

**EXECUTIVE SECRETARIAT**  
**ROUTING SLIP**

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		✓		
20					
21					
22					

SUSPENSE \_\_\_\_\_  
Date

Remarks

cc:  OGI *file*

*[Signature]*  
Executive Secretary  
*6/25/84*  
Date

STAT

**THE WHITE HOUSE  
WASHINGTON**

Executive Registry  
84 - 2689

**CABINET AFFAIRS STAFFING MEMORANDUM**

Date: 6/22/84 Number: 169017CA Due By: \_\_\_\_\_

Subject: Cabinet Council on Economic Affairs - June 26, 1984

8:45 a.m. - Roosevelt Room TOPIC: Economic Impact of Int'l Trade

	Action	FYI		Action	FYI
<b>ALL CABINET MEMBERS</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CEA</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>CEQ</b>	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>OSTP</b>	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Baker</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Deaver</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Darman (For WH Staffing)</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<b>Jenkins</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Mc Farlane</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<b>Svahn</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<b>CIA</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>			
			<b>CCCT/Gunn</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>GSA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCEA/Porter</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>EPA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCFA/</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>OPM</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCHR/Simmons</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>VA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCLP/Uhlmann</b>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SBA</b>	<input type="checkbox"/>	<input type="checkbox"/>	<b>CCMA/Bledsoe</b>	<input type="checkbox"/>	<input type="checkbox"/>
			<b>CCNRE/</b>	<input type="checkbox"/>	<input type="checkbox"/>

**REMARKS:**

The Cabinet Council on Economic Affairs will meet on Tuesday, June 26, 1984, at 8:45 a.m. in the Roosevelt Room.

The agenda and background paper are attached.

JUN 23 8 27 AM '84

ER

**RETURN TO:**

Craig L. Fuller  
Assistant to the President  
for Cabinet Affairs  
456-2823

Katherine Anderson  
 Tom Gibson  
Associate Director  
Office of Cabinet Affairs  
456-2800

Don Clarey  
 Larry Herbolsh



THE WHITE HOUSE  
WASHINGTON

June 22, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*  
SUBJECT: Agenda and Paper for the June 26 Meeting

The agenda and paper for the June 26 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The Council will consider a report from the Working Group on the Economic Impact on International Trade. The Working Group's review has been divided into two parts. The Council recently reviewed what macroeconomic policies would help improve our trade and current account positions. This report, prepared under the direction of Deputy USTR Robert Lighthizer, focuses on "Microeconomic Measures to Deal with the Trade Deficit."

Attachment

THE WHITE HOUSE  
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

June 26, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. Report of the Working Group on the Economic Impact of International Trade (CM # 409)

DEPUTY UNITED STATES TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON, D.C. 20506  
202-395-5114

June 22, 1984

MEMORANDUM

FOR: Cabinet Council on Economic Affairs  
FROM: Robert E. Lighthizer *RL*  
SUBJECT: Microeconomic Measures to Deal with the Trade Deficit

USTR has chaired a working group tasked to examine microeconomic measures to improve our trade and current account positions. Our analysis indicates that the trade deficit is due primarily to macroeconomic issues including the strong dollar, our more rapid economic growth rate relative to our trading partners, and to the LDC debt problem. Clearly, these causes do not lend themselves to a solution involving strictly microeconomic measures.

Nevertheless, actions that affect trade flows in individual sectors can contribute, at the margin, to improving the trade balance and are important to sustaining a public consensus in favor of maintaining an open trading system. Attached for the Cabinet Council's consideration are status reports on a number of key trade issues which the working group has reviewed.

Attachments

TABLE OF CONTENTS

EC Semiconductor Duty Reduction  
EC Definition of "Kraft" Paper  
EC Rules of Origin  
  
Tariffs and Licensing Problems with Mexico  
Trucking Regulations of Mexico  
Intellectual Property Rights in Mexico  
  
Aircraft Trade Distortions in Brazil  
Liberalizing Brazil's Market Reservation Policies  
Import Licensing and Tariffs Imposed by Brazil  
Footwear Import Restrictions in Brazil  
  
Taiwan Trade Liberalization Package  
Bilateral Issues with Korea  
Conversion of GATT Safeguard Actions to Tariffs  
Foreign Industrial Targetting  
Standards - Acceptance of Foreign Test Data  
Services  
Trade-Related Investment Measures  
Military Trade  
Aerospace  
Canadian Discriminatory Postal Rates  
Agricultural Import Restrictions in Mexico  
Brazilian Export Subsidies (Poultry and Soybeans)

EC Agricultural Products

EC Export Subsidies on Pasta

Japanese Beef and Citrus Quotas

Japanese Agricultural Import Quotas

Steel Quota Legislation

EC Tariffs

Canadian Licensing of Pharmaceutical Patents

Border Broadcasting Dispute with Canada

Information Policy of Brazil

Trade-Related Investment Decrees

Carbon Steel 201 Case

Steel Quota Legislation

Trade Remedies Reform Act

Danforth Telecommunications Trade Act of 1984

U.S.- Japan Trade and Investment Issues

U.S. Trade Relations with Japan

Japanese Tariffs

Telecommunications Legislation

Standardization and Certification

Japanese Import Quotas on Footwear

Promotion of Manufactured Imports

High Technology Working Group

Satellites

Blue Ribbon Panel

THE TRADE CARD						
<b>MERCHANDISE TRADE (\$ BILLION; FAS/CF)</b> APRIL 1984						
	YEAR-TO-DATE			1984 ANNUALIZED, 1983 ACTUAL		
	1984	1983	% CHANGE	1984	1983	% CHANGE
BALANCE	-42.0	-15.4		-126.0	-69.4	
EXPORTS	70.8	66.5	+6.5	212.4	200.5	+5.9
IMPORTS	112.8	81.9	+37.7	338.4	269.9	+25.4
NOTE: TRADE BALANCE ON AN FAS/CF BASIS FOR 1983 WAS \$-57.6 BILLION						
<b>PETROLEUM IMPORTS</b> (\$ BILLION; CF; ANNUALIZED FROM 3 MONTHS)						
	1984	1983	% CHANGE			
VALUE (\$ BILLION)	58.6	45.6	+28.5			
<b>SECTORAL BALANCES OF U.S. MERCHANDISE TRADE</b> (\$ BILLION; FAS/CF; SEASONALLY ADJUSTED)						
	AGRICULTURE	MANUFACTURING	OTHER*	TOTAL		
1984 (ANNUALIZED FROM 3 MONTHS)	+20.5	-84.7	-54.8	-119.0		
1983 (ACTUAL)	+18.5	-38.2	-49.6	-69.4		
*E.G., PETROLEUM AND OTHER CRUDE MATERIALS.						
<b>SELECTED U.S. BILATERAL TRADE BALANCES</b> (\$ BILLION; FAS/CF; ANNUALIZED FROM 1 MONTH)						
	1984	1983	1984	1983		
DCs	\$-64.0	\$-35.1	LDCs	\$-53.6	\$-34.7	
EC	-10.8	-1.6	LATIN AMERICA	-20.1	-14.7	
JAPAN	-32.0	-21.7	SOUTH & EAST ASIA	-26.5	-17.9	
CANADA	-19.6	-14.3	COMMUNIST	+1.2	+1.1	
NOTE: AREA FIGURES MAY NOT EQUAL TOTALS DUE TO REPORTING COVERAGE						
<b>U.S. CURRENT ACCOUNT BALANCES FOR 1981, 1982, AND 1983</b>						
	1983	1982	1981			
BALANCE OF WHICH:	\$-40.8	\$-11.2	\$+4.6			
MERCHANDISE	-60.6	-36.4	-28.1			
INVESTMENT	+23.6	+27.3	+33.5			
OTHER SERVICES	+4.3	+5.7	+7.5			
OTHER	-8.1	-7.8	-8.3			
NOTE: MERCHANDISE TRADE CALCULATED ON A BALANCE OF PAYMENTS BASIS						

MAJOR TRADING PARTNERS OF THE U.S.				
(Annualized From 3 Months; FAS/CF; \$ Billion)				
	U.S. EXPORTS	U.S. IMPORTS	TRADE BALANCE	
BRAZIL	2.1	7.2	-5.1	
CANADA	45.2	64.8	-19.6	
CHINA, P.R.	2.5	3.2	-0.7	
EC	48.8	59.6	-10.8	
BELGIUM	5.2	3.6	+1.6	
FRANCE	6.4	8.4	-2.0	
GERMANY, F.R.	9.6	18.4	-8.8	
ITALY	4.8	8.0	-3.2	
NETHERLANDS	8.4	4.4	+4.0	
UNITED KINGDOM	11.6	14.4	-2.8	
EGYPT	2.8	0.2	+2.6	
ISRAEL	2.4	2.1	+0.3	
JAPAN	22.8	54.8	-32.0	
KOREA	5.6	9.2	-3.6	
MEXICO	11.2	18.4	-7.2	
NIGERIA	0.6	3.2	-2.6	
SAUDI ARABIA	6.0	4.5	+1.5	
TAIWAN	4.8	14.7	-9.9	
<b>OVERALL BALANCES OF FOREIGN COUNTRIES</b> (\$ BILLION)				
	MERCHANDISE TRADE (FOB)		CURRENT ACCOUNT	
	1983	1982	1983	1982
JAPAN	+31.6	+18.5	+20.8	+6.9
CANADA	+14.6	+14.8	+1.3	+2.4
FRANCE	-5.9	-14.0	-4.3	-12.1
GERMANY, F.R.	+16.5	+21.1	+4.0	+3.5
U.K.	-0.8	+3.6	+3.1	+9.1
<b>DOLLAR EXCHANGE RATE* CHANGES</b> (12/31/80 = 100)				
DATE	12/31/81	12/31/82	12/31/83	3/31/84
DOLLAR INDEX	112.6	125.8	138.8	134.5
*Dollar exchange value measured in terms of IMF's Multilateral Effective Exchange Rates (basket of 17 industrial country currencies plus U.S. Dollar).				
USTR 6/84				



EC SEMICONDUCTOR DUTY REDUCTION

Background:

The EC semiconductor duty is 17 percent. The U.S. was unsuccessful during the Tokyo Round in gaining any reduction. The U.S. and Japan have agreed to suspend our duties on semiconductors completely. Authority for the U.S. reduction from a current rate of 4.2 percent is pending before the Congress.

Current Status:

In February the UK proposed that the EC unilaterally cut its semiconductor duty by 50 percent. The UK argued that the high duty penalizes downstream user industries (computer & telecommunications) without helping semiconductor producers and encourages offshore production of downstream equipment. There has been some support of this proposal by the Germans and Danes. Separately, the French have suggested doubling duties on downstream products, like home computers; but the French have not spoken directly to the UK semiconductor initiative. The French proposal itself has received no support.

Action Proposed:

Support UK proposal by feeding information to its supporters within the EC and the Commission.

KRAFT PAPER

Persuade the European Community to adopt, for purposes of current tariff levels, the CCCN definition of "kraft," thus extending lower tariff treatment to some U.S. kraft exports now classified elsewhere.

Background

The Commission has been unable to deliver on a commitment we feel was made on this issue at the end of the Tokyo Round to implement the CCCN kraft definition in advance of Harmonized System conversion. The amount of trade involved is about \$30 million, out of total U.S. kraft paper exports to the EC of somewhat less than \$200 million.

Securing early EC adoption of the definition, or even a verifiable commitment to extend the definition at current tariff levels at the time of HS conversion, would be very helpful to us, and to one of the few remaining free trade industries, i.e., paper.

Current Status

EC tariff changes as controversial as this one must be approved by the Foreign Ministers' Council. France and Italy have, so far, blocked EC approval of the new definition.

Action Required

The Community will require a quid-pro-quo for the extension of the new definition to all U.S. kraft exports.

## RULES OF ORIGIN

The Community should liberalize "rules of origin" for U.S. electronics and textile products to allow a higher value-added component and remove the "two-process" rule.

