be terminated and recommended extending only the OMA with Taiwan for such products, excluding athletic footwear.

[20] Under U.S. legislation, countervailing duty investigations on duty-free imports from any source are based on the "material injury" criterion, regardless of whether the exporting country is a signatory to the GATT Code on Subsidies and Countervailing Duties.

Other Countries

With effect from September 1, 1980, Australia extended import licensing requirements to high-priced and specialty footwear; tariff quotas were also set for imports of artificial leather coats. The import quota for thong sandals for the second half of 1980 was fixed at 20 per cent less than for the first half of the year.

Canada renewed for another year its quantitative restrictions on imports of all footwear,[21] which had been imposed in 1977 under GATT Article XIX in order to assist domestic producers to strengthen their competitive position through appropriate structural adjustments. In June 1980 under GATT auspices Japan reached an agreement in principle with Canada to reduce quantitative restrictions that have been in effect since 1952 on importation of certain leather items.

Shipbuilding

Because of declining world demand, the shipbuilding industry has for several years suffered from serious overcapacity. In response to dynamic growth in world trade during the 1960s, and in anticipation of continued increase in demand for petroleum prior to the increase in oil prices in 1973, capacity was expanded sharply in Europe and Japan—the traditional shipbuilders—and new capacity was installed in several more advanced developing countries. Even though orders for new ships declined sharply after 1973, production—based on orders placed in 1972 and 1973—continued to increase until 1975 when it reached an all-time high of 34 million gross registered tons (grt)[22] (Appendix IV, Table 14), compared with installed capacity of some 39 million grt. Responding to the decline in demand, production in major supplying countries was drastically cut to 13.7 million grt in 1979. By the end of 1979, production cutbacks in Japan and Western Europe had led to a 30 per cent decline in employment, compared with 1975/76, as well as an appreciable decline in hours worked. Some developing countries—especially Brazil, Korea, and Taiwan—also responded by cutting back production while maintaining installed capacity.

Despite a substantial increase in Japan's production in 1980, owing to a doubling of orders for new ships (Appendix IV, Table 15), world production continued to decline in 1979–80. Although any medium-term projection of demand depends on prospects in the developed countries, a gradual recovery of demand is expected to begin in 1982; some forecasts call for the restoration of a balance between global demand and supply by 1985/86 at a production level about 30 per cent below installed capacity in 1973. However, the distribution of production is expected to be substantially different. The share of newly industrializing countries would rise to 33 per cent from the present 25 per cent of installed capacity and Western Europe's share would probably decline to 33 per cent, while the rest would be accounted for by Japan and other countries.

The crisis in the shipbuilding industry has generated the need for substantial structural adjustment and reduction in capacity, but in the wake of the worldwide recession, this has been slow. In order to ensure that adjustment takes place without undue burden on any single producer, the major producing countries, which are also members of the OECD, coordinate their policies through the OECD Working Party on Shipbuilding.[23] They have been guided by the OECD's General Guidelines for Government Policies in the Shipbuilding Industry (adopted in 1976), by understandings reached under OECD auspices on terms and conditions for export credits (first adopted in 1969), and by General Arrangements for the Progressive Removal of Obstacles to Free Trade (adopted in 1972). The Understanding on Export Credits for ships, which was designed to avoid destructive export competition among member countries, has been revised frequently in order to keep the terms of export credits consistent with world market trends. Recently, however, certain OECD members have extended extremely favorable terms under official development assistance (ODA) programs to developing and state-trading countries in order to promote exports; this has been interpreted as being inconsistent with the spirit of the Understanding on Export Credits.

In the shipbuilding sector, policies distorting trade take the form of subsidized export credits and of internal aids in the form of direct subsidies, tax exemption or rebates, government procurement, and financing for investment and research, rather than direct import restrictions. The Understanding on General Arrangements for the Reduction of Obstacles to Free Trade formed the basis for precise understandings by individual countries on the progressive removal of existing domestic aids, such as internal subsidies and tax rebates. After satisfactory progress until 1975,

[21] Except Alpine ski boots and footwear made of waterproof plastic, rubber, or canvas.

[22] In the absence of data for non-OECD countries on shipbuilding in "compensated" gross tonnage, technically a better measure of output and capacity because it takes account of the amount of work per gross registered ton, this section uses data in gross tons.

[23] The Working Party is composed of Belgium, Denmark, the Federal Republic of Germany, Finland, France, Greece, Ireland, Italy, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom, and the European Community. Canada, Portugal, and the United States are observers.

when strains of falling demand started to be felt, further reductions came to a halt; at present, nearly all member countries are extending direct internal subsidies, compared with only two in 1975. The reduction in production capacity by the mid-1980s is likely to require not only concerted efforts in European countries and Japan, but also collaboration with non-OECD member countries, particularly the newly industrializing countries, such as Brazil and Korea, which were the second and third largest producers of ships in 1980.

Developments in shipbuilding aid policies have recently varied.[24] For example, in 1979 France reintroduced basic aid for 350,000 grt of ships ordered before the end of 1978 for delivery by the end of 1980. In the United Kingdom the Shipbuilding Intervention Fund, which provided direct subsidies for the construction of merchant vessels up to 30 per cent of the contract price in 1979 and 1980, will be extended for 1981. In the Federal Republic of Germany the direct subsidy to the yards for the construction of technologically advanced ships, which was initially applied in 1979 and 1980, was extended to 1981 at a lower rate. Norway extended the 1980 subsidy (18 per cent of contract price) to contracts concluded before the end of 1980 for export by the end of 1982. Spain provided a temporary bonus of 9.5 per cent of the contract price of ships whose construction was authorized in 1979 and 1980. Canada provided a subsidy at a rate of 20 per cent of approved costs on all ships whether for domestic use or export. Since 1936, the U.S. shipbuilding industry has benefited from a subsidy program, which includes a subsidy to cover differentials between domestic and foreign wages and a construction differential subsidy for U.S. shipyards, up to a rate of 50 per cent of the domestic cost of vessels.

All members of the OECD Working Party extend preferential export credits to their shipbuilders; with the exception of the ODA-related export credits to developing countries, they have been deemed to be generally consistent with the OECD understanding. In addition, certain countries have traditionally required that a certain proportion of national trade be transported in domestically built vessels.

