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SYSTEMATIC

153

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
248807	PAPER	SOVIET MEMBERSHIP IN THE MULTIFIBER ARRANGEMENT	4	9/9/1987	B1
		R 3/3/2020 DEPT. OF STATE WAIVER			

Freedom of Information Act - [5 U.S.C. 552(b)]

- B-1 National security classified information [(b)(1) of the FOIA]
- B-2 Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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Collection Name DRIGGS, MICHAEL A.: FILES

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15

DOC NO	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
1	PAPER	GROUP ON NEGOTIATIONS AND SERVICES, PARTIAL	4	9/10/1987	B5
2	PAPER	HARMONIZED SYSTEM: REQUEST FOR SECTION 332 INVESTIGATION FOR BRIDGE DATA, PAGE 1 , PARTIAL	1	9/11/1987	B5
3	PAPER	URUGUAY ROUND NEGOTIATING GROUP ON MTN AGREEMENTS AND ARRANGEMENTS, P.1-2, PARTIAL	2	9/11/1987	B5
4	PAPER	URUGUAY ROUND NEGOTIATING GROUP ON MTN AGREEMENTS AND ARRANGEMENTS, P. 3-5	3	9/11/1987	B5
5	PAPER	ANNEX 1 OF URUGUAY ROUND NEGOTIATING GROUP ON MTN AGREEMENTS AND ARRANGEMENTS, PARTIAL	2	9/11/1987	B5

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TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506



UNCLASSIFIED with
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September 9, 1987

TO : Members of the Trade Policy Staff Committee
FROM : Donald M. Phillips, ^{DM}Chairman
SUBJECT: Soviet Membership in the
Multifiber Arrangement

Attached is Draft Document 87-124, Rev. 1 concerning Soviet membership in the Multifiber Arrangement. The paper has been revised taking into account suggestions of agencies.

Please phone your clearance to Carolyn Frank (395-7210) by noon, Friday, September 11. Substantive questions or comments should be phoned to Elizabeth Cummings (395-3026).

Attachment

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TRADE POLICY STAFF COMMITTEE

DRAFT Document 87-124, Rev. 1

SUBJECT:

Soviet Membership in the
Multifiber Arrangement

SUBMITTED BY:

Office of the United States
Trade Representative

Classified by:

Donald W. Phillips

Declassify:

OADR

DECLASSIFIED

Authority

State Warer

BY

dr

DATE: 3/3/2010

DATE: September 9, 1987

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DECLASSIFIED
Authority: State Waiver
BY: *al* DATE: 3/3/2000

SOVIET MEMBERSHIP IN THE MULTIFIBER ARRANGEMENT

Issue

The Soviet Union is considering joining the Multifiber Arrangement (MFA) and has inquired informally about the U.S. attitude toward such a move. In addition, the Soviets have approached the EC and the GATT Secretariat in Geneva informally and have indicated that they plan to consult with a number of other MFA participants as well, although we are not aware of any other contacts they have made on this issue. The U.S. needs to develop a policy to respond to the Soviet approaches.

U.S. Position

There are no benefits to the U.S. in textile terms to Soviet membership in the MFA and the issue should be considered along with the broader issue of GATT accession for the Soviet Union. Although there are MFA members which are not parties to the GATT, many countries view MFA membership as one of the preliminary steps to GATT membership. The case of China, which has been a member of the MFA since 1984 and is now beginning the process of GATT accession, is a good example. In the case of the Soviet Union, however, we should not support MFA membership unless we also are willing to agree to GATT membership, which we are not prepared to do. U.S. policy on Soviet participation in the GATT and the New Round is contained in TPSC Document 86-97 of August 29, 1986.

Background

Earlier this year, the U.S. began receiving imports of very low-priced cotton sheeting and printcloth from the Soviet Union. Imports from the Soviet Union during the first four months of 1987 were over four million square yards and we received information that the Soviet Union intended to export quantities well above this level. Prior to this, the Soviet Union had not exported cotton fabrics to the U.S. since 1977. There has been considerable Congressional concern about textile imports from the Soviet Union, especially from supporters of the textile bill.

The U.S. has requested consultations with the Soviet Union and has established a unilateral quota of 4.3 million square yards on cotton sheeting under Section 204 of the Agricultural Act of 1956, as amended, on cotton sheeting. This action followed an unsuccessful round of consultations with the Soviets in Washington in early July to discuss the problem of cotton sheeting, as well as our concerns about rising Soviet textile exports to the U.S. in general. During the July consultations the Soviet delegation

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informed us that the U.S.S.R. felt that unilateral action on the part of the U.S. was unjustified and that the Soviet Union expected to be treated like an MFA member. Since the formal request for consultations was made on July 22, we had an additional round of consultations in late August but no agreement was reached. We are scheduled to meet again in mid-October to resume consultations.

During the July consultations the Soviet delegation also informed the U.S. delegation that the Soviet Union was seriously considering MFA membership. The Soviet delegation asked what the U.S. attitude would be toward such a move. Shortly thereafter, USTR Geneva also was approached by the Soviets with the same request and we understand that the Soviets have approached the GATT Secretariat and the EC as well. We are not aware of any other approaches by the Soviets; nor have they made a formal application for MFA membership. While we believe the EC would be opposed to MFA membership for the Soviet Union, the Europeans have been non-committal thus far and appear to be waiting for the U.S. to take the lead. We may learn more in early October when U.S., European and Canadian textile negotiators meet for a discussion on pending textile issues.

MFA membership is automatic for all contracting parties to the GATT. Non-GATT members may accede with the approval of MFA members, following a procedure established in 1974 (attached). The country wishing to join holds formal and/or informal discussions with key MFA members to find out what their reaction would be to an application for membership and what the terms of accession would be. If the potential member receives a positive response from those key MFA members, the matter may be referred to Textiles Committee for approval of formal accession. In the absence of a positive response from key MFA members, the matter still may be referred to the Textiles Committee for a decision, although in practice either the US or the EC could block membership.

The Soviet drive for MFA membership probably is motivated by a desire for greater access to world markets for Soviet textile products, and a desire to increase export earnings. Soviet membership in the MFA clearly would affect our ability to restrain U.S. imports of Soviet textile products. We would be forced to apply MFA criteria to prove the existence of market disruption, instead of relying on the broader authority of Section 204, and could be called upon to defend our actions before the Textiles Surveillance Body. Given the large installed capacity for textile production in the Soviet Union and what the Soviets have told us about their plans to increase textile exports to the United States, it is in our interest to be able to restrain imports as they are beginning to increase. Under 204 we would have the ability to take action when imports threaten to disrupt our market, instead of having to prove that such disruption has occurred already. In addition, the possibility exists that the Soviet Union would attempt to use its MFA membership as either a forum from which to criticize the U.S. or as a stepping stone to

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GATT membership. In short, the U.S. would derive no benefits from Soviet membership in the MFA.