Background

The EC maintains "rules of origin" on imports from its preferential trading partners in order to ensure that only those goods originating within the preferential trade area are accorded preferential duty status. The U.S. believes that some of these rules are excessively protective and result in a barrier to U.S. exports to countries utilizing U.S. goods as an input to exports to the Community. The U.S. has pursued liberalization of these rules since 1974; we had some success in the Tokyo round in improving administrative regulations and in securing higher value-added levels for some products on a trial basis. But EC rules continue to heavily burden U.S. exports of electronic components and textile products.

EC "rules of origin" mandate that textile products must have been transformed twice to receive preferential origin status. U.S. textile exporters claim that this is the single most significant trade barrier to their exports worldwide. In electronic components, the EC regulations require that no more than three percent of the value of the electronic components of a machine import may come from a non-preferential supplier, if the machine is to receive preferential treatment. These rules are not enforced uniformly by all Member States, and even EC manufacturers are, in many cases, unable to comply with such a restriction in their own production.

Current Status

The EC considers these "rules" fundamental to the preservation of legitimate "Community preference" behind the Common External Tariff. There are no current plans to liberalize the system, but there have been suggestions, principally from France, to tighten it.

Action Required

The EC would require a substantial incentive (negative or a quid-pro-quo) to agree to any liberalization of these regulations.

## Tariffs and Licensing Problems with Mexico

### Proposed Action

Reduce tariffs and liberalize licensing of imports.

### Background

On June 26, 1981, Mexico extended its general import licensing requirement to approximately 300 new product categories. As a result, more than 2,000 tariff classifications representing 82 percent of all imports are now subject to import licensing. In July 1981, tariffs were increased on 409 products. In addition, those seeking to import must obtain a foreign exchange permit. In December 1983, licensing was liberalized for more than 1,000 tariff line items, i.e., principally for imports destined for the export section.

### Current Status

In Mexico's Letter of Intent to the IMF, it has pledged to rationalize its import regime and rely increasingly on tariffs rather than quantitative restrictions. In addition, under a \$350 million export development plan concluded with the World Bank, Mexico is eliminating many of the restrictions on imports destined for the export sector. The GOM claims that Mexico's imports will increase again in direct relation to Mexico's ability to export.

### Further Action

The USG should encourage Mexico to liberalize its import market as its economy recovers. Since Mexico is not a GATT member, we cannot take action in that forum.

## Trucking Regulations of Mexico

### Proposed Action

Open access to Mexico for U.S. truckers.

### Background

Under Mexican law, foreign-owned tractors and drivers are prohibited from operating beyond the Mexican frontier/"border zone" (a 20 kilometer strip of land that runs adjacent to the U.S. border). Nevertheless, Mexican carriers continue to operate officially and "unofficially" within the United States. Despite the existence of Mexican legal authority (1955 Ruiz Cortines Decree) to operate foreign carriers in the border zone, few U.S. truckers in fact have access to the region. The law is administered locally and access varies from city to city. Mexican carriers may operate in the United States under ICC license, although, per Congressional directive, no new licenses may be issued until Mexico allows equivalent market access. The imbalance in opportunity is injuring U.S. truckers, particularly in the Southwest.

### Current Status

A U.S. delegation (co-chaired by USTR) met on March 26-27 with their Mexican counterparts in the Transportation Working Group of the Joint Commission on Commerce and Trade. The Mexicans indicated their intention to continue the status quo ante; that is, little access to the border and no access to the interior, although they were willing to work out specific problems on a case-by-case basis.

### Further Action

We will continue to seek an opening of the Mexican market for U.S. truckers. At the same time, there are a number of Congressional initiatives, such as the continuation of the ICC licensing moratorium and elimination of licensing exemptions, currently available to Mexican truckers which may induce the GOM to revise its current policy.

## Intellectual Property Rights in Mexico

### Proposed action

Eliminate disincentives to foreign investment embodied in Mexican technology transfer, patent and trademark laws.

### Background

The 1982 Law on Technology Transfer and the Use and Exploitation of Patents and Trademarks operates as a disincentive to foreign investors. For example, all agreements, contracts and actions, which are reduced to writing and which relate to services rendered must be registered with the government there, or they will have no binding effect in Mexico. Additionally, trade secrets and know-how are not specifically protected. Information provided by a transfer of technology cannot be kept confidential for longer than a period of the agreement itself and such agreements cannot exceed 10 years. Furthermore, the licensor of technology must hold the licensee harmless for infringements of a third party's industrial property rights. Finally, the Mexican Law does not cover biological inventions, namely, genetic research or gene splicing.

### Current status

The GOM and the USG have been involved in lengthy, relatively productive discussions designed to soften the disincentives contained in the Law and its implementing regulations. The GOM seems amenable to molding its regulations with certain U.S. objectives in mind.

### Further action

Productive discussions should continue.

## Aircraft Trade Distortions in Brazil

### Proposed action

Open Brazilian market to assembled general aviation aircraft and eliminate that country's use of heavily subsidized export credit financing.

### Background

Brazil restricts the importation of assembled general aviation aircraft and offers heavily subsidized export credit financing (9 percent in dollars) in support of Brazilian sales. Duties and exchange taxes on imported aircraft amount to 60 percent, and import licenses are difficult to obtain.

Between 1977 and mid-1983, the United States shipped only 21 new completed aircraft (exclusive of Piper kits) to Brazil. U.S. manufacturers claim they could reasonably expect to ship at least 60 aircraft were import taxes cut in half and licensing liberalized. Subsidized financing has enabled small- and medium-sized Brazilian aircraft to pose serious competitive pressures for U.S. manufacturers selling in our domestic market.

### Current status

In a previously-negotiated (1982) ad referendum agreement, Brazil agreed to import annually up to 40 aircraft for demonstration and subsequent sale. Such imports would be exempt from import licensing requirements and would be assessed at 30 percent duties and exchange taxes. The agreement was not finalized due to a U.S. company filing of a CVD complaint. Brazil continues to indicate a willingness to liberalize its market, particularly as its economy revives. U.S. industry, however, is split on its objectives, with certain companies seeking an immediate opening of the market and others seeking a more gradual approach.

### Further action

U.S. industry must develop a consensus regarding its objectives in Brazil, for subsequent USG policy response.

## Liberalizing Brazil's Market Reservation Policies

### Proposed USG action

Take steps to induce liberalization of Brazil's market reservation policies, which negatively affect both U.S. exports and investors in certain sectors, particularly computers and pharmaceuticals. Appropriate steps might include elevating the level of pressure on the Brazilians in our bilateral investment discussions.

### Background

Brazil believes that in order to achieve its economic and social development aspirations, it must become self-sufficient in important industrial sectors. Thus it has adopted the policy of reserving certain markets (sale and production) for "national" industries. These market reservation schemes depend heavily on the use of import controls, prohibitions on foreign direct investments in these sectors, subsidies to Brazilian producers, incentive schemes and local content requirements. Furthermore, the definition of "national company" is often very restrictive, requiring local residence for all of the Board of Directors and full practical and operational control over the decision-making process of the firm. Recently, we have observed an increasing tendency to disallow joint ventures, which were previously encouraged as a means of acquiring technology. Although it recognizes that these policies require certain sacrifices of efficiency, the GOB is pleased with the results to date and has recently indicated that it is fully prepared to extend its market reservation policies to an increasing number of product sectors where desirable. Brazil is making use of market reservation policies most significantly in the auto, pharmaceutical, and "informatics" (computer and electronics) sectors, although many other select areas involve substantial government participation.

These restrictive policies will have significant effects on the U.S.-Brazil bilateral trade relationship. In addition to the import controls which directly reduce U.S. exports, Brazilian investment restrictions translate into a reduction in the trade flows which would normally be stimulated by procurement needs of the investor and his stronger marketing presence in the host country.

### Status of USG strategy

Until recently, the GOB has avoided or refused to hold bilateral discussions with us on investment issues. However, during the recent Trade Subgroup consultations, we were successful in beginning a dialogue with the GOB on investment issues, which we plan to continue.



The current U.S. approach in the Trade Subgroup is to foster a constructive exchange of views that will encourage liberalization of the Brazilian investment climate. We hope to move toward this goal by emphasizing Brazil's need for a conducive investment climate in order to realize the benefits of direct investment and as an additional source of foreign capital.

Further action required

Aggressive follow-up of issues raised in recent consultations including a Brazilian commitment for consultation prior to an expansion of the market reserve.

Import Licensing and Tariffs Imposed by Brazil

Proposed action

Ease licensing restrictions on imports of interest to the United States.

Background

All imports must have a permit issued by the Cateira de Comercio Exterior (CACEX) prior to shipment. Items considered superfluous or luxurious, as well as those already produced in Brazil, cannot be imported. Tariff surcharges of 30 to 100 percent have been imposed on several thousand items, with duties on some items as high as 205 percent. A Tax on Financial Operations (IOF) is imposed on the value of foreign exchange purchased for importation of a wide range of goods and services.

Current status

While Brazil has traditionally restricted imports to encourage and protect local production and to ease balance of payments pressures, changes are anticipated. Under a recently-concluded \$352 million World Bank project, Brazil will facilitate the importation of hundreds of products destined for the export sector. Organizational changes are also being made within the GOB to ease export-related activities.

Further action

The United States should encourage a rationalization of Brazil's import structure and that country's undertaking of additional trade obligations as its economy recovers.

## Footwear Import Restrictions in Brazil

### Proposed actions

Liberalize Brazilian import market for certain types of footwear.

### Background

Brazil has suspended the issuance of licenses for non-ALADI footwear imports. In addition, it imposes a 170 percent tariff and port charges and Merchant Marine Renewal taxes of 20 percent. In December 1982, the U.S. industry filed a section 301 petition against the Brazilian restrictions. U.S. efforts to export other than sport shoes (not subject to licensing) to Brazil have been unsuccessful. U.S. exports of sport shoes to Brazil have been under 50,000 pairs per year since 1978 and account for less than one percent of our total non-rubber footwear exports. U.S. industry alleges that the restrictions cause diversion to the U.S. market of lower-cost footwear from countries like Taiwan.

### Current status

It is likely Brazil will maintain most of its balance of payments restrictions on footwear. However, authorities there have indicated a willingness to provide some liberalization with respect to U.S. exports, e.g., quotas or tariff breaks allowing the importation of higher-priced shoes. In mid-October, upon the request of the American Footwear Industries Association, the USG transmitted to the GOB a list of footwear items of interest for liberalization. We are currently pursuing a "package deal" with Brazil in which it would make concession on a small list of items including footwear in return for U.S. cooperation in other areas.

### Further action

Continue to press Brazil for a positive response to our request for liberalization.

## Taiwan Trade Liberalization Package

### Problem

The Coordination Council for North American Affairs (CCNAA) has asked for suggestions on measures that might help narrow the U.S.-Taiwan trade deficit. The Taiwanese are interested in proposals that will benefit American, rather than Japanese or European, exporters. The American Institute in Taiwan (AIT) needs a package of proposed trade liberalization measures to present to the CCNAA.

### Recommendation

That the following package be accepted as the trade liberalization package AIT will present to CCNAA.

### Background

Our bilateral trade deficit with Taiwan, which increased to \$6.7 billion in 1983, is expected to continue to grow in the next few years. The Taiwanese are concerned that continuing large trade deficits will harm bilateral trade relations and, most notably, will jeopardize Taiwan's GSP status. (Taiwan is currently the largest beneficiary of GSP, accounting for 28% of all 1983 GSP imports.) These concerns prompted the CCNAA request.

While Taiwan's principal motivation is to improve its chances of maintaining its GSP benefits, AIT should make clear to CCNAA that any liberalization measures by Taiwan are completely unilateral. We cannot make any commitments on GSP in return for such liberalization steps. If Taiwan takes significant liberalization steps, however, we would apprise appropriate members of Congress of those steps.