Structural adjustment has been proceeding at varying rates in different countries, depending on the extent of prior restrictions and domestic aids, the level of unemployment in the economy, and the existing structure of the industry. The extent of adjustment under way can be illustrated by the following indications of planned capacity cutbacks given to the OECD Working Party. In the Federal Republic of Germany adjustment policy aimed at reducing by about 50 per cent the total capacity for the building of new ships by the end of 1980, compared with 1975. France planned on reducing maximum production by 25 per cent, Italy by 40 per cent, and the United Kingdom by 33 per cent. According to information provided to the OECD, certain producing countries have already realized many of the required cutbacks in capacity. For example, in the Netherlands restructuring has resulted in a 50 per cent cutback in capacity, and Japan and Sweden have each reduced production capacity by over 30 per cent.

[24] Discussion in this section is based on the OECD publication, *Measures of Assistance to Shipbuilding* (September 1980).

Steel

The steel sector continues to have excess capacity, stemming in part from the expansion in capacity in the OECD countries after 1974, despite a sharp decline in demand. Between 1974 and 1978, effective capacity[25] in the OECD area rose by 2 per cent a year while demand declined at an annual rate of 2 per cent (Appendix IV, Table 16). Capacity utilization declined to 73 per cent in 1978. World demand rose in 1979 by 5 per cent, and capacity utilization rose to 76 per cent (Appendix IV, Table 17). However, the improvement in capacity utilization was short lived because demand and production deteriorated substantially in 1980, particularly in the latter part of the year. The decline in steel production in the OECD countries in 1980 is estimated at 7 per cent.

In recent years employment in the steel industries of the OECD countries has substantially declined. In the European Community, about 125,000 steel workers left the industry between 1974 and 1979, representing a decline of 16 per cent. During the same period, employment in the steel sector declined by 13 per cent in Japan and by 9 per cent in the United States. World steel trade (excluding intra-Community trade) as a percentage of world consumption remained in the range of 18–19 per cent in 1978–79. Japan and the Community remained net exporters of steel while the United States continued to be a net importer (Appendix IV, Table 18). Certain newly industrializing countries undertook substantial expansion in capacity.

The difficulties of the steel industry and the need for industrial restructuring have been recognized since 1977 by the Solomon Report in the United States, the Davignon Plan in the European Community, and the formation of a Steel Committee within the OECD. A broad consensus of the OECD Steel Committee is that the solution to the industry's difficulties must lie in accepting a gradual shift of productive potential in line

[25] Effective capacity, an indicator of maximum possible production, is defined as nominal capacity times the maximum operating rate.

with comparative advantage. Hence, emphasis has been placed on the need to promote positive adjustment by relying as much as possible on market forces to encourage mobility of labor and capital to their most productive uses. This has involved a combination of modernization and closures in some of the traditional centers of production and moderation in expansion elsewhere, as well as a commitment to avoid disruptive trade movements and excessive price competition. In October 1980, the OECD Steel Committee examined the measures adopted by the United States (described below) and was informed of the status of policy deliberations in the European Community. It concluded that "bearing in mind the present difficult circumstances in the industry and their social implications . . . government policies should promote the accelerated implementation of necessary structural changes." [26]

The OECD Steel Committee invited the participation of some developing countries where capacity had expanded in recent years, but these countries have declined to participate because they feel that association with the Committee might hinder their development efforts.

European Community

In order to cope with the emergence of overcapacity in the iron and steel sector and the consequent instability of prices, the Commission of the European Communities adopted a "steel crisis plan" in December 1977 aimed at supporting domestic prices at a level that would allow the Community's producers to undertake an orderly rationalization of production capacity. Under the original plan, this was to be achieved through (a) internally, the establishment of compulsory minimum prices for particularly sensitive products, recommended ("guidance") prices for other products, and fixing of voluntary ceilings on deliveries in member countries of the Community; and (b) externally, conclusion of bilateral arrangements with the steel exporting countries providing for quantitative targets based on traditional trade flows and consistent with maintenance of stable domestic prices. The foreign suppliers were required to observe the internal prices, less discounts of 3–6 per cent. The Community's basic prices were set in relation to the cost of production in the most efficient producing country (primarily Japan). In order to avoid a downward spiral in domestic prices, domestic producers were not permitted to align their prices to delivered import prices. Over the medium term, these measures were to be reinforced through encouragement of restructuring.

[26] OECD Press Release, *Presse/A(80)63*, October 30, 1980.

The crisis measures were renewed and modified in December 1978 for 1979 and in December 1979 for 1980. The Commission announced a new schedule of basic prices for 1979. Whenever import delivery prices fall below these basic prices, provisional antidumping duties may be assessed, except on products covered by bilateral arrangements. In 1980 internal minimum prices for concrete reinforcing bars and merchant bars were suspended, and minimum prices for certain products, such as coils, and guidance prices for the main iron and steel products were increased slightly to reflect rises in the cost of production. Reflecting these developments in internal prices, basic prices applicable to imports were also raised by 2–5 per cent over 1979 levels for ordinary steel and by about 16 per cent for special alloy steels. In order to regulate imports of steel, the Commission negotiated or renewed 13 bilateral arrangements with major suppliers (Appendix IV, Table 19).

Despite the external measures and voluntary internal delivery cutbacks, the situation in the Community's steel market continued to deteriorate in 1980 owing mainly to a decline in orders placed by the automobile and building industries, a fall in exports, failure of firms to comply with delivery cutbacks, and increased production costs. This deterioration resulted in renewed pressures on Community-administered prices in the latter half of 1980, precipitating further domestic production cutbacks and some additional action on imports. On October 6, 1980, the Commission declared a state of "manifest crisis" in the Community's iron and steel industry. It requested the Council to establish a system of production quotas under Article 58 of the European Coal and Steel Community Treaty. On October 30, 1980 the Council assented to the system of obligatory quotas by undertaking. These production quotas are fixed quarterly on the basis of "reference" production levels for each undertaking. Products subject to quotas include crude steel and four categories of rolled products. Certain specialty steels are subject to production monitoring.

For the last quarter of 1980, the production of affected products was cut back by 14.2 per cent from the level of the final quarter of 1979. Overall crude steel production in 1980 fell by 6 per cent (Appendix IV, Table 16) and capacity utilization declined to about 65 per cent (Appendix IV, Table 17). Imports continued to be restrained in 1980, and the import penetration ratio declined slightly.