While other NMEs are members of the MFA, these are all countries with a history of textile trade with other MFA members. We have had a bilateral agreement with Romania, for example, for more than a decade. A vast majority of Chinese textile trade is, and always has been, with the United States and other MFA members. This is not the case with the Soviet Union, which has traditionally produced textiles either for domestic consumption or consumption within the Eastern bloc.

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WASHINGTON
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TPSC

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September 10, 1987

TO : Members of the Trade Policy Staff Committee
FROM : Donald M. ^{Dup}Phillips, Chairman
SUBJECT: Uruguay Round Negotiating Group on Services

Attached is TPSC Draft Document 87-142 containing instructions for the September 15 meeting of the Uruguay Round Negotiating Group on Services. The paper has been reviewed and approved by the TPSC Subcommittee on Services.

Please phone your clearance to Carolyn Frank (395-7210) by 3:00 p.m., Friday, September 11. Substantive questions or comments should be phoned to Robin White (647-2695).

Attachment

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TRADE POLICY STAFF COMMITTEE

DRAFT Document 87-142

SUBJECT:

Uruguay Round Negotiating Group on Services

SUBMITTED BY:

Department of State

DATE: September 10, 1987

~~LIMITED OFFICIAL USE~~

msn
8/21/88

Group on Negotiations on Services

Issue

The Group on Negotiations on Services (GNS) will hold its fourth meeting September 15-18. The U.S. delegation must be prepared to address the standard agenda: (1) Definitional and statistical issues; (2) Broad conceptual rules covering trade in services; (3) Coverage of a multinational framework in services; (4) Existing international rules and disciplines covering services; and (5) Barriers to trade in services.

Recommendations

The U.S. Delegation should be guided by the instructions provided below:

General

At the June 29-July 2 meeting of the GNS, substantive discussions on transparency and non-discrimination took place based on submissions by Canada and Australia. Japan will submit a paper on national treatment at the September meeting. A number of countries plan to have papers ready for November.

At the November meeting, the US plans to put forward detailed proposals on a framework agreement. At the June meeting, the US delegate described briefly the approach we were considering: a two-tiered agreement, with countries subscribing to a universal framework on principles, and sectoral agreements to be subscribed to individually, and perhaps gradually. The September meeting will provide opportunities for the US to again present this approach, laying ground for the detailed presentation in November. The US aims to complete work on a framework agreement for trade in services by the summer of 1988.

The present five item agenda could prove confining as the negotiations move into the second year. US delegation should explore the agenda for 1988 in informal discussions with the "Friends" and interested LDC's. These preparatory meetings on the margins will help lay the groundwork for substantive discussions in November and should address the need to provide scope for debate in 1988 without reference to the five agenda items.

Observers

The question of observers will be first on the agenda. This issue was settled in July, with agreement that IBRD, IMF, UNCTAD and the UN Secretariat would have observer status at the GNS. No discussion is expected beyond formal ratification of the decision.

Definitional and Statistical Issues

At the last meeting, international organizations described their statistics on services. Their statements confirmed the general understanding that services statistics were insufficient both in form and content. Despite efforts of several LDC's to formalize an UNCTAD role in statistical collection, the proposal that remains on the table does not specify UNCTAD, but calls for a working group within the GNS to consider statistical questions. The US delegation will have to address this proposal for a working group on statistics to operate concurrent with the GNS.

Various delegations at the June meeting suggested that this group could invite participation of international organizations and regional organizations; call on the GATT Secretariat to maintain liaison with other organizations doing statistical studies, examining short term work to identify what elements could facilitate GNS negotiations; and offer technical assistance to LDC's.

The US delegate should discourage extensive discussions on statistics. The GATT Secretariat may have recommendations on a working group that would meet the desires of the LDC's without diverting resources from the negotiations. Should a consensus develop that such a working group be established, the US delegation should not oppose, but should ensure that the group's mandate is carefully defined, e.g. to be a liaison with other organizations but not a statistical collection agency.

The US delegate should note that presentations by international organizations in June confirmed the paucity of statistics on services; that statistical underpinnings, while very important, are not essential for negotiations on services, since the GNS will not be pursuing a traditional request/offer- balance of concessions negotiation; and that individual governments must give priority to development of statistics on services on a national basis, since international organizations must work with the raw material presented by governments.

On definitions, the US delegations should continue to stress the importance of a broad approach which would lead to an agreement covering cross border trade and commercial presence through investment.

Broad Concepts

The Japanese paper on national treatment may generate substantive discussion. The US delegate should stress the significance of the concept of national treatment, which is a benchmark in determining the degree of fairness and openness in markets for services. In many service sectors, the concept of national treatment is an

important and accepted part of regulatory activity. However it is important to note that trade restrictions may remain even when national treatment is applied, for example, national treatment can undermine the ability of new entrants -- often foreigners -- to provide services. This concept will have to be explored very carefully as GNS discussions proceed.

The group may comment further on the Canadian paper on transparency and the Australian paper on non-discrimination, both of which sparked useful and substantive discussion at the June meeting. Countries generally agreed that both concepts were important to trade in services, but there was significant disagreement about the scope and implementation of the concepts. The LDC's, particularly Brazil and India, attempted to center discussions on development, and the non-discrimination paper triggered a number of complaints about the concept of conditional MFN.

On transparency, a number of countries felt that the Canadian approach went well beyond requirements on goods in calling for notification of laws and regulations, prior publication, and opportunity for foreign comment. Should the US delegate wish to intervene, he could note that transparency is especially important in the services area. Though proposed regulations might go beyond procedures in goods, the services sector should be subject to strict transparency rules because most service sectors are very heavily regulated. A comment period is necessary even for essentially domestic regulations because regulators may be unaware of the consequences of their actions on international trade.

The Australian paper on non-discrimination generated a number of tentative comments, with delegations reserving the right to continue to revisit this important concept. The LDC's argued very strongly that any agreement on services must be unconditional. Should the US delegate wish to intervene, he could note that the importance of universal adherence to a framework agreement on principles. However the reality of the world trading system in services suggests the possibility of a two-tiered approach, with subsequent sectoral understandings that participants might subscribe to on a gradual or selective basis.

Coverage

The US del could describe again the approach the US plans to take in November on a universal agreement on a framework of principles with separate understandings negotiated on individual sectors. At this stage, the US delegate should not offer examples of sectoral coverage beyond the four general categories mentioned at the April meeting (communications, business services, financial services, transportation.) In informal meetings, other delegations may press for information about sectoral coverage in the US- Canadian FTA, but possible inclusions/ exclusions should not be offered.