The U.S. response was developed by the TPSC Subcommittee on Developing Countries through consultations with the private sector advisors, the American Chamber of Commerce in Taiwan, and the American Institute in Taiwan. The package does not include areas in which Taiwan allegedly is not in compliance with MTN obligations (e.g., soda ash, customs valuation). We are pursuing these issues separately; it is not appropriate to allow Taiwan to get "credit" for something that it is obligated to do anyway. The package consists of three parts: (1) tariff measures, (2) non-tariff barriers, and (3) major projects.

AIT PROPOSALI. TARIFF MEASURES

A. The Taiwanese on several occasions have suggested that it would be advantageous to American products if Taiwan were to base its customs valuation on F.O.B. rather than C.I.F. This proposal, however, has been linked with a postponement of the elimination of the 10% customs uplift. The U.S. position has been and continues to be that Taiwan must meet its MTN commitment to eliminate the uplift by the end of 1984. The private sector advice indicated that U.S. exporters would benefit if, in addition to eliminating the uplift, Taiwan shifted to an F.O.B. basis, provided that there was not a concomitant increase in tariffs to make up for lost customs revenues. While AIT can inform CCNAA informally of the private sector advice, the formal AIT proposal should not include a request for a switch to F.O.B. because certain USG agencies believe that it would be useful to examine the merits of switching from an F.O.B. to C.I.F. basis of customs valuation in the United States and, therefore, do not wish to foreclose this option by making a formal proposal that Taiwan switch to F.O.B.

B. Accelerate the staging of Taiwan's Section 124 concessions to the United States. The existing implementation schedule stipulates January 1987 as the final stage. We suggest that Taiwan complete the implementation of its tariff concessions on January 1, 1985. We particularly recommend the acceleration for the following products in which U.S. exporters have shown strong interest, and we request that Taiwan consider cutting the following tariffs below the final section 124 rates:

<u>Item No.</u>	<u>Description</u>	<u>Current Duty</u>	<u>Final Section 124 Duty</u>
0805.0210	Walnuts, shelled	34%	25%
0805.0410	Almonds, sweet (formerly 1208.0210)	34%	25%
0812.0210	Dried prunes, in boxes	39%	30%
0812.0220	Dried prunes, in bulk	39%	30%
2006.0400	Almonds, prepared or preserved	56%	35%
6202.0111	Linens	63%	50%

C. Following are specific items in Taiwan's tariff schedule on which significant tariff reductions would be expected to stimulate increased U.S. exports. We suggest that the existing tariffs be cut at least in half on January 1, 1985. On selected items, we have suggested even deeper cuts where consultations with the private sector have indicated that such cuts would be necessary to make foreign products competitive with domestic goods. (\*indicates request for licensing liberalization in conjunction with tariff reductions)

<u>Item No.</u>	<u>Description</u>	<u>Current Duty</u>	<u>Suggested Duty</u>
0201.0100(ex)	Beef (high quality)	NT \$23.80/kg	NT \$11.90/kg
0201.0500*	Edible offals	75%	38%
0202.0200	Turkey meat	35%	18%
0203.0100*	Poultry livers	75%	38%
0301.0400	Mullet roe	35%	18%
0301.0800	Mullet	NT\$90/kg or 65% W.I.G.	NT\$40/kg
0301.9900(ex)	Salmon	65%	32%
0402.9900(ex)	Dried Whey	65%	32%
0504.0100	Hog casings	30%	15%
0504.9900*	Other (guts, bladders and stomachs)	30%	15%
0701.9900(ex)	Fresh celery, lettuce	40%	20%
0702.9900(ex)	Frozen corn, peas, potatoes	40%	20%
0705.9900	Other pulses (o/t red beans, green beans)	10%	5%
0802.0210	Fresh oranges	50% (10/1-2/29)	25%
0804.0100	Fresh grapes	50%	20%

4

0805.0290	Walnuts, in shell	65%	25%
0805.9900(ex)	Pistachios, filberts	65%	25%
0807.0300	Fresh cherries	40%	20%
0807.9900(ex)	Fresh plums	65%	20%
0810.0000(ex)	Frozen cherries, cranberries, blueberries	65%	32%
0812.9900(ex)	Dried apples, mixtures	65%	30%
1201.1000	Sunflower seed	40%	20%
1206.0100	Hop cones	50%	25%
1206.0200	Lupulin	50%	25%
1207.0311	Ginseng american	NT \$2000/kg or 30% w.i.g.	NT \$1000/kg or 15% w.i.g.
1207.0312	Ginseng, radix	NT \$1220/kg or 30% w.i.g.	NT \$610/kg or 15% w.i.g.
1207.0313	Ginseng, radix	NT \$880/kg or 30% w.i.g.	NT \$440/kg or 15% w.i.g.
1501.0100	Lard	40%	20%
1507.0100	Soybean oil	20%	10%
1513.9900	Other prep. edible fats (margarine, etc)	45%	22%
1602.9900	Other prep/pres. meats	60%	30%
1806.0100	Chocolate, in powder, paste or slab	75%	20%

5

1806.0200	Chocolate confectionery	75%	20%
1806.9900	Other food preps. containing cocoa	75%	20%
1902.9900	Other grain preps	60%	30%
2002.9900	Other prepared vegetables	65%	30%
2006.0110	Canned peaches	45%	22%
2006.0190(ex)	Canned fruit cocktail, cherries	45%	22%
2007.0100	Concentrated fruit juices	55%	25%
2007.0210	Orange juice	60%	30%
2007.0290(ex)	Apple, grape, and cranberry juice	75%	38%
2007.0390	Other vegetable juices	75%	38%
2102.0100	Coffee extracts, essences or concentrates	50%	25%
2107.0400	Canned corn	60%	30%
2107.9900	Other food preparations, n.e.s.	60%	30%
2202.0000	Non-alcoholic beverages	50%	25%
2304.9900(ex)	Soybean meal	20%	10%
2307.0100	Cat and dog food	100%	50%
2307.9900	Other prepared animal feeds	20%	10%



6

3003.0300	Vitamins, incl. supplements for feedstuffs	35%	18%
3208	TV frit	20-25%	5%
3306.0300	Toothpaste	50%	25%
3306.0400	Lipsticks, perfumery, face cream	85%	42%
3306.9900	Other perfumery cosmetics or toilet preparations	85%	42%
3401.0100	Toilet soap	40%	20%
3402.0300	Washing preparations (whether or not containing soap)	40%	20%
3701.9900	Other photographic plates and film in the flat	25%	12%
3702.0120	Photographic film in rolls, sensitized, unexposed, other than film in item 3702.0110	30%	15%
3702.0200	Cinematographic film in rolls, sensitized, unexposed	15%	8%
3703.0119	Other unexposed paper and paper-board	35%	18%
3708.0100	Chemical products, photographic	25%	12%
4102.9900(ex)	Wet blue hides and crust leather	35%	18%
4411.9900	Fiberboard	30%	15%

7

4414.0100	Veneer	10%	Free
4415.0100	Plywood	30%	15%
4415.0200	Veneer panels and sheets	40%	20%
4418.0000	Particleboard	40%	20%
4801.0520	Uncoated Kraft paper	35%	18%
4801.0590	Other uncoated paper	35%	18%
4801.0620	Uncoated Kraft paperboard	40%	20%
4801.0690	Other uncoated paperboard	40%	20%
4807.0290	Other coated paper	45%	12%
4807.0350	Coated bleached board	20%	10%
4807.0390	Other coated paper	45%	12%
4816.0100	Boxes for packing liquid foods	30%	15%
4821.0801	Infant diapers	20%	10%
5101.0111	High tenacity synthetic multi-filament yarn	15%	8%
5101.0119	Other synthetic multi-filament yarn	40%	10%
5101.0219	Other regenerated multi-filament yarn	40%	10%

8

5509.0410	Cotton denim fabric	NT \$73/ sq.m.or 55%, whichever is higher	10%
5601.0100	Synthetic fibers, not over 2 meters in length	35%	18%
5605.0110	Synthetic spun yarns	40%	11% + NT \$1.25/kg.
5802.0300	Other carpets of synthetic fibers	65%	12%
5908.0290	Other textile fabrics, impregnated, coated, covered or laminated... of synthetic or regenerated fibers	60%	10%
7003.0000	Glass tubing	30%	10%
7013.9900	Other glassware	45%	22%
7017.9900	Other lab glass	10%	Free
7018.0700	Blanks for corrective spectacle lens	15%	5%
7020.9920 7020.9990	Fiberglass screening	30-50%	13.5%
7616.0200	Aluminum screening	30%	15%
8412.0100	Air conditioners	40%	20%
8415.0310	Domestic refrigerators, electrical, complete	35%	18%
8419.0100	Dishwashing machines	30%	15%

9

8440.0521	Laundry, drier and drycleaning machines, with capacity of 6kg. and over	20%	10%
8453.0131	Individual computer terminals	20%	5%
8453.0140	Electrical data processing machines not falling in items 8452, 8453.0110, or 8453.0120	25%	5%
8455.9900	ADP parts	20%	5%
8501.0320	Transformers, 3,000-70,000 volts	25%	12%
8506.0200	Electric vacuum cleaners	45%	22%
8702.0112	Motor cars with cylinder displacement over 2,000 cc.	75%	38%
8703.0200	Road Sweeper lorries, spraying lorries	30%	15%
8703.0310	Crane lorries	15%	5%
8707.0100	Work trucks used in factories, warehouses, dock areas or airports	45%	22%
9009.0100	Image projectors	30%	15%
9017.0190	Other electro-medical apparatus	10%	Free

10

9017.9900	Other medical, dental and surgical instruments	15%	5%
9706.0000	Appliances, apparatus, accessories and requisites for gymnastics, or athletics or for sports and outdoor games	40%	20%
9801.0190	Buttons, not of metal	50%	25%

D. The following general product categories, the majority of which fall under Sections 45, 46, and 48 of Taiwan's Custom Classification Code (CCC), are sectors in which U.S. exports are highly competitive and could expand rapidly if there were significant reductions in Taiwan's tariffs:

Medical Instruments/Equipment-Current imports of over \$71 million are expected to grow 30% annually through 1988 (due to a hospital building boom). U.S. firms are the leading suppliers of these goods, with a 37% market share.

Communications Equipment-Current imports of \$425 million are projected to grow 20% through 1988. The U.S. is the top supplier. Duty reductions will especially help U.S. equipment designed to facilitate voice, video, and data transmissions.

Computers/Peripherals/Business Equipment-Imports of \$120 million in 1983 accounted for 90% of this market segment. Annual growth of 25% is projected through 1988. The U.S. is the second leading supplier, slightly behind Japan.

Electronic Industry Production Test Equipment and Electronic Components-Imports of over \$2 billion and projected market growth of 10% annually through 1988 make this the premier market sector for U.S. EIPT and component suppliers. U.S. firms have a 35% market share, ahead of number two Japan.

Environmental/Pollution Control Equipment-Imports are now \$70 million and are likely to top \$100 million by 1987. Imports of U.S. goods are expected to be \$38 to \$40 million by 1987, making the U.S. the primary supplier.

Food Packaging/Processing and Hotel/Restaurant Equipment- \$250 million in hotel, restaurant, and food processing plant improvements through 1990 will keep this an important market. 1983 imports were \$59 million.

Process/Quality Control Equipment- 1983 imports exceeded \$210 million and are projected to grow 15% per year through 1987. U.S. suppliers (31% market share) are second to the Japanese (36%).

## II. NON-TARIFF BARRIERS

A. Increase purchases of the following U.S. products by the Taiwan Tobacco and Wine Monopoly Bureau:

<u>Item No.</u>	<u>Product</u>
2203.0000	Beer
2205.0100	Still wines, red
2205.0200	Still wines, white
2205.0300	Champagne
2401.0100	Tobacco leaf
2402.0200	Cigarettes

American firms are confident that they could export these products successfully if the Monopoly Bureau were to allow domestic demand to determine the level of imports. These imports could still flow through the Monopoly itself.