In 1981, the policy of compulsory cutbacks in production will be reinforced by external restraint arrangements designed to take account of the expected fall in steel consumption. Production ceilings for the first half of 1981 will be 15–20 per cent lower than produc-

tion in the first half of 1980. Export restraints will be negotiated for 1981 with all major suppliers, including Korea and certain Eastern European countries whose exports were not restrained in 1980. The mandatory production quotas are scheduled to expire on June 30, 1981, while new export restraints are expected to be negotiated for calendar year 1981.

United States

In the United States, the program for restructuring has emphasized modernization and protection of the domestic market from dumped or subsidized imports. After the adoption of the Solomon Report, the U.S. authorities instituted several programs to promote adjustment in the domestic steel industry. The first program, introduced in February 1978, included a $500 million loan guarantee program to assist eligible companies in upgrading their equipment and the introduction of the trigger price mechanism (TPM) to expedite investigations of dumped or subsidized imports. In September 1980, the authorities announced the reinstatement of the TPM and their intention to propose further measures to promote restructuring. Among the measures contemplated were: (1) measures to promote investment in plant and equipment through accelerated depreciation allowances and tax credits; (2) initiatives to foster cooperative research and development; (3) a review of the environmental regulations affecting the industry; and (4) programs to assist workers and communities seriously affected by the restructuring process.

Steel capacity in the United States declined to 139 million tons in 1980 from the peak level of 145 million tons in 1977. Imports have also declined consistently since 1977; the ratio of imports to domestic consumption was 18 per cent in 1978, 15 per cent in 1979, and is estimated to have been 13 per cent in 1980 (Appendix IV, Table 17).

Under the TPM, steel imports at prices below periodically adjusted price floors automatically trigger an antidumping investigation. The trigger prices are based on the production costs of the most efficient foreign steel manufacturer (Japan) and cover most carbon steel products imported into the United States. However, compliance with trigger prices is not mandatory. If a firm can establish that it can export a steel product to the United States at a price below the applicable trigger price, yet still at or above the firm's "fair value" as defined by the antidumping statute, it is granted "pre-clearance" and such exports would not activate an antidumping investigation.

Since the initiation of the TPM, most imported steel has entered the United States above applicable trigger prices. "Pre-clearances" on certain steel products were granted to some Canadian producers and to a Mexican producer. One TPM antidumping investigation was initiated in 1979 concerning steel wire nails from Korea; it resulted in a final negative injury determination by the USITC in 1980.

Apart from TPM investigations, other antidumping investigations were initiated in response to petitions by the industry. Five antidumping cases were initiated by the industry in 1979; four industry cases were withdrawn and another was concluded with a finding of no sales at less than "fair value." In addition, there were two recent countervailing duty investigations on steel products. One case was withdrawn; the other, on pig iron from Brazil, resulted in a final affirmative determination in 1979.

The TPM was suspended in March 1980 in response to the filing of antidumping complaints by the U.S. Steel Corporation against seven European steel firms, involving trade valued at about $1.3 billion.[27] In suspending the TPM, the U.S. authorities stated that the simultaneous existence of both antidumping and trigger price actions would overly protect the domestic industry and overburden their capacity to enforce effectively either course of action.

A modified TPM was reinstated in October 1980 for a period of up to five years as part of the steel revitalization program, and the U.S. Steel Corporation agreed to withdraw its antidumping cases. Trigger prices for the fourth quarter of 1980 averaged 12 per cent higher than those prevailing in March 1980. They were further increased by an average of 0.9 per cent for the first quarter of 1981 and 4.4 per cent for the second quarter. According to the October 1980 announcement, the U.S. authorities intend to review the progress toward modernization of the steel industry in three years; if progress is then deemed unsatisfactory, the TPM could be terminated.

A major change in the modified TPM is the addition of a "surge" mechanism involving closer monitoring of sudden increases in imports of steel mill products. The "surge" mechanism operates only when the capacity utilization of U.S. industry is below 87 per cent. When, in addition, imports of steel mill products exceed 13.7 per cent of apparent domestic consumption (both calculated on a three-month moving average basis) and there appears to be an extraordinary increase ("surge") in one or more steel mill products, the U.S. Department of Commerce reviews the situation to determine whether the TPM is being evaded.[28] When-

[27] In 1978, 21 antidumping complaints by the industry were withdrawn when the TPM was first introduced.

[28] The U.S. Department of Commerce assumed responsibility for administering the TPM, effective January 2, 1980. This function was previously performed by the U.S. Department of the Treasury.

ever the import penetration ratio exceeds 15.2 per cent and there appears to be a "surge" in imports, the Commerce Department attempts to determine whether the "surge" results from dumping or subsidization.[29] If such evidence is found, the Commerce Department may initiate an antidumping or countervailing duty case after appropriate consultation with the foreign government involved; alternatively, a domestic producer may make a formal complaint without risking suspension of the TPM. A further change in the TPM is that trigger price calculations for converting the Japanese cost of production to U.S. dollars are now based on a 36-month moving average yen/dollar exchange rate instead of on a 60-day average.

In addition to basic carbon steel mill products, specialty steel had been protected by an orderly marketing agreement with Japan and import quotas on other major suppliers since 1976 after an injury finding by the USITC. Separate product quotas, allocated by country, covered sheet and strip, plate, bar, wire rod of stainless steel, and alloy tool steel. The quotas were extended for eight months past their expiration date and were then eliminated in February 1980. However, products previously restricted under quota and the orderly marketing agreements were placed under an import monitoring program similar to the surge mechanism of the TPM. Under the surge mechanism for specialty steel, investigations of possible dumping or subsidization would be conducted if import penetration exceeded the average penetration of the past ten years or if the imported product attained a market share similar to that which the USITC found injurious in 1976, when the quantitative restrictions were initially imposed.

Textiles and Clothing

General Trends

World demand for textiles and clothing was sluggish during the 1970s. In developed countries consumer expenditures on clothing in real terms grew at roughly 2 per cent a year between 1973 and 1979, with consumption expanding faster in North America and Japan than in the Community.[30] In developing countries demand for textiles and clothing grew more rapidly, mostly owing to a faster rate of population growth. In response to a slowdown in world demand, the growth rate of world production declined sharply during the 1970s (Appendix IV, Table 20). The slowdown was more severe in the developed countries than in the developing and the Eastern trading countries. The slow growth of production in developed countries, combined with the introduction of labor-saving technology, led to a marked decline in employment. For example, between 1973 and 1979 employment declined by 4.5 per cent a year on average in the European Community and by 2 per cent in the United States. In 1979, a modest recovery, especially in the textile sector in the developed countries, took place and appears to have continued into 1980.

