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ANALYSIS OF THE TRADE AGREEMENTS PROGRAM

AND

THE TRADE REFORM ACT OF 1973

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ANALYSIS OF THE TRADE AGREEMENTS PROGRAM AND THE TRADE REFORM ACT OF 1973

Introduction

The proposed Trade Reform Act of 1973 (H.R. 10710), currently before the Senate, would authorize the President to enter into trade agreements and proclaim such modifications in U.S. rates of duty as required or appropriate to carry out such trade agreements.

This, of course, has been the traditional delegation. Under other authorities contained in the Trade Reform Act (TRA), however, the President would, for example, also be empowered to impose surcharges or reduce rates in response to large disequilibria in the U.S. balance of payments, and he would be able to make rate change to counter inflation. The President is given other powers as well. In terms of the traditional delegation alone, however, the rate proclaiming authority under the Trade Reform Act is the most liberal ever conferred and, if the full reducing authority is used, holds the possibility of eliminating the bulk of U.S. rates of duty, and reducing the remainder to very low levels.

This paper summarizes the past delegations of rate reducing authority. The rate structure both currently, and after the application of the proposed full rate reductions, is also considered. Finally, it comments briefly on the ramifications the full rate proclaiming authority could have on other sections of the TRA.

Rate Reducing Authority

Two laws, the Trade Agreements Act, as amended and extended, and the Trade Expansion Act of 1962, have permitted the President to enter into the rate proclaiming area.

THE TRADE AGREEMENTS PROGRAM

On June 12, 1934, the Trade Agreement Act (Section 350 of the Tariff Act of 1930, as amended) became law. The President, whenever he found that any existing duties or other import restrictions of the United States or any foreign country were unduly burdening and restricting the foreign trade of the United States, and that the purposes of the Act would be promoted, was authorized to enter into trade agreements, and to proclaim modifications of existing duties as required or appropriate to carry out those agreements. The President's authority, however, was limited. The act provided (sec 350(a)(2)):

> No proclamation shall be made increasing or decreasing by more than 50 per centum any existing rate of duty or transferring any article between the dutiable and free lists. . . .

As an additional limitation, a 3 year life-span for the trade agreements authority was provided.

Subsequent renewals were required to maintain the basic trade agreements authority and these occurred as follows:

March 1, 1937—Extended for 3 years from June 12, 1937; no change in rate proclaiming authority.

April 12, 1940—Extended for 3 years from June 12, 1940; no change in proclaiming authority.

June 7, 1943—Extended for 2 years from June 12, 1943; no change in rate proclaiming authority.

By 1945, much of the President's rate proclaiming authority had been exhausted. The maximum reductions—50 percent of the rate existing on June 12, 1934—had been proclaimed on more than 40 percent of U.S. dutiable imports, and some smaller reductions had been made on more than 20 percent.[1] As a result, when the Act was again extended, a new base year was provided.

Under the 1945 extension, the President could proclaim rate modifications up to and including 50 percent of any rate of duty however established, *of the rate existing on January 1, 1945*. The prohibition on transferring articles between the dutiable and the free lists was continued. The authority granted to the President was subsequently extended (and modified) in the following sequence:

June 26, 1948—Extended for one year; overall authority up to 50 percent of the rate existing on January 1, 1945 continued, but President required to report to Congress when modifications negotiated would exceed the "peril point" as found and reported by the Tariff Commission.

September 26, 1949—Extended for 3 years from June 12, 1948; Limitation placed on decreases in rates applicable to Cuban products.

June 16, 1951—Extended for 2 years from June 12, 1951; but first, "peril point" provision broadened to include the Tariff Commission's recommendation to increase duties or to impose additional import restrictions to avoid injury (sec. 3(a)); second, President required to withdraw conversion on articles from nations or areas controlled by international communism (sec. 5); third, escape-clause procedure added (secs. 6(a) and 7(a)); fourth, embargo placed on certain furskins from the Soviet Union and Communist China (sec. 11).