B. Remove the import bans on the following chemical products, which previously were successful exports to Taiwan:

- o ABS (acrylonitrile butadiene styrene)
- o Zinc pyrithione
- o anti-ozonant: N-(1,3-dimethylbutyl)-N'-phenyl-p-phenylenediamine
- o vulcanization accelerators:
  - (1) N-tert-butyl-2-benzothiazolesulfenamide
  - (2) N-cyclohexyl-2-benzothiazolesulfenamide
  - (3) 2,2'-dithiobis(benzothiazole); benzothiazyl disulfide
  - (4) 2-mercaptobenzothiazole

Remove the import bans on the following agricultural products:

- (1) Edible offals (tariff item number 0201.0500)
- (2) Poultry livers (0203.0100)
- (3) Other guts, bladders, stomachs (0504.9900)

C. Eliminate performance requirements. Taiwan's current position on performance requirements is to start from a 50 percent export performance requirement for all foreign investment and negotiate lower percentages on a case-by-case basis. Since mandatory export performance requirements encourage exports beyond what would occur under freely operating market forces, Taiwan should eliminate export performance requirements and domestic content requirements on all foreign investment applications.

### III. MAJOR PROJECTS

Seek U.S. suppliers for major projects. Major projects provide a quick and visible way to reduce the trade deficit. There are several Taiwanese projects in which U.S. industry is interested and for which Taiwan could look to U.S. industry as the primary supplier: Taipower Nuclear plants 7 and 8, the Taipei subway, the Taipower Computer Facility upgrading, the China Steel expansion, and the telephone switching project. In addition, Taiwan's civil aircraft market could be a source of major orders from U.S. companies.

**BILATERAL ISSUES - KOREA****I. ROK Liberalization**

Prior to President Reagan's trip to Seoul last November, USG officials suggested to the ROKG that a reduction of Korean import barriers of particular interest to U.S. exporters would be very helpful to our bilateral relationship and would be a positive contribution to the effort to renew GSP. A list of so-called high priority items was given to the ROKG.

The Koreans responded by announcing a unilateral liberalization of import licensing restrictions on 36 items of interest to U.S. exporters. The announcement contained some meaningful market openings (e.g., lemons, certain yarns and fibers, household refrigerators, and metal-punching machines), but most of the liberalization was hedged through emergency tariff increases, anti-surge mechanisms and carefully drawn ex outs.

The USG's formal response to the Korean liberalization was given in the February 7th aide memoire that Assistant Secretary Wolfowitz gave to ROK Ambassador Lew and in the letter to Minister of Commerce and Industry (MCI) Kum from Ambassador Brock. Our response congratulated the ROKG for its exemplary action of undertaking unilateral liberalization, but it also made clear that the liberalization did not meet all our requests.

On the eve of MCI Minister Kum's trip to Washington in early March, the ROKG announced a new import liberalization schedule to be implemented in successive stages between July 1, 1984 and 1988. We still have not seen the full schedule, but the ROKG has informed us that among the items on the original U.S. high-priority list for liberalization, imports of cameras, chocolate candy and wood flooring panels will be permitted in July 1984; imports of nylon carpets, loudspeakers and textured polyester filament are scheduled for liberalization in 1986.

All of this activity indicates that the Koreans understand the need for import liberalization on their part in order to maintain access to the American market. They still are being very cautious, however, in their specific liberalization measures (and they're avoiding liberalization of the most sensitive items, such as personal computers and cigarettes); but at least they're moving in the right direction. We should continue the strategy of giving them credit for what they've done while at the same time encouraging them to liberalize further in areas of U.S. comparative advantage.

Emergency tariffs, a tariff quota system, and a classification which allows monitoring of products for import surges are measures in addition to import licensing which allow the ROKG to maintain



tight control of its import regime. The Korean Ministry of Finance recently announced emergency tariff rates for the first six months of 1984. Four of the eleven product categories added to the list (cosmetic soap, carpets, rugs, woven pile fabrics) were freed from licensing restrictions under the Koreans' November 1983 announcement. These tariff increases seriously undermine whatever credit has been gained by the import licensing liberalization measures. Since then there have been unconfirmed press reports that emergency tariffs will be imposed on items scheduled for import licensing liberalization in June, the most notable example being chocolate confectionery.

The National Assembly has passed a comprehensive tariff reform package designed to bring general tariff rates to average OECD levels of protection by 1988. The first phase took effect January 1, 1984. Rates on 729 (32 percent) of the 2,294 line items in the general tariff schedule were reduced, while rates on 311 (14 percent) were increased. Most of the reductions are substantial cuts in barrier tariffs phased over 3 to 5 years, while most of the increases are small increases in revenue tariffs that take effect in 1984.

## II. Korean Computer Decree

On July 1, 1982, Korea's Ministry of Commerce and Industry (MCI) issued criteria for the importation of computers which make it very difficult for foreign suppliers to sell their products in Korea unless they participate in a computer localization plan. Priority for the importation of medium- and larger-sized computers is given to suppliers that participate in a computer localization scheme -- through the transfer of technology or production of components in Korea. Importation of mini-, micro- and personal computers is banned, as is the importation of printers, disks and terminals.

The computer decree follows the promulgation of the Electronics Industry Promotion Law of 1981, which established a special Electronics Industry Promotion Fund to ensure the availability of financial resources to upgrade technology and strengthen Korea's production base. The Fund, which is funded by both private companies and the ROKG, has reportedly fallen short of its 1983 goal. Nevertheless, the intent of the Fund is clear -- to develop a domestic electronics industry through various investment incentives, subsidies and R&D assistance.

ROKG plans were further articulated in late February 1983, when the government announced its "Long-Term Electronics Industry Development Plan" which singled out 31 products for concentrated government subsidies, preferential credits, and other incentives.

In addition to computers, the products included under the plan are telecommunications equipment, computerized VTRs, medical equipment, computer software, hybrid ICs, linear ICs and semiconductor elements.

We have warned the ROKG repeatedly that the import measures adopted by the Korean Government aimed at closing the Korean market to U.S. computer exports is a matter of great concern to us. We are very disappointed that the November 1983 trade liberalization package failed even to mention the smaller computers (mini-, micro- and personal computers) and certain types of peripherals. We continue to seek the elimination of the import controls and a return to the previously open market for computer products in Korea.

(Proposed)  
Conversion of Long Term Protective Measures  
to Tariffs under GATT Article XXVIII

Proposed Action

In recent years, contracting parties have taken an increasing number of protective measures outside the regimen of the GATT. Many of these measures have remained in force for a much longer period than contemplated under GATT Article XIX, and now afford protection on a quasi-permanent basis. A new approach is needed to bring these measures under the coverage of the GATT articles and to ensure, through enhanced scrutiny and increased discipline, that the rights of exporting countries affected by these measures are adequately protected.

In conjunction with renewed efforts to conclude a new safeguards code, GATT member countries should:

- o agree to self-identify protective measures taken on a long term basis to insulate chronically uncompetitive domestic industries from import competition, recognizing that such measures are distinct from short term measures taken to promote adjustment to increased import competition, as envisioned under Article XIX;
- o agree that these long term measures--many of which involve some form of quantitative restraint--are more appropriately covered under GATT Article XXVIII, which facilitates the provision of long term protection to domestic industries through the renegotiation of a contracting party's tariff obligations;
- o agree to convert these long term protective measures into tariffs in accordance with the procedures of Article XXVIII; and
- o agree that any short term safeguards measures taken will conform with the provisions of Article XIX, as elaborated upon in a new safeguards code.

Countries adversely affected by the conversion to tariffs would retain their rights to compensation in accordance with the provisions of Article XXVIII. The actual amount of compensation owed would be the subject of negotiations between the converting country and affected suppliers. Converting countries would be entitled to some offsetting credit for bringing their protective measures under the GATT. Any increased tariffs resulting from the conversion could be reduced through negotiation over time, as circumstances permit.

Background-

The most difficult type of protective measures for the GATT to regulate are long term actions taken to insulate chronically uncompetitive industries from import competition. These open ended measures cannot be characterized as short term emergency actions taken to promote adjustment to import competition, as envisioned under Article XIX. They constitute instead a quasi-permanent form of protection which is not subject to GATT discipline or scrutiny. As tariffs and nontariff measures regulated by GATT articles have been reduced over time, the relative effect of these measures in restricting international trade has grown enormously.

The conversion of long term gray area measures to tariffs in accordance with the procedures of Article XXVIII would result in an added degree of discipline and scrutiny over contracting parties' actions to protect chronically import sensitive industries from import competition. It would be consistent with the fundamental role of tariffs in the GATT as regulator of trade, with the GATT's prohibition on the utilization of quantitative restrictions, and would be similar in form to the conversion of then existing quantitative restrictions to tariffs during the 1950s.

It is possible that by converting many of these measures to tariffs under Article XXVIII, much of the domestic political opposition in major trading countries to increased discipline over a country's ability to take adequate safeguards measures could be defused. Long term gray area measures would be effectively removed as an issue blocking the conclusion of a safeguards code dealing with short term emergency actions. Having adequately protected the contracting parties' ability to take long term measures in response to import competition, while providing suitable protection for the interests of exporters, many of the problems which have prevented agreement on certain aspects of a new code dealing with short term measures may prove less intractable.

On a broader plane, a commitment by the member countries of GATT to subject these protective measures to GATT discipline would contribute greatly to a restoration of confidence in the GATT mechanism. In addition, such action would complement other measures, presently under consideration, to reduce existing protective measures and stimulate trade liberalization.

The acceptance and implementation of this proposal will depend heavily upon the amount of political will that exists among GATT member countries to improve and strengthen the GATT system.

At the present time, countries maintaining long term gray area measures do so with relatively little external interference.

The measures are not notified to the GATT; nor are they subject to annual review. Compensation for exporting countries affected by these measures is usually waived in the process of reaching agreement on a satisfactory restraint mechanism. In those instances involving unilaterally imposed restrictions on imports, compensation is rarely offered. Moreover, in many instances, domestic industries affected by import competition prefer the protection afforded by quantitative restrictions than that afforded by increased tariffs. Under Article XXVIII, however, countries converting these measures likely would be subject to claims for compensation or retaliatory withdrawals.

The combination of these factors may make it difficult to persuade other GATT member countries to agree to convert their long term measures without some *quid pro quo*. They may request compensation for converting their measures. The United States has very little to offer in return. It may be sufficient to drop all claims for compensation and declare a general "amnesty". More likely, the United States will have to convert some measures of its own, i.e., its Section 22 quotas, if other contracting parties are to agree to the proposal. This, of course, would require Congressional legislation, which likely would be opposed by the farm community and their representatives in Congress.

#### Current Status

This proposal has been discussed informally in general terms with officials of the European Community, Japan, and Canada, in the Quadrilateral process and with GATT Director General Dunkel. It has not been introduced formally in the GATT for consideration by the Contracting Parties.

#### Further Action Required by Administration

The proposal has been approved in principle by the TPRG. The detailed aspects of practical application of the proposal are under consideration. When appropriate, the Administration will need to devise a strategy for introducing the proposal and gaining the acceptance of major GATT trading partners, the Congress, and private sector interests in the United States.

### Foreign Industrial Targeting

1. Develop a mechanism whereby an industry that feels threatened can request the USG to review the foreign targeting "threat." Based on the findings, the USTR can request the ITC to initiate a Section 332 investigation into foreign targeting practices and the effect on U.S. industry. If appropriate, there could be meetings with industry representatives to discuss options such as initiation of bilateral negotiations, and perhaps domestic measures needed to restore industry competitiveness.

2. The TPSC Targeting Subcommittee could be responsible for determining when finer trade statistic breakouts are needed. This group would direct its attention towards obtaining accurate information on trade statistics and trends in emerging technologies and file 484E requests for statistical breakouts with the ITC.

3. Encourage the FCC to reinstate the Form 740 Program that was dropped due to a lack of funds. The program involved the requirement that the importers of communications equipment submit a 740 form with each shipment, confirming that the imports were in fact certified by the FCC. The program also provided an excellent source of import data for the U.S. manufacturers of this type of equipment. The data was especially useful in that many communications imports fall into basket categories, thus specific data is not normally available on selected products.