The share of textiles and clothing in world exports is about 5 per cent, with textile exports accounting for 3 per cent and clothing exports for just over 2 per cent. The rate of growth of world trade in this sector (in terms of nominal U.S. dollars) has fluctuated considerably in recent years (Appendix IV, Table 21). After stagnating in 1975, world exports of textiles and clothing increased by nearly 18 per cent in 1976, and the developing countries' share improved to 19 per cent in textiles and to 38 per cent in clothing. Since 1977, the share of industrial countries in world exports has stabilized at around 63 per cent, while the share of non-oil exporting developing countries has remained at 26 per cent and that of Eastern trading countries at 10 per cent (Appendix IV, Table 22). Developing countries supplied about 54 per cent of the Community's textile imports in each year between 1973 and 1979, while their share in the U.S. market increased from 31 per cent to 44 per cent. In the clothing sector the share of developing countries in the Community's imports increased from 74 per cent to 78 per cent and in the United States from 73 per cent to 84 per cent over this period.[31]

Importance for Developing Countries

Non-oil developing countries' exports of textiles and clothing are about 11.5 per cent of their exports to all destinations. As a proportion of their exports of manufactures to the industrial countries, textiles and clothing accounted for about 35 per cent in 1973; in 1978 this proportion declined to 30 per cent, reflecting in part diversification into other sectors, such as engineering goods.

The importance of this industry to the development process is perhaps greater than it seems from these data. For several developing countries, it is the most important export industry and, apart from agriculture, the largest provider of jobs. In the clothing sector,

[29] The actual average import penetration ratio in 1970–79 was 15.2 per cent.

[30] Discussion in this section is based on the GATT Textile Committee document, *Demand, Production and Trade in Textiles and Clothing, 1973–1979* (October 7, 1980).

[31] The estimates for the European Community exclude intra-Community trade which, if included, would lower the share of developing countries in the Community's imports considerably.

developing countries are able to compete vigorously with industries in developed countries on the basis of substantially lower labor costs. Moreover, as industrial development increased and more sophisticated technology was adopted—and under the influence of long-standing restrictions on cotton and other simple textiles—many developing countries have shifted to higher value-added production of clothing and synthetic fibers. While labor costs are relatively less important in more sophisticated product lines, they are still a significant cost element. The oil price increases of recent years have had a highly adverse impact on industries that shifted production to higher-quality items, such as petroleum-based synthetic fibers.

Restrictions Under the Multifiber Arrangement

Since 1974, quantitative restrictions have been generally applied by industrial countries under the framework of the Multifiber Arrangement (MFA). The negotiations leading up to the extension of the 1974–77 MFA for another four-year period through 1981 have been described in an earlier Fund staff survey.[32] The agreed text of the protocol extending the MFA provided for the possibility of "jointly agreed reasonable departures from particular elements in particular cases." [33] By September 20, 1980, 42 countries had accepted the protocol of extension.[34] In addition, as shown in Appendix IV, Table 23, even after the MTN tariff reductions, tariffs on textiles and clothing will remain higher than those on manufactures generally.

The Textiles Surveillance Body (TSB) operates under GATT auspices and is entrusted with the responsibility of supervising the implementation of the MFA. During the period January 1, 1978 to September 20, 1980, the TSB received notification of numerous restrictions under Articles 3 or 4 of the MFA. All notifications pertaining to Article 3, which permits bilateral or unilateral restrictions as a result of market disruption, concerned measures implemented prior to 1980. These included five notifications of bilateral agreements, six notifications of unilateral measures—five of which were later superseded by bilateral agreements—and ten notifications of termination of measures taken during the 1976–77 period.[35] Austria, Canada, the European Community, Sweden, and the United States were the importing regions implementing measures under Article 3.

Over the same period the TSB received 198 notifications of bilateral agreements (or amendments thereof) concluded between participants under Article 4 of the MFA, which provides for the negotiation of bilateral agreements for the purpose of eliminating the risks of market disruption. Eighty-eight notifications concerned new agreements and 108 notifications related to the extensions and modifications of existing agreements. One notification related to the replacement of a previous agreement by a consultation arrangement, and one concerned the termination of an agreement. Table 24 in Appendix IV contains the list of countries participating in these agreements. Since most bilateral agreements were concluded for a period of three to five years, beginning in 1978 or 1979, only eight of the notifications referred to new agreements entering into force in 1980.[36]

In its recent major review of the MFA, the TSB made numerous observations. It identified some departures from the main MFA provisions in the bilateral agreements entering into force after 1978. Several agreements involved a reduction in the base trade levels or a reduction in access to markets not justified under the MFA Articles, including agreements between the Community and Hong Kong, the Community and Korea, Sweden and Hong Kong, Sweden and Macao, and Sweden and Korea. Since a new product classification was introduced by the Community, its agreements were based on 1976 trade levels rather than on 1977 levels, and this made it difficult for the TSB to determine the extent to which the new restraint levels differed from the previous ones. Some agreements had growth rates lower than the MFA norm of 6 per cent, because of exceptional circumstances or because the importing countries claimed that their minimum viable production was being threatened. A large number of agreements were more restrictive because of the absence or smaller size of permissible swing, carryover, and

[32] *The Rise in Protectionism* (cited in footnote 1), pp. 92–94.

[33] GATT Press Release No. 1208, December 15, 1977.

[34] Five countries which accepted the protocol of extension did not participate in the 1974–77 MFA: Bangladesh, Czechoslovakia, Dominican Republic, Indonesia, and Peru. Four countries which were participants in the 1974–77 period—Australia, Nicaragua, Norway, and Spain—have not accepted the protocol. A major exporting country—Taiwan—has never participated in the MFA. The People's Republic of China, an increasingly important exporter, is also not an MFA signatory.

[35] GATT, *Report of the Textiles Surveillance Body to the Textile Committee for the Major Review of the Operation of the Arrangement,* COM.TEX/SB.610 (Geneva, October 14, 1980).