Existing International Disciplines

The GATT Secretariat prepared a background note describing the main features, coverage and objectives of existing international disciplines and arrangements relevant to trade in services. The note is factual, and makes no attempt to relate the activities of these organizations (e.g. ICAO, IMO, ITU, etc.) to negotiations on trade in services.

The US delegate should recognize the useful contribution the Secretariat document makes to providing background on international disciplines on trade in services, and state that the role of the existing international organizations is very important in ensuring the smooth flow of services which are essential both in themselves and in support of the world trading system in goods. These organizations may also play a useful role in collection of statistics on services. Their work is in many cases very technical, and it would not be appropriate for the GATT to become involved in the technical issues covered by these disciplines, nor should the GATT attempt to supplant these disciplines.

Nevertheless, the GATT and the IO's should play complementary roles in ensuring that services be traded free of restrictive measures. It is in the interests of all countries participating in these organizations and participating in the GNS to guarantee markets for services be open to the maximum extent. Should other organizations maintain measures that adversely affect trade in services, these measures may be subordinated to the disciplines developed by the GNS. In some instances, trade restrictive effects could be an unintended side effect of measures taken for legitimate technical purposes. It would be appropriate for GATT members to raise such questions, and seek solutions that would provide the desired technical protection without trade restriction. As individual member countries provide inventories of barriers to trade, it might be useful to catalogue those problems which relate to existing international disciplines, and consider how the GNS could proceed with reconciliation of two legitimate aims.

Because of uncertainty over coverage and sensitivity of certain sectors, it would not be appropriate for the US delegation to comment on the activities of specific organizations.

Barriers

The US delegation should continue to urge other delegations to submit inventories of barriers. Concrete examples will be useful in discussion of the principles needed in a framework on services. The US delegate could note that the US found compilation of an inventory a useful exercise two years ago and is in the process of updating the inventory.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
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WASHINGTON
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1082

September 11, 1987

TO : Members of the Trade Policy Staff Committee
FROM : Donald M. Phillips, ^{Chairman}
SUBJECT: Task Force on Defense Trade Data

There is established a Task Force on Defense Trade Data, chaired by Steven Falken (395-4946), to review recommendations from the Defense Policy Advisory Committee on Trade (DPACT) to improve the collection and reporting of U.S. data on defense-related trade.

The report of the DPACT Subcommittee on the Defense Industrial base entitled "Data on U.S. Defense Trade: A Review" containing options for improving the data in this area is attached. In order to examine the issues raised by this report with the intent of developing a U.S. policy on this matter and substantively responding to the full DPACT membership at their November meeting, it will be necessary to examine both the trade policy issues and the data collection and statistical issues, including those with budgetary ramifications. It would, therefore, be useful for those agencies with data responsibilities in the defense area (including data on international trade, export licenses, foreign military sales and arms transfers) also to have a representative from the appropriate statistical area of the agency who would be able to discuss relevant technical issues.

Agencies wishing to participate in the work of this Task Force should notify Carolyn Frank (395-7210) by close-of-business, Thursday, September 17, of the name(s) of your agency's representative(s). The first meeting of the Task Force is scheduled for 2:00 p.m., Friday, September 18, Room 403, USTR.

Attachment

DATA ON U.S. DEFENSE TRADE: A REVIEW

Summary

The U.S. government currently produces several compilations of data on trade in defense related goods. These studies all are based on several different data bases, which are not mutually consistent, nor inclusive of all trade related to defense. There are thus some important gaps in our understanding of the importance of defense trade to the U.S. economy, and in what changes are occurring in volume and composition. There are several options for considerably improving the data base which in turn would support better analyses. The DPACT may wish to recommend one or more of these options to the USTR and DoD for their consideration.

Defense Trade Data - Its Importance

There are several reasons why having good data on U.S. defense-related trade is desirable. Economically, it is useful to know how important such trade is to our economy. The U.S. and other countries normally treat defense related procurement and trade policies in a different fashion than for other commodities. In the case of the U.S., for example, "Buy America" provisions are different than those for other government procurement. The Eximbank and the Foreign Sales Corporation (FSC) tax program discriminate against defense equipment relative to all other exports. Several Memorandum of Understandings (MOUs) between the U.S. and other friendly countries suggest that there should be some balance in defense related trade, and statistics are reviewed on a bilateral basis. If we are to discourage discriminatory treatment against defense exports, and understand their importance to the economy, better data is needed.

Second, trade in defense products has both positive and negative political connotations, depending on countries and circumstances involved. Again, at least within the government, accurate data on bilateral flows, and comparisons of U.S. defense trade with that of other countries, can be important.

Current Government Reports on Defense Trade

Currently four compilations of data on trade in defense goods are prepared in various parts of the government:

- Foreign Military Construction, Sales and Military Assistance Facts (Annex A): DoD's Security Assistance Agency (DSAA) prepares an annual report which includes information on FMS sales agreements and deliveries on a country by country basis, and on commercial

export licenses granted. It does not contain information on actual commercial deliveries, or on commercial contracts on items not subject to Munitions List control. It also has no information on U.S. imports of defense equipment. Information on FMS sales and deliveries is from data generated within DoD; information on commercial licenses comes from the Office of Munitions Control at State.

--World Military Expenditures and Arms Transfers (Annex B): The Arms Control and Disarmament Agency (ACDA) also produces an annual report which includes data on defense related imports and exports for most countries, and tables showing country-by-country destinations of the arms exports of the major supplying countries. Data on U.S. exports comes from the same sources as the DSAA report, and hence suffer the same shortcomings. Information on other countries is compiled from other U.S. government sources. There is little commodity specific information, except on major end use weapons systems.

--Trends in Conventional Arms Transfers to the Third World by Major Supplier (Annex C): This report has been produced annually by Richard Grimmett of the Congressional Research Service for several years. It focuses on sales agreements and actual transfers of defense equipment from major supplier countries to Third World countries. The data for U.S. shipments comes from the same sources as the DSAA report, data on other supplying countries from the same sources ACDA uses.

--Defense Trade Balance Summaries (Annex D): The Office of International Acquisitions in DoD annually compiles bilateral trade data between the U.S. and its NATO suppliers, plus with selected other countries. This information is to monitor performance under various MOUs. The report uses the same sources as the other government studies with respect to U.S. exports, but taps into DODs procurement records to obtain data on imports.

Current Data Availability

There are several agencies which generate or maintain some raw data on U.S. defense related trade. For exports, these include:

DSAA - All foreign sales which go through FMS channels are recorded by DSAA. That agency thus has both sales (e.g. contract) and delivery information on military hardware which must receive Munitions Control licenses, commercial items which come under commodity control

licensing procedures, and a vast array of goods which require no export license, so long as the Pentagon was the sales agent for the foreign buyer. Information is available by country and by commodity, although the commodity codes are not the same as the Commerce SITC codes.