4. For sectors that have been targeted by foreign governments where subsidized export financing is a tool used, ensure that they are provided competitive export financing. For these sectors in particular, Eximbank should take measures to offset foreign mixed credit offers designed to expand market share.

5. Seek Japanese agreement to consider industries for consideration by the U.S.-Japan High Technology Work Group where preliminary analysis indicates a targeting effort.

6. Initiate a Section 301 case dealing with an industry that has been targeted and where restricted market access is the major problem. The purpose of such a case would be to show that a) legislative changes aren't needed because 301 covers targeting, b) 301 covers restricted market access, and c) the Administration has the political will to use the existing tools.

7. Have CFIUS (Committee on Foreign Investment in the United States) review investments in the United States which are made in targeting country. As a matter of current practice, CFIUS normally reviews only those investments involving foreign government ownership, but it has the authority to review any investment which might have "major implications for U.S. national interests." CFIUS can also initiate special studies of trends in inward investment.

8. Review barriers to entry for U.S. investors in the targeted industry in the targeting country and review the treatment of such investors. This review could comprehend a wide range of practices including screening, market reservation policies, and even

(Proposed)  
Standards: Acceptance of Test Data

Proposed Action

The U. S. Government should seek increased acceptance by importing countries of test data generated in exporting countries.

Background

The acceptance of test data is the single most important standards-related trade issue. It is not dealt with effectively in any international agreements. Only the GATT Agreement on Technical Barriers to Trade (Standards Code) directly addresses the acceptance of test data. The major purpose of the Code is to establish principles by which signatories prepare, adopt and apply standards and certification systems. The major benefit of the Standards Code is the information network that provides U.S. suppliers with the opportunity to comment on proposed standards and rules of certification systems.

The Code contains an "encouragement" that signatories should accept foreign generated test data, but provides for consultations in order to achieve this goal. Experts argue that test data cannot be accepted without full knowledge of the test methods applied and the conditions under which the tests are carried out. Currently bilateral or regional arrangements are the only means used to promote the acceptance of test data.

Significant progress in standards-related trade matters will not be achieved until the acceptance of test data is incorporated into a binding "international" document. An arrangement could be negotiated under the Standards Code whereby signatories are obligated to accept test data for particular products on a mutually agreed basis. This process has been started in a limited way under auspices of the "International Laboratory Accreditation Conference" (ILAC).

Current Status

This is a new proposal which has not been discussed within the U.S. Government or with foreign governments.

Further Action Required by Administration

It believed useful, a formal proposal (including a strategy on who to proceed) could be submitted to the TPSC for consideration.

## Services

The notion of a services "pledge" would be to freeze the promulgation of new regulations, particularly those which are trade restrictive, affecting services industries. Regulatory practices generally govern the extent that services can be provided in foreign markets. Many of the rapidly growing service industries, such as transborder data flows, are not seriously hampered by distortive foreign regulations. There are efforts in many countries, however, to impose new regulations that would control the spread of data processing opportunities, and such a "pledge" could ensure considerable future trade growth that may otherwise be lost.

Many existing services barriers are presently in place, but there are problems in gaining agreement as to which are truly distortive. The idea of a freeze, which has already been proposed by the Secretary General of the OECD, would be a more realistic objective, since it would be based on the idea that better information is first needed before putting forth regulations that could have a distortive effect.

The United States is almost certain to improve its trade account by such a freeze because: 1) we have considerable competitive advantage in most services and 2) we tend to regulate less than other countries and indeed are deregulating many of our services industries.



Trade-Related Performance Requirements

Proposed Action:

Become more aggressive in responding to foreign governments' use of trade-related performance requirements.

Background:

An increasing number of countries are implementing trade-related performance requirements such as local content requirements and export requirements. The effect of these measures is to distort trade flows. Thus, Government fiat replaces comparative advantage. Local content and related measures prevent us from exporting products to the host country. Foreign export requirements result in loss of our traditional export markets in third countries or an unfair increase in imports in the United States. In sum, problems created by the use of these measures are growing. And progress on controlling their use in multilateral organizations is slow.

In his International Investment Policy Statement, the President underlined our opposition to government use of trade-related performance requirements which attempt to shift artificially the benefits of investment flows. He went on to say that the United States will pursue "an active international investment policy aimed at reducing foreign government actions that impede or distort investment flows, and at developing an international system, based on national treatment and most-favored-nation principles, that permits investment flows to respond more freely to market forces."

The best unilateral mechanism to ensure that trade distorting measures are not attached to U.S. foreign direct investment appears to be our 301 authority. For non-GATT countries such as Mexico and Taiwan we have leverage in the goods or services areas since we can retaliate with relative impunity. With GATT countries we will not be able to retaliate in the goods area unless we first receive GATT authorization. We have brought one case (Canada's FIRA practices) to the GATT, which to date has gone in our favor. However, we may not be so successful in GATT cases against the NICs (e.g., Brazil, Mexico, Taiwan, Korea) who are the most prevalent users of performance requirements.

Any action taken in this area which is intended to address our trade imbalance in a substantial way will have to be directed toward one or more of these countries. Only S. Korea and Taiwan have a positive trade and current account position. Therefore, if we take any unilateral action to redress the distortions we could exacerbate the foreign payments difficulties of other NICs.

Where We Stand on Decisionmaking:

The decision on whether or not we should take a country's practices to the GATT rests with the TPC. The same is true for the decision on whether or not we self-initiate a 301 case.

Further Action Required:

Even if we decide to bring additional complaints to the GATT or take unilateral action against non-GATT members, we will still need to obtain a multilateral discipline in order to be effective in this area. To accomplish this we need to follow up the President's statement with active support from the U.S. cabinet in all the appropriate fora. Our trading partners need to be made aware of our concern at the highest level. Otherwise, at the lower level of the various international organizations, progress will not be made.

Trade Balance Actions Assessment

--

Military Trade Sector: Measures to Increase  
U.S. Receipts

Proposed Action:

Eliminate the present \$50,000 limit on allowable commissions on FMS contracts.

Discussions:

Several years ago in an effort to counter bribery, a limit of \$50,000 was imposed on the amount of the commission that could be charged to an FMS contract.

There is a need to retain representatives and to pay commissions (not bribes) well in excess of \$50,000 for many foreign military sales -- for which contracts can be in the hundreds of millions of dollars.

The commissions are still being paid. There is no limit on the commission, only on the amount that can be charged to the FMS contract. As a result the commission is funded out of corporate earnings, rather than charged to the foreign customer.

Impact of Action:

Increase U.S. receipts on FMS contracts.

Increase U.S. corporate profits and hence Federal tax receipts.

W. Stephen Piper  
10/21/83

Expansion of U.S. Exports in the  
Aerospace Sector

Proposed Action:

Develop a policy statement to provide better assurance that extraterritorial export controls would not be used as a foreign policy instrument without consultation with our affected allies.

Discussion:

There is foreign availability (present or feasible) for almost all aerospace products. Many programs require large investments, and risk over a number of years, so that there is a trend toward international consortia for specific projects.

In many cases U.S. suppliers are being excluded from participation in foreign programs because of the potential that the USG will block commercial sales at some future time.

Another consequence of the foreign fear of U.S. export controls is that foreign governments are promoting the development of additional manufacturing capability.

Impact of Action:

Expand foreign business opportunities for U.S. firms.

Lessen the rate of establishment of foreign competition.

## Discriminatory Canadian Postal Rates

### Proposed Action

Secure elimination of discriminatory Canadian postal rates on second-class printed matter.

### Background

Canada has had regulations providing for second-class classification differentials on non-Canadian publications since 1969. It was not until April 1, 1979, however, that a discriminatory rate system was enacted. Under the system the lowest second-class rate is afforded to Canadian publications (magazines and newspapers). A somewhat higher rate applied to non-Canadian publications printed and mailed in Canada (e.g., Time Magazine). The highest rate, which was considerably higher than the other two, applied to non-Canadian publications printed outside of Canada, trucked into Canada in bulk, and mailed to Canadian subscribers, newsdealers, etc.

The rationale for these differentiated and discriminatory rates has always been to provide support to Canadian publications and to Canadian cultural policy, which seeks to foster "Canadianness" and shield Canadians against the influence of foreign, particularly U.S., culture.

A number of bilateral discussions on this matter have been held over the years. Most recently, formal GATT Article XXII consultations were held in Geneva late last year, to no avail.

### Current Status

On July 14 Canadian Communications Minister Francis Fox announced that preferential postage rates for second-class publications in Canada will begin to be phased out. The result of this action will be an increase in already discriminatory postal rates on U.S. magazines and periodicals printed and mailed in bulk in Canada, and U.S. publications printed in the United States, trucked to Canada, and mailed in Canada.

### Further Action Needed

Convince Canadian Government that discriminatory postal rates are GATT inconsistent.

## Agricultural Import Restrictions in Mexico

### Proposed action

Liberalize licensing of imported agricultural products and reduce tariffs and surcharges.

### Background

U.S. agricultural exports to Mexico continue to be severely restricted by high tariffs and prior import licensing requirements. Mexico produces neither commercially nor in sufficient quantities products such as deciduous fruits, tree nuts and high quality beef. Nut imports are also subject to luxury taxes and other surcharges.

Mexico allows the importation of beef and veal only to place downward pressure on domestic prices. U.S. producers of almonds, walnuts, pecans, hazelnuts, pistachios and chestnuts are denied open access to the Mexican market. U.S. exports of fresh peaches and pears are limited to the border and free zones, while canned peaches and fruit cocktail are subject to tariffs, surcharges and licensing requirements.

### Current status

Mexico's development plans call for expanded domestic agricultural production. Nevertheless, given that country's climactic constraints and its need to meet nutritional goals, the United States may be able to obtain increased access for U.S. products over the longer term.

### Further action

Because of Mexico's non-membership in GATT, the USG cannot take action in that forum. Perhaps, in the context of GSP renewal, we could achieve some liberalization of the agricultural import market.

## Brazilian Export Subsidies (Poultry and Soybeans)

### Proposed action

Achieve elimination of Brazilian export subsidies particularly for poultry and soybeans.

### Background

Brazil uses a series of incentives -- including a general credit premium for exports, fiscal incentives (BEFIEX), preferential working capital financing and duty drawback schemes -- to encourage exporting. The United States has taken 301 actions against Brazilian exports of poultry and soybean products which displace U.S. producers in third countries and has imposed countervailing duties on a range of products, including cotton yarn, various specialty and carbon steel products and vinyl film.

In initiating section 301 actions, the United States has claimed Brazil uses export subsidies to undercut U.S. poultry prices by \$350-\$400 per metric ton. We also noted that, while Brazil's share of the Middle East market had risen from zero in 1974 to 44 percent in 1982, the U.S. share has fallen to zero in 1983. We sold 87,000 tons of broilers in 1981 and only 690 tons in 1982. For soybeans, the 301 investigation is focusing on Brazil's tax exemptions and deductions, subsidized operating and production financing based on export performance, and tax drawbacks. These programs appear to have injured U.S. exporters of soybean meal and oil and processors of oilseeds.

### Current status

Brazil denies that it engages in unfair practices in soybean products and poultry. The USG has requested conciliation in the GATT for poultry, and is holding GATT Article XII consultations on soybeans. We would be amenable to a U.S.-EC-GOB solution on poultry and possibly a bilateral approach on soybeans. Brazil has recently greatly reduced the subsidy element of its working capital finance programs.

### Further action

Press for a settlement of 301 cases through GATT and bilateral channels, or, if adequate progress cannot be made, consider retaliatory actions to restore U.S. equitable share of the world market.

The EC should bind levies on some processed agricultural products of interest to U.S. exporters.

#### Background

The trade barrier effect of variable levies is so complete that the use of such a system virtually closes out importation of competing products when the prospective importer is capable of self sufficiency at the mandated reference price. It is, in effect, the realization on a sectoral basis of the autarkic principle of total self sufficiency in designated items. The Community uses reference prices and variable levies (even on bound products) to block low priced trade.

U.S. agricultural trade to the Community and to third countries would increase in both value and volume if the EC would bind its variable levies, i.e., turn them into regular, if somewhat high, tariffs.