[36] Agreements concluded with or actions taken against non-signatory countries are also reported to the TSB under Articles 7 and 8 of the MFA. Between January 1978 and September 1980, Canada notified agreements with Bulgaria and the People's Republic of China; the European Community notified an agreement with Bulgaria and measures against imports of Greece, Malta, and Turkey; Sweden notified agreements with Malta and Mauritius; and the United States notified unilateral measures against imports from the People's Republic of China and South Africa. In addition, Malaysia, Sri Lanka, and Singapore notified bilateral agreements restricting their exports to Norway.

carryforward limits than those provided for under the MFA.[37]

The TSB also concluded that under the extended MFA there had been a definite shift from Article 3 actions to Article 4 bilateral agreements (which, in principle, are supposed to be more liberal than Article 3 actions), as well as expansion in the product coverage and in the number of exporting countries subject to restraints. Some previous agreements (such as those of the Community) had become more comprehensive, while countries that had previously concluded comprehensive agreements (such as the United States) continued to do so. The TSB noted that market access could not be measured only in terms of an increase or decrease in the number of products subject to restrictions, since the trade significance of different products in terms of volume, or the importance of certain products for the countries concerned, varied considerably. The TSB concluded that, on the whole, more restrictions were in existence at the end of 1980 than in the first period of the MFA, but that the implications for trade performance were not clear because import quotas had not always been filled.

European Community

Imports of textiles and clothing into the European Community from "low-cost" countries are governed by bilateral agreements under the provisions of the MFA or by arrangements with "preferential" countries that are not signatories to the MFA. Agreements with preferential countries, however, contain only "understandings" on export growth, which is not, as in the case of MFA countries, subject to explicit quantitative ceilings.[38]

Most agreements with MFA signatories contain both of the following provisions: "sensitive" products are restricted from the outset, while other products are subject to a consultation/safeguard procedure termed the "basket extractor" or "basket exit" mechanism.[39] This mechanism, incorporated in the standard bilateral agreement between the Community and the exporting country, authorizes the Commission to ask the country to suspend its exports as soon as imports from that country exceed a given threshold for the Community. The Community then holds consultations with the supplier country for the purpose of negotiating a limit. If a limit cannot be mutually agreed, quantitative restrictions may be imposed unilaterally. As already noted, since the bilateral agreements concluded by the Community use 1976 as the base period, they are likely to be somewhat more restrictive than they would be if 1977 had been used as the base. In addition, bilateral agreements with the three major suppliers (Hong Kong, Korea, and Taiwan) in effect restrict exports to the Community more severely than do agreements with other countries, especially in sensitive categories. A reason sometimes advanced for stricter restraints on the major exporters is that they enable the remaining exporting countries to compete for a larger market share than might otherwise be the case.

The Community's classification system breaks down all textile and clothing products into five groups, ranked by "sensitivity," with Group I consisting of eight highly sensitive products that are subject to global ceilings limiting import growth to between 0.5 per cent and 4.1 per cent annually. The remaining MFA products are classified in Groups II through V, with annual growth rates ranging between 4 per cent and 6 per cent.

During 1978 and 1979, the first two years of the renewed MFA, the annual rate of growth of the Community's imports in volume terms of highly sensitive products (Group I) was less than 2 per cent. Imports of nonsensitive products (Groups II–V) grew more rapidly. The overall annual rate of import growth in terms of volume for the two years was 4 per cent. The Community applied the basket extractor mechanism to negotiate 130 new limits on imports, including two unilaterally imposed limits, over the period 1978 to 1980. Almost 90 per cent of the restrictions under the basket extractor mechanism were regional—that is, applied by one or more, but not all, member countries of the Community. Most of the new restrictions were imposed on behalf of the United Kingdom, the Benelux countries (Belgium, the Netherlands, and Luxembourg), and France, and they mainly affected exports of the Philippines, Romania, Hong Kong, and India. These limitations were principally on nonsensitive products whose exports may have been expanded following the imposition of strict import limits on sensitive products.

The Community signed new agreements with Bangladesh and India in March 1980 to regulate trade in jute fabrics for the three-year period 1981–83. These

[37] Swing limits refer to the extent to which excess exports in one restricted category can be compensated by a shortfall in another category; carryover refers to the utilization of the previous year's unutilized quota, and carryforward refers to the borrowing of next year's quota.

[38] The Community has signed agreements under the MFA with the countries shown in Table 24 (Appendix IV), in most cases for the five-year period 1978–82. In addition, agreements were signed with Taiwan, a principal supplier to the Community, and Bulgaria, the People's Republic of China, Malta, Cyprus, and Mauritius. Other agreements were reached with Egypt, Greece, Morroco, Portugal, Spain, and Tunisia—countries which have a preferential relationship with the Community.

[39] Agreements with five countries (Bangladesh, Guatemala, Haiti, Indonesia, and Uruguay), which did not have any exports to the Community prior to 1977 in MFA products, were concluded as consultation agreements. Under these agreements, no items were put under restraint.

agreements incorporate self-restraint on exports by the two countries and replace safeguard measures that expired at the end of 1980. A bilateral restraint agreement was also signed in 1980 with Thailand for exports of jute yarn to Benelux countries, formalizing previous safeguard measures. Safeguard actions involving the imposition of import quotas for 1980 were taken by the Community under GATT Article XIX in February 1980 on imports into the United Kingdom of polyester filament yarn and nylon carpet yarn. These measures, which did not apply to imports from EFTA countries or from preferential or MFA bilateral agreement countries, were primarily directed at imports from the United States.[40] As the import quotas were not fully utilized because increased domestic demand in the United States was coupled with a fall in demand for the affected products in the United Kingdom, the U.K. restrictions were discontinued at the end of the year. In September 1980, a U.S. Presidential Proclamation had ordered an increase of tariffs on U.S. imports of certain woolen textile products from the Community with effect from January 1, 1981, if the quotas on synthetic fibers were renewed for 1981. This measure, which would have affected U.K. exports in particular, did not go into effect. Provisional antidumping duties, imposed by the Community on imports of polyester yarn by the United Kingdom from the United States in February 1980, were also revoked at the end of 1980.