Office of Munitions Controls - OMC has information on all licenses it issues for goods (but not services or re-exports) on the Munitions List. When such goods are shipped, the Customs Service sends a copy of the license back to OMC, so that there is a reasonably good record of what is actually shipped as well. As noted, it is from OMC that information can be obtained on commercial sales of Munitions List goods.

Office for Export Administration - This office in the Commerce Department maintains electronic data on license applications and licenses granted for items on the Commodity Control List. When such goods are actually shipped, the shipper (not Customs) has the responsibility of sending a signed copy of the license back to Commerce, showing the amount and value of the item actually shipped. Commerce has just begun to electronically record that data, and is working its way backwards through older returned licenses. Thus in the future there will be reasonably good data on actual exports of the goods it licenses.

Bureau of the Census - Census receives raw information from the Customs Service (basically it receives the Shipper's Export Declaration, Form 7525-V from the Customs Service - see Annex E). Census codes information on commodity type (Schedule B Number), value, quantity, country of destination, and port of departure. Although the form contains information on the ultimate consignee, which at least for end use items might provide some information on whether the end user were defense related or not, this information is not machine recorded. According to Census, current policy is to code most defense end use items in miscellaneous categories scattered throughout the Schedule B classification system. This is intended to obscure specific shipments to individual countries. It also makes it difficult to aggregate defense export data. Furthermore, components which may be used in military equipment will simply show up in categories with their civilian counterparts.

To summarize, there is good raw data on contracts and shipments of all military end use items which are on the Munitions Control List, although their categorization will not track with normal Schedule B codes. There is similar good data on all other goods destined for defense use overseas which are sold through the Defense Department (e.g., FMS), again, with the coding problem. Data is inadequate or unavailable for goods sold through commercial channels which are directly purchased by ministries of defense (MODs) or

services, or by commercial companies for later resale to the military or incorporation into end use items which will be used by the military.

There is evidently good data available and coded on imports into the U.S. for defense use. This information is contained in form DD 350, which DoD purchasers of all goods and services must fill out at the time a contract is awarded. A separate contractual reporting requirement for all prime contractors requires that they provide data on foreign subcontracts of over \$10,000 (although this threshold is being raised to \$25,000). There are two principle problems with the data. It is organized according to the Federal Supply Classes procurement system, which is a different system than export classifications. Furthermore, it is geared to contracts signed, not to deliveries. However, it is inclusive, and picks up at least major components of defense equipment, as well as all items used by the Defense Department, not just weapons.

Options to Improve Data

There are several steps which could be taken to improve the data base on defense related trade. On the export side these include:

--Add Question to 7525-V: A question could be added to the Shipper's Export Declaration which would ask whether, to the best knowledge of the person filling out the form, the good would ultimately be sold to an MOD or uniformed service, either directly as an end use item, or indirectly as a component of such an end use item. The respondent would simply check a box "yes" or "no." Such an action would have to be taken by the Commerce Department as the form is the joint responsibility of the Bureau of the Census and the Assistant Secretary for Export Administration. The coders in the Bureau of the Census would simply be required to add a designator to the Schedule B number when entering the product code. The basic difficulty with this approach is assuring that the respondent knew enough about the product to be able to answer the question with respect to ultimate end user, as such respondents are often intermediaries, and not the actual producers of the product. Steps might have to be taken to assure that invoices contained sufficient data to enable the respondents to accurately answer the question.

--Modify CCL Process: The Commodity Control process could be altered to provide for some designator as part of the export license number which would indicate the end user would be an MOD or uniformed services. Presumably the Commerce officer issuing the license would generally know the end use for CCL items. If licenses issued for military use were given some designator, one of two processes could then be instigated:

--Census Coding: Export license numbers are entered onto the Shipper's Export Declaration. Census code clerks could be required to add some designator to the commodity code for all licenses issued by OMC and all licenses issued by Commerce which had the designator for defense equipment. This approach would have the advantage of recording all exports of goods which were sensitive from a security point of view which were related to defense use. The chief disadvantage is that we still would not have any information on goods which were exported for use by defense establishments which do not require a CCL or OMC export license (ranging from medical supplies to bulldozers).

--Code Defense Use at Commerce: Alternatively, the new data system in Commerce could include specific information as to whether the product would ultimately be used for defense purposes. Commerce's information could then be collated with OMC data. This system has essentially the same strengths and weaknesses of the above sub-option.

On the import side, DoD's DD-350 probably is the best source of data. A concordance needs to be developed so as to convert the Federal Supply Classes codes into normal trade code categories. Once a concordance has been established, actual conversion of real data can be done electronically. Again, the principal problem with this data is that it is geared to contracts signed, rather than actual date of import. For purposes of general country and product analysis, however, this is probably not an important problem.

All of the possible changes suggested above rely on current mechanisms and forms, with some marginal added effort on the part of one or more agencies. There would, of course, be some additional costs associated with any change. The Census Bureau estimates that requiring its coders to add a designator for defense related products would add something

in the order of \$250,000 to Census expenses. Census reviews 500,000 Shippers Export Declarations a month, and either reviewing a new question or checking the export license number would add to the time spent on each document. Similarly, coding information taken from CCL licenses at Commerce would presumably add some costs to Customs and Commerce budgets.

The next step would probably be for an interagency task force to review this paper, determine whatever increased costs and effort would be entailed by these or other options the task force might suggest, and produce its own suggestions for review by the DPACT and by appropriate government principals.