#### Current Status

The protective advantages of variable levies are well known to the EC, and, in fact, are the functional basis of the EC agricultural incomes policy known as the CAP. There is no current interest among EC policymakers to cap the levies; such an initiative would require a substantive shift in attitude concerning EC agricultural economic policy.

#### Action Required

The USG should be prepared to create incentives for the Community to look favorably upon an opportunity to negotiate the capping of the variable levies.



Obtain EC agreement to negotiate some physical, verifiable limit to the scope, level, or gross value of agricultural export subsidies.

#### Background

- These subsidies are essential to the financial survival of the CAP, since the reference prices and levies are, in effect, an open-ended invitation to EC farmers to produce surpluses that cannot be disposed of at the price that fomented their creation. During bilateral negotiations in 1983, and through the ongoing GATT dispute settlement process on several U.S. agricultural exports, the U.S. has attempted to negotiate a limit to these EC subsidies.

#### Current Status

The Community has refused to enter into such negotiations. Over the next two years, financial stress may encourage some EC interest, however.

#### Action Required

The USG should be prepared to create incentives for the Community to look favorably upon an opportunity to negotiate the capping of the its agricultural export subsidies.

EC Export Subsidies on Pasta

Action Requested

If the EC continues to block the adoption of the Subsidies Code panel report on pasta and refuses to take any action to eliminate its export subsidies on this product, the United States should impose countervailing duties which would offset the amount of these subsidies. The EC pays similar export subsidies on many other processed products (e.g., butter cookies, starch, whisky) in apparent contravention of the GATT. Consideration could also be given to the imposition of countervailing duties on these products.

Background

In October 1981, the U.S. National Pasta Association filed a petition under Section 301 of the Trade Act of 1974 against EC export subsidy practices for pasta. The petitioner claimed that the EC has violated Article 9 of the Subsidies Code which prohibits subsidizing a non-primary product such as pasta. In 1975, Italian pasta exports to the United States were 10 million pounds. By 1980, the volume had increased to 26 million pounds, and in the first six months of 1983, U.S. imports of Italian pasta were estimated at 38 million pounds.

The 301 petition was accepted by USTR on November 31, 1981. A Subsidies Code panel was formed and met on July 12 and October 8, 1982, and on March 29, 1983. On April 19 the panel issued its report, ruling in favor of the U.S. viewpoint. The report is now before the Subsidies Code Committee, where the EC is trying to prevent its adoption. Despite intense discussion with the EC in bilateral discussions and in Geneva among Subsidies Code Committee members, no resolution of the issue has yet been possible.

Status

The Administration has rejected the EC proposal that the pasta case be dropped in exchange for the strict limitation of EC export subsidies for pasta to the difference between EC and world prices for durum wheat. The USG is currently trying to revive efforts by the Subsidies Code Committee to resolve this dispute (on terms favorable to the United States).

Action Required

If the above efforts are unsuccessful, the United States should impose countervailing duties on pasta imports from the EC.

## Japanese Beef and Citrus Quotas

### Proposed Action

The USG and GOJ have negotiated an understanding on Japanese imports of beef and citrus for JFY 1984-87.

### Background

Japan restricts by import quotas and other GATT-inconsistent barriers the trade in beef, oranges and orange and grapefruit juice. Exports of these products to Japan in 1982 totaled \$376 million. We have good reason to believe, however, that the Japanese market holds even greater potential.

### Status

A new bilateral understanding with Japan on beef and citrus was negotiated in April 1984 to cover Japanese fiscal years 1984 through 1988. Under its terms, Japan will expand high-quality beef, fresh orange and orange juice imports. They will also eliminate import restrictions on grapefruit juice by April 1, 1986.

Increased imports of beef, fresh oranges and orange juice, as well as the liberalization of grapefruit juice, should increase U.S. exports to Japan by \$400 million above existing trade levels over the next four years.

## Japanese Agricultural Import Quotas

### Proposed Action

The United States maintains that more than 13 categories of Japanese agricultural quotas are inconsistent with the General Agreement on Tariffs and Trade (GATT), the trading rules to which we adhere. We have taken this matter to the GATT under Article XXIII:1 consultations in the hopes of resolving it. In April 1984, a two year settlement was reached. Consultations will resume on this issue in 1986.

### Background

At the time that Japan acceded to the GATT in June 1955, all of its imports were quantitatively restricted (QR). Japan claimed a balance-of-payments justification for these restrictions under GATT Article XII. The restrictions were progressively liberalized, and on March 4, 1963, Japan, under pressure, disinvoked its balance-of-payments justification under Article XII. At that point, the remaining QR's became "residual restrictions" without authorization of the CONTRACTING PARTIES. Such restrictions could be expected to remain in place during a phaseout period, but 20 years is clearly excessive.

For 15 years we have been discussing with the Japanese our concerns about their agricultural import quotas, particularly those affecting beef and citrus. Nevertheless, the Japanese have been very slow in dismantling their import quota system. We still face residual import quotas in the same 19 agricultural tariff categories that we did 10 years ago.

In July 1983, we initiated under Article XXIII of the GATT formal consultations with the Japanese on 13 of these 19 categories. Key items among the 13 categories include non-roasted peanuts, dry leguminous vegetables, fruit pulp, paste and puree, tomato sauce and ketchup, non-citrus juices, prepared and preserved meats, food preparations, and various dairy products. We do not consider the formalization of our bilateral discussions over quotas in GATT to be a confrontational or unfriendly act but as the appropriate process for seeking a mutually acceptable solution to the "longstanding" problem which we believe has a significant impact on U.S. agricultural interests and U.S.-Japan trade relations.

### Status

In July 1983, the USG initiated a round of GATT Article XXIII:1 consultations with the GOJ over the 13 categories of agricultural quotas. The most recent consultations were held in Geneva in September 1983. In January 1984, the TPC authorized proceeding to a GATT Article XXIII:2 panel to resolve this issue, but no decision was made with regard to when this should occur or on

which of the 13 categories.

In March 1984, the USG and GOJ held a bilateral meeting at which the GOJ made offers on the 13 categories that would be in exchange for the USG terminating its GATT case on all of the 13. When the U.S. and Japan reached an understanding on the beef and citrus talks in April 1984, the Japanese noted they would like to settle this issue as well. In April, both sides agreed to a two-year truce on the 13 categories, including a suspension of our GATT case, in exchange for the Japanese liberalization of some items, expansion of some quotas, and cutting tariffs on other items. This issue may be raised in the latter half of JFY 1985 under the aegis of the U.S.-Japan Trade Committee, and consultations will occur as soon as JFY 1986 starts.

## EC TARIFFS

Reduce the level of some EC tariffs that affect U.S. trade.

Background

Barriers to U.S. exports to the European Community are not, in general, embodied in EC tariff policy. Average EC tariffs on industrial trade are as low as in the United States. However, relatively high EC tariffs or charges on some imports are a major cause of complaint by some U.S. exporters. In addition, EC preferential agreements with the EFTA countries, ACP countries, and certain Mediterranean states result in U.S. exports to the Community, in some cases, facing a differential tariff that distorts trade toward the preferential partner. As the EC expands, the problem also increases.

The major EC-wide tariff barriers to U.S. trade are centered in the agricultural sector, but there are trade-blocking tariffs scattered throughout the EC tariff schedule that heavily burden U.S. exports. Although not numerous, these duties often preclude trade in products where U.S. competitiveness is well established. Examples of such products are as follows:

Pipe Tobacco	117 percent
Chewing Tobacco	65 percent
Snuff and Cigars	52 percent
Canned Meats	26 percent
Beer	24 percent
Freeze-dried spices	16 percent
Phosphoric Acid	12 percent
Silicones	11.3-14.2 percent
Aluminum Wheel Centers	11 percent
Southern Comfort	\$4.00 per gallon
Rum	\$2.00 per gallon
Still Wine	\$.70 per gallon

Current Status

There is no current authority delegated from Congress to negotiate the reduction of these duties.

Action Required

In addition to a renewal of the Executive Branch's negotiation authority, the U.S. would have to be prepared to reduce U.S. tariffs on items of comparable economic and political importance to the European Community.

**Expand the current EC duty-free tariff quota on imports of Softwood Plywood.**

Background

The EC is a net importer of plywood, particularly of the softwood variety. The U.S. product is highly competitive, but suffers from a tariff disparity (10 percent v.s. 0 percent) with competing products from the Scandinavian suppliers, who have preferential tariff treatment. The negotiated duty-free quota for this product is inadequate to cover EC needs, but a single French supplier bars the quota's expansion.

Current Status

The Community has refused to expand the quota for 1984.

Action Required

The United States should negotiate either a quota expansion or a duty reduction that would permit expanded U.S. exports of softwood plywood to the EC.

## Canadian Licensing of Pharmaceutical Patents

### Proposed Action

Secure modification in Canadian legislation which allows compulsory licensing of pharmaceutical patents.

### Background

Section 41 of the Canadian Patent Law provides that any company may request the Canadian Commissioner of Patents to provide a compulsory license for pharmaceutical patents and that only a nominal royalty of four percent is paid. The section was enacted in 1969 (although a similar provision dated back to World War I) as a result of assertions that foreign pharmaceutical companies were making inordinately high profits in Canada. The legislation was based on British patent law (subsequently repealed), and was designed to rectify some abuses and to foster greater competition in the pharmaceutical industry. The legislation is highly popular and is supported by all political parties in Canada as well as the provinces, who are concerned about keeping health costs down.

### Current Status

On May 27, 1983, Andre Quellet, then-Minister of Consumer and Corporate Affairs, announced the Canadian Government's decision to change Section 41 and to launch extensive discussion with Canada's provincial governments, the pharmaceutical industry and consumer groups to identify ways of stimulating the Canadian pharmaceutical industry and to maintain reasonably priced drugs. Minister Quellet was subsequently replaced by Judy Erola, who is not prepared to seek modification of Section 41. Instead, she has appointed a one-person board of inquiry to review the issue, and to report recommendations by the end of the year. In the interim, outstanding requests for compulsory licenses could be processed to the detriment of U.S. interests.

### Further Action Needed

Convince Canadian Government to introduce legislation to modify Section 41.



## Border Broadcasting Dispute with Canada

### Proposed Action

Resolve border broadcasting dispute with Canada.

### Background

In 1976, Canada adopted a tax provision denying Canadian enterprises tax deductions for the cost of advertising in foreign media when the advertising is directed primarily at Canadians. The Administration, following a 301 finding, has on three occasions proposed mirror legislation to the Congress, but it has never been acted upon. The latest proposal is still before Congress. In March 1983, we floated a compromise proposal which would reinstate the tax deduction for a certain percentage of the advertising placed in the U.S. based on the percentage of the border station's audience which is accounted for by U.S. viewers (70 percent).

### Current Status

In response, the Canadian Government commissioned a study of the impact that this compromise might have on the Canadian broadcasting industry, which was released early this year. The report, while noting some administrative difficulties with a station-by-station breakout of the U.S. proposal, does note that some equitable solution could be easily found, if the Canadian Government actually desires a compromise. While officials at the Department of External Affairs are apparently supportive of a compromise, Department of Communication's are strongly opposed.

### Further Action Needed

Convince Canadian Government of need for compromise.

## Informatics Policy of Brazil

### Proposed action

Liberalize Brazilian trade and investment restrictions governing the information-based industries. Provide copyright protection for computer software.

### Background

The Brazilian Special Secretariat for Informatics (SEI), using a national security justification has placed top priority on the development of a national computer and information industry. SEI has taken numerous steps to protect and promote Brazilian producers, including market reservation for equipment manufacturers, registration requirements for computer software, restrictions on transborder flows of information, and import licensing.

### Current status

Brazil has extended its informatics-related barriers beyond computers to superminicomputers, software, medical test equipment, analytic instrumentation and biomedical equipment. The GOB is considering legislation that would provide inadequate legal protection for computer software. In March 1984, the Brazilians agreed to provide information of SEI's intentions for expansion.