United States

The United States maintains bilateral agreements with all major textile and clothing exporting countries, including at present 19 MFA member countries (Appendix IV, Table 24)[41] and three non-MFA members: Taiwan, the People's Republic of China, and Costa Rica.[42] Most U.S. agreements negotiated since 1978 expire in 1982. Approximately 80 per cent of U.S. textile and clothing imports originate with controlled suppliers.[43] The agreements, including those with three of its four largest suppliers (Hong Kong, Korea, and Taiwan), specify ceilings on individual product categories, the majority of which are consistent with the MFA growth rate of 6 per cent annually, except in the case of certain sensitive products. The agreement with the fourth largest supplier (Japan) essentially provides for consultation between Japan and the United States whenever the United States considers that imports from Japan can disrupt its domestic market. As a result of a consultation held on August 22, 1979, Japan agreed to restrain its exports of 11 textile items to the United States. For three of these items, growth limits of less than 3 per cent were established.

In 1979, the United States amended its bilateral agreements with Hong Kong, Korea, and Taiwan. In an important departure from past practice, the permitted swing limits were reduced from 6 per cent to 5 per cent and the carryover and carryforward provisions were eliminated for the most sensitive categories. This was done to reduce the possibility of sudden increases in imports of particular categories whose quotas were underutilized in the previous year. In these cases new quota limits could be established or consultations called, if imports expanded by more than a certain percentage.

In 1980, the United States negotiated new bilateral agreements with the People's Republic of China, Costa Rica, and Sri Lanka and renegotiated an expiring agreement with Macao. For three of the six categories for which specific limits were established in the agreement with the People's Republic of China, annual growth limits were set at 3 per cent, and for the other three categories growth limits were established in the 20–25 per cent range. In another development, the USITC ruled that U.S. industry was not being injured by subsidized imports of cotton textile products from Pakistan.

Other Countries

Since January 1, 1979, Canada has applied bilateral agreements negotiated with most foreign suppliers. Most of the agreements are effective through the end of 1981. The agreements generally provide for growth targets in conformity with the MFA, except for sensitive products. Provision is made for consultations in the event of import "surges." Starting January 1, 1980, Canada has applied bilateral agreements with India and Malaysia on clothing imports. These agreements superseded some previous unilateral measures under Article 3 of the MFA and allow for a 6 per cent annual growth. In August 1980 the Canadian Textile and Clothing Board recommended the continuation of special measures of protection for the textile and clothing industry beyond 1981. The Canadian authorities announced that they would take this advice into consideration when determining the Canadian policy for the post-1981 period.

Austria entered into an agreement with Hong Kong on clothing imports for the period February 1, 1980

[40] The Community's textile imports from the United States increased in terms of U.S. dollars by 70 per cent in 1979 and its clothing imports from the United States rose by 100 per cent.

[41] The bilateral agreements with Poland and Yugoslavia expired on December 31, 1980.

[42] The United States also implemented a safeguard measure under Article 3 of the MFA on imports of a textile product from South Africa.

[43] Includes imports controlled under consultation clauses but not necessarily subject to quotas.

to January 31, 1981, superseding an Article 3 agreement; it establishes a fixed quota for eight product categories and has swing, carryover, and carryforward provisions. Austria has other bilateral agreements with Egypt, India, Korea, Macao, and Pakistan, allowing for growth in most categories of less than 6 per cent. Finland notified the TSB of a new bilateral agreement with Korea for the period May 1, 1980 through December 31, 1982, replacing previous restrictions applied in the context of Korea's accession to the GATT. Other agreements have been concluded with Hong Kong, India, Macao, Malaysia, Singapore, and Thailand. In 1980, Finland renegotiated its agreement with Hong Kong and concluded a new agreement with Korea. Sweden has bilateral agreements with 11 MFA members (Appendix IV, Table 24). In those agreements for which information was provided to the TSB regarding growth limits, the limits are less than 6 per cent for most categories. The lower growth rates applied in the bilateral agreements of Finland and Sweden are justified on the grounds that the domestic industry in these countries must maintain a minimum rate of production to be viable.[44] The Swedish agreements and a few of the Finnish agreements do not include swing provisions. Sweden renewed an expiring agreement with Yugoslavia in 1980.

Two other importing countries—Australia and Norway—are not MFA signatories but maintain import restrictions. The Australian textile and clothing industry has received a relatively high level of protection for several years. Since the onset of the recession in the second half of 1974, extensive restrictions under GATT Article XIX have been introduced and now cover almost all commodities in this sector. In August 1980 Australia announced a new program of assistance for the textile and clothing sector; it is to operate for seven years, beginning January 1, 1982, and broadly maintains existing quota arrangements for clothing and some finished textile products.

An important bilateral dispute in this sector affecting Norway and Hong Kong arose initially in May 1978 and led to the establishment of a GATT panel in July 1979 to examine Norway's safeguard action under GATT Article XIX to restrict imports of textile items from Hong Kong. In June 1980 the panel reported to the GATT Council that Norway's quantitative import restrictions were subject to the provisions of GATT Article XIII concerning nondiscriminatory administration of import restrictions; since Norway had failed to allocate a share to Hong Kong, its Article XIX action was not consistent with Article XIII. In November 1980 Norway announced the prolongation of the Article XIX global import quotas for 1981 at the same levels as for 1980.

Emerging Problems and Pressures

The persistence of trade restrictions over two decades is indicative of continuing fundamental problems of adjustment in the textile and clothing sector. The extent and type of adjustment needed in the industrial countries varies considerably. For the producing countries with relatively small domestic markets, a shift to technology-intensive products does not appear feasible in the absence of unhindered access to foreign markets, while the United States, with its large market, has already re-emerged as a strong competitor not only in synthetic fibers (in part, because U.S. industry may have had an artificial price advantage),[45] but also in cotton goods such as denims and blue jeans. In addition, in industrial countries generally, the problem of adjustment to low-cost clothing manufactures and textile products still persists. Developing countries with relatively low labor costs may be in a position to expand exports of textile manufactures rapidly to the extent that the more industrialized developing countries continue to shift to technology-intensive products or more specialized lines of production. This in turn will require an even faster adjustment in some industrial countries. The magnitude of required future adjustment is therefore such that, with employment in the industry already declining significantly and consumption forecast to stagnate or grow very slowly over the next few years, protectionist pressures are unlikely to abate.

The second MFA will expire at the end of 1981, and the basic issue in the negotiations will again be how to reconcile the interests of exporting countries and of producers in importing countries. Given the variety of individual circumstances of importing and exporting countries, the increasing complexity of the bilateral agreements, and the growing importance of trade flows outside the formal framework of the MFA, it is difficult to assess the MFA's past role in restricting trade. Although many individual quotas have remained unfilled in major importing countries, this factor alone is not an indication of the restrictiveness of the bilateral agreements. Failure to meet quotas could also be due to internal supply problems in the developing countries, fashion changes in foreign markets, or assignment of unrealistically large import quotas. In a number of developing countries, the fulfillment of domestic requirements may take precedence over exports, and this may explain low quota utilization. In the develop-

[44] Article 1:2 of the MFA states that: "In the case of those countries having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production, account should be taken of the avoidance of damage to those countries' minimum viable production of textiles."