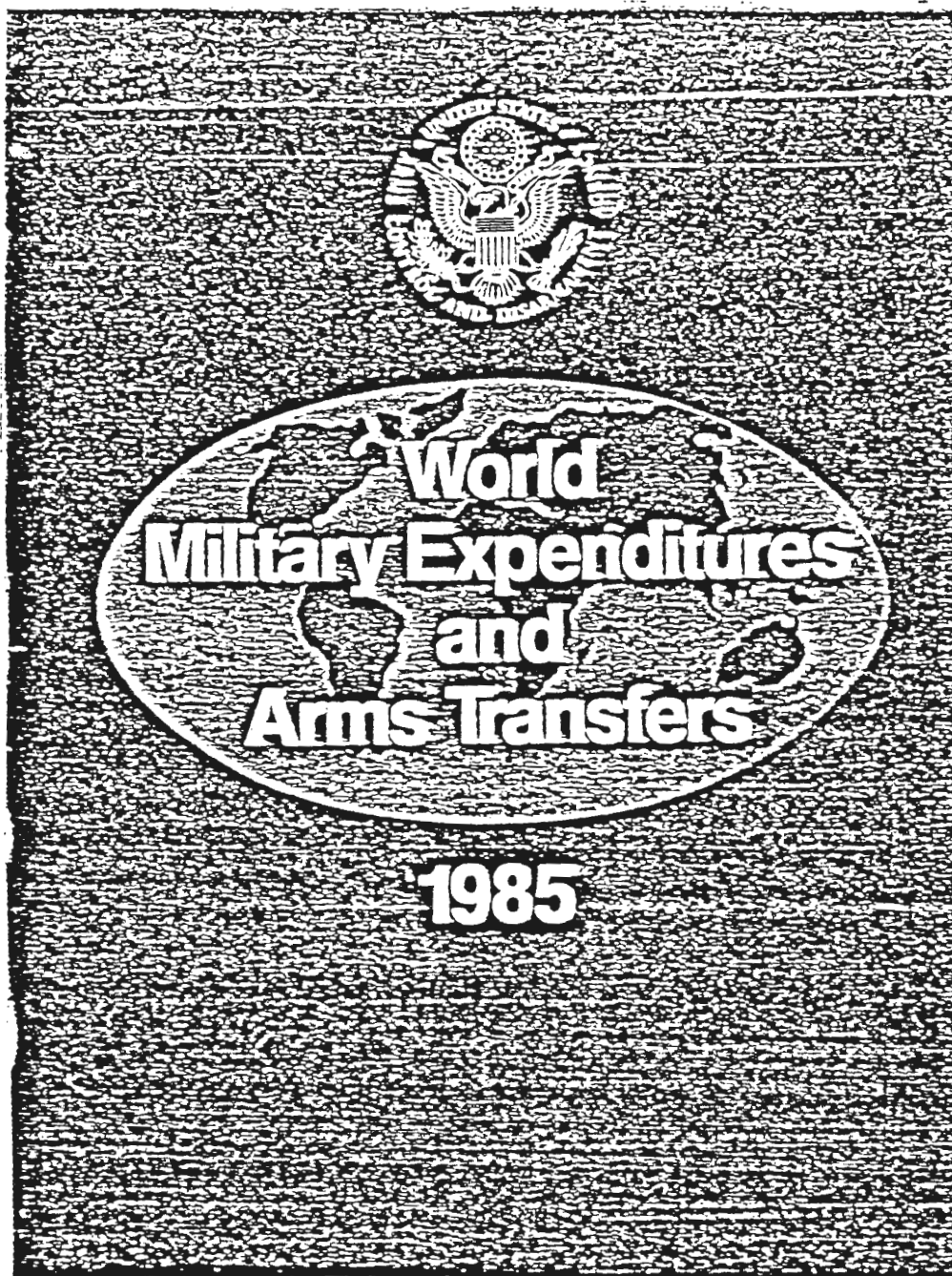


AS OF SEPTEMBER 30, 1985

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*The data in this publication regarding Foreign Military Sales Agreements and Deliveries portrays only sales and deliveries of defense articles and defense services. In accordance with Section 29 of the Arms Export Control Act, Foreign Military Construction Sales Agreements and Deliveries have been extracted and are shown separately in tables on pages 16 and 18 of this publication.



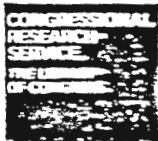
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Report No. 86-99 F

TRENDS IN CONVENTIONAL ARMS TRANSFERS TO THE THIRD WORLD
BY MAJOR SUPPLIER, 1978-1985

by
Richard F. Grimmett
Specialist in National Defense
Foreign Affairs and National Defense Division



May 9, 1986

UA 15 For.

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FY 85 MOU DEFENSE TRADE BALANCE SUMMARY
(Thousands \$ as of September 30, 1985)

COUNTRY	NATO PURCHASES FROM U.S.			DOD PURCHASES			DOD COM-PUTED RATIO	NEGOTIA-TED RATIO*****
	FMS	COMMER-CIAL EXPORTS*	TOTAL	DD 350**	SUB *** CONTRACT	TOTAL		
BELGIUM	8,735	28,908	37,643	42,932	113,240	156,172	.24 : 1	
DENMARK	201,366	13,588	214,954	9,031	7,489	16,520	13.01 : 1	
FRANCE	95,783	30,329	126,112	76,377	6,276	82,653	1.53 : 1	1.5 : 1
FEDERAL REPUBLIC GERMANY	1,447,396	509,955	1,957,351	267,916	77,736	345,652	5.66 : 1	5.55 : 1
ITALY	175,271	62,180	237,451	164,482	19,186	183,668	1.29 : 1	1.94 : 1
LUXEMBOURG	19	1,241	1,260	2,130	—	2,130	.59 : 1	
NETHERLANDS	120,881	23,823	144,704	10,819	90,294	101,113	1.43 : 1	1.8 : 1
NORWAY	35,770	15,514	51,284	15,826	24,990	40,816	1.26 : 1	
PORTUGAL *****	16,665	2,923	19,588	15,730	—	15,730	1.25 : 1	
SPAIN*****	428,863	16,724	445,587	21,690	18,761	40,451	11.02 : 1	
TURKEY	456,243	11,448	467,691	1,881	—	1,881	248.64 : 1	
UNITED KINGDOM	736,459	127,128	863,587	491,118	105,644	596,762	1.45 : 1	1.90 : 1
TOTAL EUROPE	3,723,451	843,761	4,567,212	1,119,932	463,616	1,583,548	2.88 : 1	
CANADA *****	397,631	746,072	1,143,703	649,367	581,328	1,230,695	.93 : 1	
TOTAL EUROPE PLUS CANADA	4,121,082	1,589,833	5,710,915	1,769,299	1,044,944	2,814,243	2.03 : 1	

* COMMERCIAL EXPORTS. Estimated totals of commercial exports licensed under the Arms Export Control Act. These totals represent the dollar value of estimated deliveries made against direct foreign government purchases from U.S. manufacturers of munitions-controlled items. These totals are compiled by the State Department's Office of Munitions Control from manufacturers' export licenses, and were obtained via DSAA.

** PRIME CONTRACT AWARDS. DD 350 figures do not include subsistence, petroleum, construction and support services contracts.

*** SUBCONTRACT AWARDS. Subcontract reporting system not fully operational in FY 85.

**** NEGOTIATED RATIO. This ratio is the result of comparing the DOD data with NATO allies' generated data and arriving at an agreed to ratio to reflect approximate defense trade with each country.

***** PORTUGAL. By mutual agreement, the DD 350 figures do include construction contracts.

***** SPAIN. The DD 350 figures do not reflect a de-obligation of funds valued at \$27,456,000. The de-obligation is attributable to the close out of four prior year maintenance and repair contracts awarded by Ogden ALC.

***** CANADA. Data provided by the Government of Canada: the figures were adjusted from a calendar to a fiscal year basis, and converted into U.S. dollars using an average exchange rate of 1.3507 (C\$/U.S.\$) for the period of October 1984 through September 1985.