### Further action

The USG has just conducted a second round of consultations with the GOB on informatics; until last year, the GOB had been unwilling even to discuss the issue. We should continue the dialogue, convincing Brazil that its restrictions retard, rather than promote, its achievement of higher technology-related objectives. In addition, we should attempt to convince the GOB that adequate legal protection of software will be in Brazil's interest, as well as ours. A stronger, more public push by the USG on this issue would prove counterproductive at this time.

Drafted by: MBarell:USTR:6/22/84

## Trade-Related Investment Decrees

### Proposed action

Eliminate trade distorting decrees in the auto, pharmaceutical and computer sectors.

### Background

In 1983-84, the GOM has extended the scope and use of sectoral decrees governing trade, pricing, investment and production. The revised auto decree, announced in the fall of 1983, increases previous local content and export performance requirements, requires reductions in the number of production runs (i.e., models), and imposes other restrictions. The recently-announced pharmaceutical decree, which has elicited by far the most opposition from U.S. industry, imposes new import restrictions, denies national treatment to U.S. investors and provides inadequate patent protection. The proposed computer decree also imposes trade-related performance requirements.

### Current status

The GOM has been unwilling to fashion sectoral decrees that do not prejudice our interests. With respect to pharmaceuticals, in particular, we have held intensive discussions with the GOM to try and eliminate the deleterious aspects of the new decree. The USG has informed the GOM that further action will not be possible on the proposed bilateral subsidies agreement until we have achieved our objectives in pharmaceuticals. From the private sector perspective, pharmaceutical companies may find it more financially sound to divest; the auto and computer companies appear willing to operate generally within current constraints.

### Further action

The USG should continue to consult with the GOM on the decrees in an effort to develop policies that will not hinder U.S. interests there. On pharmaceuticals in particular, we should press strongly for elimination of the more onerous provisions of the decree.

Drafted by: MBarell:USTR:6/22/84

**CARBON STEEL 201 CASE**

The USITC on June 12 decided by 3-2 vote that imports of certain steel products have been a substantial cause of serious injury to US steel producers. The products are:

<u>product</u>	<u>total U.S. imports</u>	<u>imports from EC</u>	<u>%EC</u>
semi-finished steel	822,000 tons	208,000 tons	25.3
sheet and strip	6,549,000 "	1,885,000 "	28.8
plates	1,103,000 "	273,000 "	24.8
structural steel	1,445,000 "	422,000 "	29.2
wire and wire prods.	873,000 "	158,000 "	18.1

The ITC found no import injury on pipe and tubes, wire rods, bars, and railroad-type products. The five products on which injury was found represent 71% of the products in the petitioners' petition.

The ITC will vote on a remedy during the week of July 9 and formally transmit their report to the President by July 24. The President will have 60 days from that time to decide if import relief is in the national economic interest and, if so, what remedy to apply. The ITC's report limited itself to whether imports were the substantial cause of injury to this industry. The President's mandate is much broader and includes the effect of relief on consumers and international economic relations. An interagency task force is now being formed to begin work on these latter issues.

We will soon be soliciting the views of interested parties. The EC's representatives in Washington are aware of the above and will be making submissions. We will also be consulting directly with any interested governments.

Steel Quota Legislation

The Administration is strongly opposed to the "Fair Trade in Steel Act," H.R. 5081 and S. 2380. These bills would impose import quotas of approximately 15 percent on steel products for a five year period. Such a wide range of arbitrarily established quotas provided outside our normal trade statutes would undermine the competitiveness of a great many industries dependent on steel as a raw material and would be highly inflationary.

The dangers posed by this legislation to our greater domestic and international economic interests are clear. While they risk great harm to the remainder of the economy, they also discourage adjustment within the steel industry itself. By dramatically curtailing the degree of foreign competition in the U.S. market, the global quotas proposed in this bill would insulate the industry and delay progress toward urgently needed modernization, cost containment and productivity. Restrictions on imports will lead to a distorted increase in the price of steel, which, in turn, will raise production costs for a wide variety of U.S. industries that make up our industrial base.

Such blatantly protectionist legislation is inconsistent with our international obligations which prohibit import restrictions without a finding of serious injury. Demands for compensation or retaliation by other countries would jeopardize thousands of U.S. jobs in other sectors. Sweeping quotas on all steel products will have an even more devastating effect on the U.S. balance of trade.

By imposing such restrictions, the bill undermines the procedures already legislated by Congress to permit industries and workers to petition for import relief through a fact-finding procedure administered by the independent U.S. International Trade Commission (ITC). Bethlehem Steel and the United Steelworkers have filed such a petition under Section 201 of the Trade Act of 1974. The remedy report from the ITC is due on July 24 and the President must determine if relief is in the national economic interest by September 24.

This Administration is concerned about the possible effects of dramatic increases in aggressively priced steel imports from certain countries. Yet many of these imports are already under investigation for unfair trade practices. Since 1981, more than 100 cases dealing with steel products have been filed under the antidumping and countervailing duty statutes which offset

injurious unfair government subsidies and sales at less than fair value. When such practices are found, immediate action is taken to counter the effect. We are strongly committed to preventing unfairly traded imports from undermining the integrity of our market and injuring U.S. steel producers. The Administration's record on such cases demonstrates this.

This Administration opposes the steel quota bill in the strongest possible terms. Such legislation is inconsistent with our international trade agreements and circumvents trade statutes that have proven effective when utilized correctly in response to unfair practices. Further, it will cause other U.S. industries to pay the price of protectionism through foreign retaliation and artificially increased prices.

Trade Remedies Reform Act  
("Gibbons Bill")

H.R. 4784 contains a number of constructive changes in our anti-dumping and countervailing duty laws. However, its three major provisions make the bill unacceptable to the Administration. These provisions (1) define the so-called "targeting practices" of foreign governments as subsidies, (2) radically alter the definition of subsidies as to natural resources, and (3) expand the scope of the antidumping law to include downstream dumping. These provisions are contrary to the international obligations of the United States, represent dangerous international precedents, and pose direct or indirect threats to American exporters.

If the United States violates its international obligations, other nations would have a right to retaliate against U.S. trade under the rules of the GATT and its Codes. We should not subject American exporters to this risk. The United States should not enact rules prohibiting certain foreign practices unless we are prepared to have our own exports subject to the same rules under foreign mirror legislation.

The Administration welcomes efforts to simplify the administration of our unfair trade laws to improve access to injured firms and workers, but cannot support any bill containing the three above provisions.

## Danforth's Telecommunications Trade Act of 1984

There has been a fundamental shift in the philosophy underlying U.S. telecommunications policy from pervasive economic regulation toward reliance on unregulated market competition. Significant structural changes are evident in the U.S. industry including rapid technological development and increased competition among service and equipment providers. Most importantly, divestiture opens the U.S. market to foreign competition while foreign markets remain protected. Changes in the structure of the U.S. industry will result in a dramatic increase in imports. U.S. imports doubled in 1983 to \$1.6 billion representing a 3.5 percent growth in the share of the U.S. market. This trend is expected to accelerate as the U.S. market grows to a level of \$30 billion by 1987 and \$45 billion by 1990. The U.S. industry estimates that we will be facing a flat export curve in face of an almost vertical import curve.

The Danforth telecommunications bill is intended to respond to this trade consequence of divestiture by creating the negotiating leverage needed to secure competitive opportunities in foreign markets for U.S. exports equivalent to those available in the United States. Under the legislation, U.S. tariffs on telecommunications products will be immediately unbound. If, over a three year period, we are unsuccessful in negotiating liberalizing trade agreements in this sector, tariffs would be raised to the Column 2 levels.

We, of course, must consider the GATT implications of the bill. We can raise tariffs under GATT Article XIX as a result of injurious imports or under the traditional tariff modification procedures of Article XXVIII. In either case, compensation obligations are triggered by the unbinding of U.S. tariffs. While the bill provides some compensation authority, it is limited in scope and may not provide adequate coverage to deflect retaliation.

In light of this situation, there are a number of questions that should be addressed:

1. Should the Administration take or support any steps to deal with the trade effects of divestiture?
2. If we are to act, should we limit our efforts to new market access, as envisioned by the Danforth Bill? If so, should the NTT agreement be considered adequate? Are there realistic possibilities of achieving access to the European PTT's?
3. If we are to deal with the problems of both import penetration and market access, should this be done with an immediate increase in U.S. tariffs, then be negotiated down over time, or by the threat of tariff increases as suggested by the Danforth Bill?



4. Should we work with Senator Danforth to modify his bill to meet Administration objectives? If so, how should it be limited?

5. Should the legislation be limited to those products in which there was little or no trade prior to divestiture?

THE FOLLOW UP ON U.S.-JAPAN TRADE AND  
INVESTMENT ISSUES  
CURRENT STATUS AND NEXT STEPS  
May 23, 1984

During his May 8-10, 1984 visit to Tokyo, the Vice President brought to a close the initial phase, under his leadership, of the follow up effort to seek resolution of outstanding U.S.-Japan bilateral issues. The effort had been set in motion by the agreement of the President and Prime Minister Nakasone during the President's trip to Japan in November 1983.

As the Vice President made clear in his meetings with the Prime Minister, Foreign Minister Abe, and the other members of the Economic Cabinet in Japan, the follow up effort to this point has resulted in significant progress on several issues, but a number of other important issues remain in urgent need of resolution. The next steps in the follow up effort will be of three kinds.

First, to ensure that the market opening potential of those positive steps announced by the Japanese actually materialize, close continued consultation between our two Governments will be required. This will involve U.S. officials at the working level visiting Japan to consult with officials in the Ministries of Finance and Posts and Telecommunications on the administrative ordinances and procedures that will be formulated to implement the announced reforms in the sectors of manufactured tobacco products and telecommunications services, respectively.

Second, the Vice President indicated a number of outstanding issues that will need either resolution or significant progress prior to the June Economic Summit, the next opportunity at which the President and the Prime Minister will meet. These include Japanese tariff reductions on forest products, paper products, and wine, as well as setting the final text of the beef and citrus agreement.

- On April 27, the Japanese Government announced a number of tariff reductions to be implemented April 1, 1985. These included several that responded to U.S. requests, notably on color photo paper and farm machinery. However, no cut was announced on one major U.S. request, forest products (plywood, veneer, particleboard). Cuts made on wine and paper were positive but do not fully satisfy U.S. objectives.
- Oral agreement was reached on the beef and citrus issue by USTR Brock and Japan's Agriculture Minister Yamamura. Working level discussions are in progress to settle the remaining issues of the language of the text.

Third, there are also a number of outstanding issues that need attention and progress during the remainder of this year. These include:

- Software program rights protection: the Japanese have assured us that no change on protection will be made before consultations are held with the U.S. Our objective is to ensure that no change is made which would diminish either the scope or duration of protection, or remove such protection from under the aegis of the copyright.
- Satellites: the April 27 announcement of the Japanese Government stated that future purchase of foreign manufactured satellites by Japan's telephone monopoly NTT after its privatization, by private firms, and by Government agencies would be possible. But clarification of the intent of the announcement is required because of ambiguity in the language used pertaining to "consistency" of such purchases with Japan's space development policy.
- Standards and Certification: the U.S. will continue to seek to have U.S. testing organizations designated by the Japanese Government to carry out tests of U.S. products (and facilities) here for approval for sale in Japan.
- Lawyers: the U.S. will continue to press for enactment by the Japanese Government this year of a legal change to permit foreign lawyers to provide legal services in Japan and to associate with Japanese lawyers.
- Direct Investment: the U.S. will continue to seek removal of the requirement that inward direct investment by foreigners be pre-notified to the Ministry of Finance.
- Tobacco Shipping: we shall continue our efforts to have U.S. firms be permitted to bid for commercial scale shipments of leaf tobacco to Japan's tobacco monopoly, JTS.

These and other issues will be addressed, in one or more of the on-going bilateral groups established by the U.S. and Japan to handle our trade and investment issues. On the trade side, these include the U.S.-Japan Trade Committee, chaired by Deputy USTR Ambassador Smith, the U.S.-Japan Working Group on High Technology, and specific groups covering the NTT Agreement and other sectoral issues. The investment issues will be addressed in the U.S.-Japan Investment Committee chaired by Deputy USTR Lighthizer.