[45] See also the next section (Chemicals).

ing countries that have geared production primarily to exports—mainly Hong Kong, Korea, and Taiwan—import quotas are virtually always filled. Developing countries have expressed the view that existing bilateral agreements tend to freeze market shares and that the consultation provisions of individual agreements create uncertainty and retard the development of an export-oriented industry. Thus, in view of recent trends in this sector, a significant liberalization of restrictions does not appear likely in the near future.

Chemicals

The chemicals sector, which accounted for 8 per cent of world trade in 1979,[46] came under increasing protectionist pressures in 1980. Because of the nature of this industry, its performance influences a wide range of intermediate and final products entering international trade. Petrochemicals (in solid, liquid, or gaseous forms) comprise synthetic organic chemicals and some inorganic chemicals, both derived from petrochemical feedstocks obtained from crude petroleum and natural gas. Plastics, synthetic fibers, and synthetic rubber are the most important petrochemicals of the organic variety. The most common inorganic petrochemical is ammonia, which is widely used in the preparation of fertilizers. The cost of production depends primarily on the cost and availability of the raw materials—crude petroleum and natural gas. The USITC estimated that the value added of the world petrochemical industry was $120 billion in 1978.[47]

As shown in Appendix IV, Table 25, the United States is the largest producer of chemicals for which information is available, followed by the European Community, which leads in some organic chemicals. The major trading countries in chemicals are the Community, the United States, Japan, and Canada (Appendix IV, Table 26). Petrochemical trade accounts for more than half of total world chemical trade, with North America, Western Europe, and Japan accounting for over 90 per cent of world petrochemical production and 85 per cent of world petrochemical consumption.

The petrochemical industry is particularly sensitive to the business cycle, and the rate of capacity utilization reacts rapidly to changes in the level of economic activity in the industrial countries. In 1979, the rate of capacity utilization in petrochemicals rose in the United States and the European Community (Appendix IV, Table 27), but it fell significantly in the United States in 1980 in response to a decline in domestic demand. Although no 1980 data are available for the Community, a decline in its rate of capacity utilization apparently also took place. In the United States demand for petrochemicals is not expected to grow rapidly during 1981. The petrochemical industry in the Community, where it had sharply expanded capacity prior to the 1974 oil price increase, is experiencing excess capacity and strong import competition. Japan and Canada are also facing sluggish demand in their home markets. Most major petrochemical producers face uncertainties about future feedstock availability and prices. In Canada, the recently announced energy policy aims at ensuring an adequate supply of feedstock to domestic petrochemical producers.

The outlook for the next few years is complicated by the prospect that new producers in Latin America and the Middle East, some with ample feedstock resources, will enter the world petrochemicals market. In Latin America, Mexico and Brazil have already achieved significant production capacity in petrochemicals, while Argentina and Venezuela are now establishing new petrochemical complexes. In the Middle East, a number of plants producing mainly ethylene products are projected to come on stream in Saudi Arabia in the mid-1980s. Petrochemical plants exist or are under construction in Qatar and in Iran.

The sharp cyclical decline in demand for petrochemicals in early 1980 led to serious difficulties for several of the European Community's producers and to considerable trade friction between the United States and the Community. The imposition by the Community of temporary quotas on U.K. imports of two types of synthetic fibers under GATT Article XIX has already been mentioned. A second set of disputes had their origin in the feedstock prices of the U.S. petrochemical industry. In the United States, the most important petrochemical base product (ethylene) is derived mostly from natural gas, whereas in the Community it is derived from naphtha, which is in turn derived from oil. Price controls on oil and natural gas have helped to keep the rate of increase in U.S. production costs below those of the Community, while U.S. petrochemical exports to the Community have been rising rapidly (Appendix IV, Table 28). Following complaints from the Community's industry in 1980, provisional antidumping duties were imposed by the Commission on some vinyl acetate monomer imports—a chemical used in the manufacture of plastics—and on chemical fertilizer imports by the United Kingdom from the United States. Investigations are under way on U.S. exports of styrene to the Community, and complaints have also been made by the Community's producers concerning

[46] GATT, *International Trade, 1979/80,* Table A-21.

[47] Discussion in this section is based on USITC Publication 1123, *Study of the Petrochemical Industries in the Countries of the Northern Portion of the Western Hemisphere,* Vol. 1 (January 1981).

U.S. exports of liquid fertilizers, xylenes, phenol, paroxylene, and arthoxylene.

In the summer of 1980, a joint commission was established by the Community and the United States to analyze their chemical trade problems; it has already held two meetings. The recent decision to decontrol oil prices and the possibility of accelerating the schedule for decontrol of natural gas prices in the United States may ease the trade strains between the Community and the United States.

During 1980, a number of investigations in the chemical industry were concluded by the USITC. In five cases, the USITC did not find actual or potential injury due to imports.[48] In two other cases, the USITC made a preliminary ruling that the U.S. industry was being injured or threatened with injury by imports being dumped in the United States.[49] A final ruling of injury was passed on imports of spun acrylic yarn from Japan and Italy in a dumping case. In two countervailing duty cases affecting imports of dextrines and soluble or chemically treated starches derived from corn or potato starch from the Community, and plastic animal identification tags from New Zealand, the USITC found no injury.

Motor Vehicles

Overall Trends

Although the world motor vehicle industry has been undergoing structural shifts for several years, pressures for protection in this sector surfaced strongly in the major industrial countries only recently. International trade in motor vehicles accounts for some 7 per cent of world trade. Adoption of restrictive commercial policies in this sector, which has been generally resisted, would therefore directly affect a significant share of world trade. In addition, given the importance of this industry to the domestic economies of industrial countries, there is considerable danger of restrictions spreading from one major market to the others. The evolution of trade policies in the motor vehicle sector is also of considerable importance to the bilateral trade relations between the United States and Japan and between the European Community and Japan; consequently, it may be unrealistic to expect that trade relations between these three areas in other sectors would remain unaffected by any marked shift toward more restrictive trade policies in this sector.