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OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

TFC

September 11, 1987

TO : Members of the Trade Policy Staff Committee
FROM : Donald M. Phillips, ^{DM}Chairman
SUBJECT: Harmonized System

Attached is TPSC Draft Document 87-144, Harmonized System:
Request for Section 332 Investigation for Bridge Data.
The paper has been reviewed and approved by the Harmonized
System Task Force and the TPSC Subcommittee on Information
Systems.

Please phone your clearance to Carolyn Frank (395-7210)
by noon, Wednesday, September 16. Substantive questions
or comments should be phoned to Barbara Norton (395-5097).

Attachment

TRADE POLICY STAFF COMMITTEE

DRAFT Document 87-144

SUBJECT:

Harmonized System -- Request
for Section 332 Investigation for Bridge Data

SUBMITTED BY:

Office of the United States
Trade Representative

DATE: September 11, 1987

TPSC PAPER -- HARMONIZED SYSTEM

Issue

The expected transition on January 1, 1988 from the current Tariff Schedules of the United States to the Harmonized System will result in a significant change in the way import and export data are reported. In order to facilitate time series analyses of trade flows, it is necessary to provide a means for data users to bridge the existing and new classification systems.

Recommendation

The TPSC recommends that the attached letter be sent to the U.S. International Trade Commission requesting an investigation pursuant to section 332(g) of the Tariff Act of 1930 to provide (1) a cross reference between the current tariff and the Harmonized System tariff and (2) estimated global and bilateral statistical compilations in the Harmonized System nomenclature for the years 1983-87 for both imports and exports.

Private Sector Advice

Trade data users in the private sector have expressed concern that the changeover to the Harmonized System will disrupt the way in which statistical data are reported and make time series analyses difficult. The proposed study would directly address this concern by providing estimated trade data in HS format for the years 1983-1987.

Background

For several years now, the Administration has been involved in a project to convert the current Tariff Schedules of the United States Annotated (TSUSA) into the nomenclature format of the Harmonized System. The Census Bureau has been involved in a similar project to convert the export schedule into the Harmonized System. The Administration recently sent proposed legislation to the Congress which would enable implementation of the Harmonized System. All work within the Administration on the Harmonized System project has been directed toward implementation of the new system on January 1, 1988.

Because the Harmonized System is structurally very different from the current TSUSA, the changeover to the new system will inevitably cause a break in the way in which import and export data are officially reported and published. Data users in both the government and the private sector have expressed concern that this break will cause difficulties in the analyses of trade data flows for past, current and future years, especially at disaggregated product line levels. To ameliorate this problem, the Harmonized System Task Force and the Information Systems Subcommittee believe it would be useful to provide bridge data between the existing and new classification systems.

The statistical compilation for imports should be based on the estimated customs value of U.S. imports for consumption at the legal tariff level (8-digit HTS subheadings) and provide both global and bilateral statistics for the 1983-1987 period. The parallel compilation for exports should be based on 10-digit Schedule B subheadings. These compilations could be derived from trade allocations (with appropriate updating) used for the TSUSA/HTS and HS Schedule B conversions.

It does not appear that this investigation will involve information collection from the public and, therefore, there is no need for Paperwork Act review.

Attachment

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

September 14, 1987

The Honorable Susan Liebeler
Chairman
U.S. International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Dear Madam Chairman:

The Administration recently sent proposed legislation to the Congress which would enable implementation of the Harmonized Commodity Description and Coding System (the Harmonized System). As you know the internationally agreed date for the major trading countries, including the United States, to implement the system in January 1, 1988.

As our work toward this goal has progressed over the past few years, users of statistics on U.S. trade, both in government and the private sector, have expressed concern over the inevitable break which will occur in the continuity of the statistical categories in which U.S. imports and exports are officially reported and published, and the difficulties which this break will create for the analyses of U.S. trade flows for past, current and future years, especially at disaggregated product line levels. To ameliorate this problem, it is desirable to provide a means for data users to bridge the existing and new classification systems.

Accordingly, at the direction of the President, pursuant to section 332(g) of the Tariff Act of 1930, I request the Commission to provide the following reports to the U.S. Trade Representative in printed form, microfiche and on magnetic media:

- (1) a cross-reference between the current Tariff Schedules of the United States Annotated and the proposed Harmonized Tariff Schedule of the United States;
- (2) a statistical compilation reflecting the estimated customs value of U.S. imports for consumption for the years 1983-1987, total and by supplying country, in terms of the 8-digit tariff subheadings of the proposed Harmonized Tariff Schedule of the United States;

The Honorable Susan Liebeler
September 14, 1987
Page Two

- (3) a statistical compilation reflecting the estimated value of U.S. exports for the years 1983-1987, total and by country of destination, in terms of the 10-digit subheadings of the proposed Harmonized System-based Schedule B.

The Commission should also arrange for these reports to be available to the public in printed form and microfiche through the National Technical Information Service, and on magnetic media through the Bureau of the Census.

The cross-reference should be submitted no later than January 31, 1988, and the statistical compilations should be submitted no later than May 31, 1988. The reports should be made available to the public simultaneously with their submission to the United States Trade Representative.

The Commission in undertaking this task should avail itself of the expertise and services of the U.S. Customs Service and the Bureau of the Census and other agencies of the Executive Branch which may be able to assist in the project. I am hereby requesting the agencies to cooperate fully with the Commission in expediting completion of its work.

The provision of this data by the Commission will constitute an important and greatly appreciated service.

Sincerely,

Clayton Yeutter

CY:mam

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

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September 11, 1987

TO : Members of the Trade Policy Staff Committee

FROM : Donald M. Phillips, ^{DM}Chairman

SUBJECT: Uruguay Round Negotiating Group
on MTN Agreements and Arrangements

Attached is TPSC Draft Document 87-143 containing instructions for the September 17-18 meeting of the Uruguay Round Negotiating Group on MTN Agreements and Arrangements. The paper has been reviewed and approved by the TPSC Task Force on MTN Agreements and Arrangements.

Please phone your clearance to Carolyn Frank (395-7210) by close-of-business, Monday, September 14. Substantive questions or comments should be phoned to Richard Meier (395-6843) or Wendy Silberman (Commerce, 377-3681).

Attachment

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TRADE POLICY STAFF COMMITTEE

DRAFT Document 87-143

SUBJECT:

Uruguay Round Negotiating Group
on MTN Agreements and Arrangements

SUBMITTED BY:

Task Force on MTN Agreements
and Arrangements

DATE: September 11, 1987

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4/7/98

The U.S. delegation needs instructions for the September 17-18 meeting of the Negotiating Group on MTN Agreements and Arrangements.