## U.S. TRADE RELATIONS WITH JAPAN

The objective of U.S. trade policy toward Japan is to achieve access to the Japanese market for U.S. exporters and investors equal to that enjoyed by Japan in the United States. We have engaged in continual bilateral discussions with the Japanese toward that end. The GOJ has responded with five sets of trade initiatives over the past two and one-half years.

The most recent initiative was announced on April 27 of this year. It marked the end of the first phase of the followup effort, led on the U.S. side by the Vice President, agreed upon by Prime Minister Nakasone and President Reagan during the President's trip to Japan last year. These initiatives represent some progress, but there are still important issues on our agenda that remain to be resolved.

Our current trade and investment issues with Japan fall into three categories: (1) those on which progress has been made but which will require continued followup; (2) those which will require clarification or which the GOJ has only partially addressed; and (3) those which remain unaddressed and unresolved.

### Issues on Which Progress Has Been Made

Tobacco: If legislation before the Diet is approved, effective April 1, 1985, the Japanese will end their government monopoly on distribution and importation of manufactured tobacco products; enable foreign firms to set their own prices, with Finance Ministry approval; continue to expand the number of retail outlets permitted to handle imports; and revise the excise tax to make possible a retail price reduction. Followup will be required to ensure that our firms are allowed to price their products competitively, and are otherwise not discriminated against.

Telecommunications: Also next April, the GOJ will privatize the telecommunications monopoly, NTT, and permit foreign firms as well as Japanese ones to compete in this potentially vast market. We intend to follow up to see that registration procedures imposed on Value-Added Network Services do not disadvantage foreign firms.

### Issues Partially Addressed

Satellites: The effect of the April announcement on the revocation of the prohibition on the purchase of foreign-made satellites by Japanese firms and government agencies is not clear. First, NTT purchases of satellites over the next five years may already be precluded by NTT's existing agreements with Japanese manufacturers. Second, the announcement indicates that purchases by NTT, the major market in Japan, will be conditional on "consistency with the national space development policy." We have requested clarification on the meaning of this condition.

- 2 -

Software: Proposed legislation to abandon copyright protection for computer software will not be submitted to this session of the Diet, but is still under deliberation within the GOJ. The EC fully shares our concern on this issue. We have reiterated our strong and unaltered opposition to this proposal.

Standards: Although MITI recently designated an American firm to conduct factory inspections for U.S. electrical appliance suppliers, MITI has not yet designated American firms to conduct product testing. No other Japanese agencies requiring certification have yet drafted guidelines for approval of U.S. testing firms.

Tariffs: The April announcement contained tariff reductions on several items of U.S. interest, including paper products and wine, farm machinery, color photographic paper, and black and white film. The absence of any reduction on forest products tariffs was a major disappointment, however.

Direct Investment: Japan has yet to abolish its prenotification requirement for foreign direct investment and to clarify its commitment to a policy of national treatment.

Agriculture: Agriculture has been partially addressed, because Japan has recently agreed to increase its imports of high-quality beef and citrus, and to liberalize import restrictions on 13 categories of agricultural products. (These agreements are not yet final, due to difficulties in drafting.) However, the more general issue of Japan's GATT-inconsistent agricultural quotas is still unresolved, and will remain so until Japan abolishes them or commits to a date certain for their abolition.

#### Unresolved Issues

Legal Services: We are seeking GOJ legislative action to enable U.S. lawyers in Japan to give advice on U.S. and international law, just as Japanese lawyers in New York can.

## TARIFFS

### Issue

The Japanese trade initiative of April 27 includes tariff cuts on more than eighty items, of which four -- paper products, wine, color photographic paper, and hay balers -- are from the U.S. major request list. Lack of any tariff cuts on forest products was a significant disappointment, as this was a major U.S. request. We should seek to keep the forest products tariff reductions at the forefront of our agenda with Japan, and seek further reductions on paper and wine.

### Background

Although the April 27 trade initiative includes tariff cuts on several items of U.S. interest, none of these cuts will take place until next year. Lack of cuts on forest products was a major disappointment, as the U.S. forest products industry had lobbied hard both in Tokyo and on the Hill, and had offered its support for a major reciprocal reduction of the U.S. tariff on Japanese sen plywood. The paper products tariff cuts are to initially requested levels, though still smaller than the industry's bottom line objectives. The wine tariff cuts are acceptable as an initial step, but their value to U.S. wine exporters was somewhat reduced by a concurrent increase in the Japanese excise tax on wine.

## TELECOMMUNICATIONS LEGISLATION

### Issue

Legislation submitted to the Japanese Diet would open up Japan's telecommunications sector to competition among private firms, both Japanese and foreign-owned, effective April 1, 1985. Since the real value of market liberalization will depend very heavily on the implementing ordinances, the Trade Policy Subcommittee on Japan is currently reviewing the proposed legislation and drafting a USG paper containing U.S. concerns and questions on the legislation. Our objective is to ensure that administrative ordinances being drawn up to implement the legislation reflect U.S. concerns and do not serve to disadvantage U.S. firms.

### Background

Up until now, Japan's telecommunications sector has been an almost wholly closed market controlled by Nippon Telephone and Telegraph Public Corporation, a government-owned monopoly. U.S. telecommunications firms are experienced and enjoy comparative advantage. Once the market liberalization measures are implemented, the market in Japan for U.S. exporters could be enormous.

The Telecommunications Bill currently before the Diet includes a registration requirement for large-scale Value-Added Network Services firms that in effect gives the Ministry of Posts and Telecommunications a prior approval over whether a firm can enter this business. The April 27 initiative commits the GOJ to ensure simplicity and transparency in registration and notification procedures, as well as fair competition between the new NTT and other telecommunications firms.

## STANDARDIZATION AND CERTIFICATION

### Issue

Although the Japanese Diet has revised some sixteen laws governing standards and certification, the full benefits of these changes in providing equal treatment for imported products has yet to be realized. U.S. producers will be able to reap these full benefits only if Japanese ministries designate U.S. testing firms to carry out factory inspections and product testing in the United States.

### Background

Japanese approval schemes require that factory inspections and product testing be conducted in order to meet Japanese requirements. In April 1984, MITI became the first Japanese agency to publish guidelines for designating authorized foreign inspection agencies. This month, MITI approved a Florida company to conduct factory inspections.

Japanese officials have recently suggested that designation of U.S. firms to conduct product testing can only take place if there is a reciprocal exchange of test data. This proposal is unacceptable, since U.S. certification systems already provide equal treatment to foreign and domestic producers.



## JAPANESE IMPORT QUOTAS ON FOOTWEAR

### Issue

The Japanese leather and footwear industries are protected by global import quotas because they employ a large percentage of the underprivileged DOWA minority group. Now that the GATT Council has adopted the GATT Panel Report on leather, we can seek remedial action on both leather and footwear.

### Background

The domestic footwear industry filed petitions for relief under Section 301 of the Trade Act in October 1982 and June 1983, alleging that restrictive Japanese trade practices were denying market access for U.S. footwear exports. These petitions were rejected on the basis of insufficient information. In January 1983, we held Article XXII consultations with Japan and confirmed the existence of a global quota on footwear imports.

On June 6 of this year, the ITC voted that the U.S. industry had not been seriously injured by increased imports of nonrubber footwear. Legislation was subsequently introduced in Congress that would limit footwear imports to 50 percent of the domestic market.

The case against Japan on nonrubber footwear is based on the same arguments that we raised in the GATT on leather. On May 16, the GATT Council adopted the GATT Panel report which concluded that Japan's import restrictions on leather are inconsistent with the GATT. In February, Ambassador Smith indicated to Minister Komatsu that we expect the GOJ to take action to eliminate the global quota on footwear.

## PROMOTION OF MANUFACTURED IMPORTS

### Issue

Japan's manufactured trade surplus with the U.S. is large and growing, despite the various measures that Japan has taken in the past several years to lower tariff and non-tariff barriers. That surplus grew from \$ 21.4 billion in 1982 to \$ 23.8 billion in 1983. The Japanese Government has issued a number of essentially hortatory statements encouraging greater manufactured imports, but has not presented a concrete strategy for bringing about such an increase.

### Background

Earlier this year, the Industrial Bank of Japan published a forecast of Japanese trade patterns. The Bank forecast Japanese exports to grow at an average annual rate of 5 to 6 percent, compared to about 4.5 percent for imports if import composition remains basically unchanged. The Bank predicted that Japan will have a current account surplus in 1990 of \$80 billion. In cumulative terms, Japan's global current account surplus would amount to over \$400 billion over the period 1983 through 1990, and would rival the OPEC surplus of 1974 to 1981.

In February, both the U.S. and Japanese Cabinets adopted a set of recommendations drafted by the U.S.-Japan High Technology Working Group, which included a commitment by the GOJ to develop "possible concrete measures" to promote imports of high technology manufactured goods. The Working Group's Recommendations on Semiconductor Trade, adopted in November during the President's trip to Japan, included a number of similar import promotion measures for semiconductor trade.

## HIGH TECHNOLOGY WORKING GROUP

### Issue

We want to highlight the work of the High Technology Working Group as a constructive bilateral effort, and stress the need to maintain momentum behind the Group's work. The next steps should be implementation of the Group's recommendations on semiconductors, and the development of recommendations covering bilateral trade and investment issues in other high technology industries.

### Background

The U.S.-Japan Working Group on High Technology Industries has produced two sets of recommendations over the past two years. The first set, approved by the U.S. and Japanese Cabinets in February 1983, covers general issues relating to high technology trade and investment. The second set of recommendations, adopted by both Cabinets in November, focuses on issues affecting trade and investment opportunities in the semiconductor industry in both countries. The U.S. semiconductor industry has welcomed these recommendations, stating that they appear to represent a very constructive step forward.

## SATELLITES

### Issue

In its April 27 announcement, the GOJ states that after passage of telecommunications reform legislation by the Japanese Diet, private firms will be able to purchase communications satellites. It stated also that when NTT is legally transformed next April, a "privatized" NTT will be able to purchase satellites either domestically or from abroad, so long as "consistency with the national space development policy" is ensured. Furthermore, the announcement states that government agencies may procure in a non-discriminatory way satellites not necessary for autonomous development of space technology. In a recent letter to Ambassador Okawara, Ambassador Brock asked for clarification of this language. We have not yet received a response on this issue from the GOJ.

### Background

In October, Foreign Minister Abe gave Ambassador Brock a summary of the GOJ position on the procurement of communications satellites, which states that Japan will ensure autonomy in the development of such satellites. The policy was defended on considerations of national security and public safety. During the President's trip to Japan in November, Foreign Minister Abe reiterated this self-sufficiency policy to Secretary Shultz. We feel that the GOJ approach to communications satellites is an example of protectionist industrial policy and belies Japan's protestations that it no longer uses such policies.

## BLUE RIBBON PANEL

### Issue

On April 10, Minister Okonogi sent Ambassador Brock a proposal for implementing his suggestion for a "Blue Ribbon Panel" of U.S. businessmen to be invited to Japan. Ambassador Brock responded positively to Minister Okonogi's proposal in a letter of June 14, and suggested a number of points designed to strengthen the effectiveness of the panel.

### Background

Last October, Ambassador Brock wrote then MITI Minister Uno suggesting the formulation of a Blue Ribbon Panel. In April, Minister Okonogi sent us a proposed plan for the Panel and a procedure for selecting panelists. He suggested that the Panel be composed of three to four top U.S. business executives, and that the panelists stay in Japan for about a week to exchange views with their Japanese counterparts.

In a June 14 letter, we suggested that the Panel be established on a continuing, rather than on a one-time basis, and that it be provided with the opportunity for frequent direct meetings with the Prime Minister and the Minister of MITI. We also suggested that a critical element in attracting top-level business executives would be a commitment by the Prime Minister and Minister Okonogi to correct barriers to the Japanese market identified by the Panel.