The rapid increase in petroleum prices since 1973 has had profound effects on the industry. In 1979 production declined by 10 per cent in the United States, while output was stable or declined modestly in Canada, the Federal Republic of Germany, and the United Kingdom. In contrast, Japan and France made modest increases in production (Appendix IV, Table 29). In the first half of 1980, world production continued to fall, largely owing to further cutbacks in North America and a production drop in Western Europe as a whole.[50] The sharp decline in production and the increased import penetration in the U.S. market in 1980 are generally attributed to a slower adjustment by U.S. producers to a shift in domestic demand to more fuel-efficient automobiles. The U.S. industry has also experienced rising labor costs and declining productivity. From 1975 to June 1980, average hourly gross earnings in the automobile industry increased at an annual rate of more than 9 per cent, or slightly faster than for the entire manufacturing sector. Units produced per 1000 manhours declined from an average of 7.2 during 1975–79 to 6.8 during the first half of 1980.[51] Given the resources required for the development of fuel-efficient models and the gestation periods involved, no significant improvement in the U.S. automobile industry is expected in the short term. The Western European industry is believed to need consolidation in order to improve efficiency.

In all important producing countries except the United States, a large share of the motor vehicle production is exported. The volume of trade of the major producers, which constituted 90 per cent of the world total in 1978, increased by 3 per cent to 14 million units in 1979 despite the overall production drop in industrial countries. The value of world trade in motor vehicles increased by 17 per cent in 1979, reaching $115 billion (Appendix IV, Table 30). As regards imports, there are striking differences in the markets of the United States, Western Europe, and Japan. The ratio of imports to apparent (unit) consumption has been rising in the United States and Western Europe. In the United States, the share of imports reached 27 per cent in 1979 before rising to 36 per cent in the first half of 1980 (Appendix IV, Table 31). In Western Europe, the share of imports (including intra-Community imports) stood at 49 per cent in 1979, with 90 per cent of imports originating within the region.[52] In contrast,

[48] These included (1) imports of sodium hydroxide solution (liquid caustic soda) from the Federal Republic of Germany, France, Italy, and the United Kingdom; (2) anhydrous sodium metasilicate imports from France; (3) menthol imports from Japan and the People's Republic of China; (4) asphalt roofing shingle imports from Canada; and (5) melamine imports in crystal form from Austria and Italy, which allegedly were being dumped in the United States.

[49] These included imports of barium carbonate from the Federal Republic of Germany and of montan wax from the German Democratic Republic.

[50] GATT, *International Trade, 1979/80,* pp. 83–85.

[51] USITC, *Certain Motor Vehicles and Certain Chassis and Bodies Therefor,* Publication 1110 (December 1980), pp. A-38–A-41.

[52] GATT, *International Trade, 1979/80,* p. 85.

Japan's import penetration ratio was 2.3 per cent in 1979.[53]

Trade barriers on motor vehicles are, at present, generally low in the United States, which applies a tariff rate of 2.9 per cent ad valorem on automobiles; the European Community imposes an import duty of 10.9 per cent on extra-Community imports. Japan does not maintain quantitative restrictions or levy import duties on assembled automobile imports, but some internal taxes on automobile sales increase according to engine size. However, foreign exporters have frequently expressed concern about the difficulty of breaking into the Japanese market because of Japan's distribution system.[54] Australia has a domestic content requirement of 85 per cent for the automobile industry that is scheduled to decline to 75 per cent by 1984. Since 1975, Australia has maintained a quota on automobiles that limits imports to 20 per cent of the existing market; the restriction is applied under GATT Article XIX. Import tariffs range from 35 to 57 per cent, depending on the stage of assembly.

United States

The large U.S. trade deficit with Japan on automobiles and parts has been a recent concern. On May 15, 1980, the Japanese authorities announced a number of actions designed to help reduce the trade imbalance. Japanese standards and licensing procedures were simplified, and the authorities announced that they would continue to encourage Japanese automobile manufacturers to invest in U.S. facilities and would send trade missions to the United States to explore investment in the United States and purchase agreements for automobile parts. They also announced their intention to seek elimination of Japan's customs duties on most automobile parts.

On June 12, 1980 a petition for import relief was filed with the USITC by the labor unions of the motor vehicle industry. In its decision of December 3, 1980, the USITC found that, although U.S. imports had increased significantly and there was a serious injury to the domestic industry, imports were not a substantial cause of injury. The USITC identified other factors—including the general decline in demand, the recessionary climate, high credit costs, and the investment decisions of U.S. producers, which had constrained their ability to meet the changes in consumer preferences for more fuel-efficient automobiles—that were more responsible for the industry's difficulties. In February 1981, a bill was introduced in the U.S. Congress to restrict automobile imports from Japan by setting a three-year quota of 1.6 million units annually, compared with recent imports at an annual rate of 1.9–2.0 million units. U.S. officials have also expressed concern about the possible deflection of Japanese motor vehicle exports to the United States if restrictions were imposed in the European Community on imports from Japan. Recently, the U.S. authorities established a task force to consider the possible policy responses in this sector.

European Community

The European Community is the second largest market for motor vehicles in the world. Since automobiles are not included in the list of products "liberalized" at the Community level, some member countries have restricted imports through national measures.[55] Imports of Japanese automobiles are understood to be limited to 3 per cent of the French market. Italy maintains formal quantitative restrictions on motor vehicle imports from Japan and certain Eastern European countries. It is reported that Japanese exporters voluntarily limit their exports to 10 per cent of the U.K. market. No quantitative restrictions are known in the case of Denmark, the Federal Republic of Germany, Ireland, and the Netherlands.

During 1980, pressures for protection of the automobile sector mounted sharply in the Community, in part because of a very sharp increase in imports from Japan while demand was declining. Following meetings between the Community and Japanese representatives in late 1980 and early 1981, the Community introduced statistical surveillance of certain imports from Japan, including imports of automobiles.

[53] U.S. House of Representatives, Subcommittee on Trade of the Committee on Ways and Means, *Auto Situation Report, 1980*, 96th Congress, 2nd Session.

[54] USITC Publication 1110 (cited in footnote 51).

[55] Discussion in this section is based on USITC Publication 1110 (cited in footnote 51), especially Appendix E: "Survey of Automotive Trade Restrictions Maintained by Selected Nations," pp. A-108 and A-109.