RECOMMENDATION

The U.S. delegation should maintain positions taken at the May 21 meeting (outlined in TPSC document 87-77) and should:

Regarding Substantive Proposals:

- o Provide general comments on the Korean proposal on the Antidumping Code and indicate the possibility that we may table a paper on this Code during the fall, drawing on talking points provided in background section.
- o Comment on the Japanese proposal on the Standards Code and elaborate on our proposal tabled last March.
- o State our preference that the Colombian proposal on subsidies be taken up in the Subsidies Negotiating Group.
- o Elaborate on our proposal to make the Import Licensing Code more operational.

Regarding Negotiating Modalities:

- o Ensure that negotiating modalities is placed on the agenda under "other business."
- o Reiterate our position that only Parties to an Agreement have the right to amend the text of that Agreement. The Negotiating Group, however, has the right to discuss any of the MTN Agreements and Arrangements tabled by participants and make recommendations, as appropriate.
- o Support, and propose if necessary an arrangement to keep the Negotiating Group informed of developments in the Code Committees and vice versa as elaborated in background section.
- o Support, and if necessary, offer a proposal which would allow countries to table additional MTN Agreements and Arrangements for discussion during the negotiating phase.
- o Suggest, as appropriate, that the agenda of each meeting of this group held during the negotiating phase cover only one or two Codes to facilitate in-depth discussion and the attendance of Code experts.
- o If appropriate, ask the Chairman (or Secretariat) to prepare a draft Committee decision on negotiating modalities to be circulated before the group's next meeting. If it would be more in our interest for the U.S. to table such a proposal, the U.S. delegation should state its intent to do so for consideration at the November 4-5 meeting.
- o Agree to holding two additional meetings this fall (currently scheduled for November 4-5 and December 7-8).

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PRIVATE SECTOR VIEWS

An Issue Briefing for private sector advisors was held on April 6. Advisors were informed of developments at the first meeting of the Negotiating Group and issues that were likely to be raised during the remainder of the year. No specific advice was offered but concerns were raised on participation, the current operation of the Codes, the relationship between the MTN and the Subsidies Negotiating Groups, and the need to assess the impact of the work of this group on domestic employment. Advisors were asked to discuss a series of issues with their Committees during the coming months and offer specific advice. Limited advice has subsequently been offered, much of which has centered around implementation problems with specific Codes.

BACKGROUND

The MTN Agreements and Arrangements Negotiating Group will hold an informal meeting on September 16 to discuss the relationship of the Code Committees to Negotiating Group, as well as organization of the group's work. Formal meetings will follow on September 17-18. The agenda for the formal meetings is (1) continuation of consideration of suggestions by participants indicating the issues that they wish to raise on individual Codes; and (2) other business. The U.S. delegation should ensure that negotiating modalities is included as an agenda item under "other business." If the Chairman does not propose its inclusion, the U.S. delegation should make this request.

Substantive Proposals

A. Korean Proposal on the Antidumping Code

At the May meeting of this Negotiating Group the Korean delegation tabled a proposal with the intent of "clarifying" certain definitional and procedural aspects of the Antidumping Code. They apparently believe that the U.S., and to a lesser extent, other signatories have used the occasional ambiguity of the Code to adopt antidumping practices and provisions which are prejudicial to the interests of exporting countries.

At the September meeting the U.S. delegation should indicate that it is continuing to review the Korean proposal with interest, but wishes to defer offering any specific comments until we have tabled our own proposal on issues we would like to see discussed within the context of the Antidumping Code. Talking points are provided below:

- o We appreciate Korea's interest in improving the functioning of antidumping practices and provisions.
- o As we are continuing to review the specifics of the Korean proposal, we are not yet prepared to comment in detail.

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- o We plan to table in the near future our own proposal on issues we would like to raise within the context of the Antidumping Code. We look forward to discussing issues relating to antidumping in greater depth at that time.

B. Japanese Proposal on the Standards Code

The TPSC Subcommittee on Standards is still in the process of reviewing the Japanese proposal on standards in detail and in elaborating on the U.S. proposal to improve the Standards Code. At the September meeting the U.S. delegation should make a short statement on the Japanese proposal drawing on the talking points provided below:

- o The United States welcomes the proposal offered by Japan to focus the work of the Group on standards issues, an area which we have already identified as of major importance to the work of this Negotiating Group.
- o We particularly welcome the Japanese suggestions to improve and expand certain provisions for transparency in the Standards Code.
- o Of the four items we have suggested as areas for improvement in the Standards Code in our March submission to this Group, two are directly concerned with transparency:
 - (1) a proposal to require notification of any bilateral standards-related agreements reached through formal or informal discussions; and,
 - (2) a proposal that regional standardization bodies of which Code signatory governments are members, adopt effective provisions on transparency.
- o At this time we would like to reserve further comment on the substantive aspects of the Japanese submission; however, we look forward to reviewing any further elaboration offered by the Japanese.

C. Colombian Proposal on the Subsidies Code

Last June the Colombians submitted a proposal to the Secretariat for discussion at the September meeting. Aimed at questioning the legitimacy of the U.S. use of the injury test under the Subsidies Code, the Colombians propose that participants in the Negotiating Group should examine how CPs are interpreting and applying Article 14.5 of the Code. The U.S. delegation should note this proposal and suggest that it be considered by the Negotiating Group on Subsidies. This would avoid duplication of effort and allow the Subsidies experts to discuss the proposal in depth.

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D. U.S. Proposal on the Import Licensing Code

The U.S. tabled a proposal at the Negotiating Group's first meeting to discuss ways to make the Licensing Code more operational. The TPSC Subcommittee on Licensing is currently refining this proposal. The U.S. delegation should be prepared to elaborate on this proposal. Annex I provides background information on our views on ways to improve the Licensing Code, along with talking points.

Negotiating Modalities

The initial phase of the group's negotiating plan calls for "... agreement on the negotiating techniques and modalities for the subsequent stages." This phase will have to be completed by the end of the year so the group can proceed to the subsequent negotiating phase as outlined in the negotiating plan. It is in this phase that we plan to push for improvements in the Standards and Licensing Codes. The following sections address matters likely to arise in both the informal and formal meetings on the issue of negotiating modalities.

A. Relationship of Code Committees to Negotiating Group

The United States, with growing support from both developed and developing countries, has maintained the position that only signatories to the Codes have the right to amend the texts of the MTN Agreements and Arrangements. Certain developing countries, particularly Brazil, continue to argue that the Negotiating Group, and not the Code Committees, has the exclusive right to amend the texts of the MTN Agreements and Arrangements. Brazil also has urged that the work of the Code Committees come to a halt and shift to the Negotiating Group. The U.S. delegation should continue to try and isolate Brazil and seek agreement on our position.

B. Increased Communication between the Code Committees and the Negotiating Group

Led by Singapore, a number of developing countries are now advocating increased communication and flow of information between the Negotiating Group and Code Committees. This is a reasonable request so long as the Negotiating Group does not try to interfere in the work of the Code Committees.

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We should listen to the Chairman's and other countries' suggestions on how the coordination between the work of the Negotiating Group and the Code Committees could be improved and institutionalized. If appropriate, we should suggest that any items that countries wish to discuss in the Negotiating Group should be raised in the Negotiating Group context. These proposals should be forwarded by the Chairman to the appropriate Code Committees. The Code Committees should include items on their meeting agendas on these issues, and, as appropriate, offer their views to the Negotiating Group.

We could support a more systematic flow of information between the Code Committees and the Negotiating Group. If appropriate, we should suggest that each Code Committee at its own discretion report to the Negotiating Group on developments in their Committees which are relevant to the work of the Negotiating Group. If a consensus develops, we could agree to having the Chairman ask each Chairman of the Code Committees to report all relevant developments to him after each Code Committee meeting.

C. Organization of Future Work

The U.S. should listen to the Chairman's and other countries' ideas on how work during the negotiating phase should be conducted. We should support and suggest, if necessary, an arrangement whereby participants would be able to table additional proposals on specific Codes or related issues during the Group's negotiating phase. This would be consistent with the position we are taking in the GATT Articles Negotiating Group.

We should also support or suggest, if appropriate, an arrangement whereby, to the maximum extent possible, next year's meetings of the Negotiating Group would focus on one (or several) Code issues. This would facilitate the attendance of Code experts at the Negotiating Group's meetings.

The above points are intended to lay the groundwork for a Committee decision on modalities and negotiating techniques to satisfy the requirement in the initial phase of the group's negotiating plan, as well as set the parameters for the Group's work next year and beyond.

In this regard, it would be helpful to have a draft Committee decision or Chairman's Understanding on modalities prepared and circulated before the group's next meeting. Our preference would be for the Chairman, with assistance from the Secretariat, to table such a proposal. If there is lack of agreement on this or we believe that we would be in a better position to influence the future work of this group by tabling our own proposal, the U.S. should state its intention to table a paper on modalities for consideration at the group's next meeting, scheduled for November 4-5.

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U.S. PROPOSAL ON IMPORT LICENSING

The U.S. tabled a proposal at the Negotiating Group's first meeting which indicated that the Licensing Code should be improved and made more "operational". A formal U.S. proposal for accomplishing this task has not yet been finalized. However, the U.S. should use the opportunity of this meeting begin to expand upon our initial proposal in very general terms as a means of initiating general discussion of some of the ideas that are being explored to improve the Code.

The United States has identified a number of areas where the current Code appears deficient and where improved discipline may be possible. Several ideas which are being explored include: prohibitions on discretionary licensing, establishment of more stringent criteria for determining under what circumstances non-automatic licenses can be established or maintained, improvements in the dispute settlement procedures of the Agreement and clarification in the text of terms and definitions which have been subject to varied interpretations under the current Agreement.

Discretionary Licensing - Discretionary licensing is a continuing problem for many exporters. As a practice, it is most frequently used by developing countries which employ it ostensibly as a means to control scarce foreign exchange. However, developed countries maintain some discretionary licensing systems, as well. In fact, such systems are often employed to protect domestic industries. Discretionary licensing is particularly burdensome because it effectively operates as an absolute quota which is lifted only under certain circumstances where domestic suppliers cannot meet demand or where limited imports are considered justifiable. Discretionary licensing systems rarely provide transparency, they result in significant uncertainty in the marketplace and they are highly distortive. Discipline over these practices, or limits on their use could thus have a positive effect on the trading system as a whole.

Stricter Licensing Criteria - At present, there are no substantive guidelines in the Code for the general circumstances under which licenses can be issued, the types of products which may be licensed, review provisions on the duration of licensing actions or quantitative limits on the amount of trade that any country can have which is subject to licensing. While these criteria may not be the only kinds of limits that would be helpful in disciplining licensing practices, they represent the types of operational provisions that might help in limiting the use of licenses to very specific circumstances, and ensuring that there is adequate consideration of the continued need for licenses. The United States should consider suggesting these criteria as possible ways that discipline could be improved as a means of stimulating debate on new criteria that would be helpful.

Dispute Procedures - At present, the Licensing Code uses

the general procedures of Articles 22 and 23 for dispute resolution. These procedures were adopted as general procedures in the absence of detailed information in the Tokyo Round indicating a need for more detailed dispute provisions.

If additional discipline is added to the Code, however, greater specificity and clarity in the procedures for dispute resolution may be necessary, as disputes will likely occur more frequently. Thus, the United States should suggest that consideration be given to the merits of developing more specific procedures for dispute settlement under a new Agreement.

Clarification of Existing Code Language - The Licensing Committee has spent the last several years trying to develop an agreed approach to interpreting some of the language included in the MTN Code. This work has concentrated in defining such general terms as "as far in advance as possible", "opening and closing dates" and "shall promptly inform". Further work has been suggested related to defining the term licensing as used in Article 1:1 of the MTN Code. The lack of clarity of these terms in the Agreement clearly has led to confusion and to less than optimal application of the terms of the Agreement. Every effort should be made in renegotiating the Code to incorporate work already done to clarify these terms and to improve the general precision of the language of the Agreement.

The U.S. delegation should be mindful that it is likely that most substantive changes to the Code would best be addressed in the context of the Code Committee, where members have already undertaken "GATT-plus" discipline and are most likely to seriously consider additional discipline. As a result, the U.S. should use this meeting of the MTN Codes Negotiating Group as a general forum to elaborate slightly upon some of the ideas we are exploring for discussion purposes without appearing to be making any formal proposal at this time.

Talking Points

- The U.S. has indicated on several occasions that we believe the GATT Agreement on Import Licensing needs to be improved to add more substantive discipline to licensing practices.
- We are still exploring some of the possible ways that the Code might be improved and believe that several possible ideas bear consideration and broader discussion by interested parties. Some of the general ideas we have considered include:
 - a) Possible prohibition or limits on discretionary licensing;
 - b) Development of stricter criteria for disciplining non-automatic licenses, such as acceptable circumstances under which licenses can be employed, periodic reviews of the duration of licensing practices, and the types of products which are subject to non-automatic licensing,

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general limits on the amount of trade that³ can be covered by non-automatic licenses;

- c) Establishment of more specific dispute settlement provisions;
 - d) Improvement in the precision of language currently included in the Code, to allow standard interpretations of terms used in the Agreement.
 - e) Adoption into the Code of interpretations already adopted as recommendations by the Licensing Committee in May 1987.
- The United States would welcome discussion of these general ideas.
- The United States also believes that additional discipline on licensing should be sought throughout the Uruguay Round, for example in the Negotiating Groups on Non-Tariff Measures and GATT Articles.

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