August 7, 1953—Extended for 1 year from June 12, 1953; no change in basic trade agreement and rate proclaiming authority.

July 1, 1954—Extended for 1 year from June 12, 1954; no change in basic authority as such but prohibition placed on reducing duties where the President determined that the reduction would "threaten domestic production needed for projected national defense requirements" (sec. 2).

As shown, the basic authority to enter into trade agreements was continued, but for generally shorter time periods and with increasing limitations.

On June 21, 1955, the President's trade agreements authority was extended until the close of June 30, 1958. While the President was still prohibited from transferring any article between the dutiable and free lists, he was authorized to proclaim reductions in import duties of not more than 15 percent of the *rates existing on January 1, 1955*. The reductions were to be placed in effect over a 3 year period. He was also authorized to reduce duties above 50 percent ad valorem (or equivalent) in stages to 50 percent ad valorem (or equivalent). A rounding authority, which would permit further minor rate reductions, was also provided. Thus, while the rate proclaiming authority was smaller than had been granted in 1934 or 1945, the base was now one

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[1] *Operation of the Trade Agreements Program* (OTAP) June 1934 to April 1948, Part II. History of the Trade Agreements Program, TC Report No. 160, p. 14.

that easily could have been only 25 percent of the original statutory rate.

The Trade Agreements Extension Act of 1958, the last in the series, was enacted on August 20, 1958. It provided that until the close of June 30, 1962, rates of duty could be reduced by (1) as much as 20 percent of the *rate existing on July 1, 1958*, (2) by 2 percentage points, except that no duty could be entirely removed, or (3) any rate could be reduced to 50 percent ad valorem or equivalent. Staging over not more than four annual stages was required, and rounding authority was authorized. Peril point, escape-clause and national security provisions were continued with certain changes.

The Trade Agreements Act, as amended and extended, allowed substantial reductions to be made from rates provided in the Tariff Act of 1930. A theoretical duty of 100 percent ad valorem, for example, if always reduced by the full authorized amount, could have been reduced to 50 percent ad valorem, under the original Trade Agreements Act, to 25 percent ad valorem under the 1945 extension, to 21 percent under the 1955 extension, and to 16.5 percent ad valorem under the 1958 extension. Such rate reductions, coupled with the erosion of the ad valorem equivalent of specific duties assessed on commodities the price of which increased, were sufficient to offset the change in the composition of U.S. imports from predominantly duty free (66 percent) during the period after the passage of the Tariff Act but before the start of the Trade Agreements Program, to predominantly dutiable (62 percent) in 1962, and still reduce the ad valorem equivalent of duties collected from 52.8 percent of the value of dutiable imports (17.7 percent of value of all imports for consumption) in 1930–33 to 12.3 percent and 7.6 percent, respectively, in 1962.

THE TRADE EXPANSION ACT OF 1962

The Trade Expansion Act of 1962 (TEA), which superseded the Trade Agreements Program, authorized the President to enter into trade agreements after June 30, 1962 and before July 1, 1967. The basic authority to proclaim modifications was broader than any extended since 1945. Section 201(b)(1) for example, limited the reduction of any rate of duty to a rate 50 percent of the *rate existing on July 1, 1962*. Where rates did not exceed five percent ad valorem (or equivalent) no limitation applied and, hence, for the first time, the President could proclaim duty free treatment for a previously dutiable article.

The TEA also contained special provisions in anticipation of the United Kingdom's entry into the European Economic Community (EEC). This latter authority was especially wide ranging in that the President could eliminate duties on articles in any category for which he had previously determined that the United States and the EEC accounted for at least 80 percent of the total free-world export value.[2] Although certain agricultural commodities were exempt from this authority, the rates on such commodities could also be eliminated under certain circumstances. Together with similar action taken by the EEC, the President could eliminate duties on tropical agricultural or forestry products.

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[2] Without the U.K.'s entry only one significant trade category—aircraft and parts—seemed to be covered by this provision. The EEC was unwilling to eliminate duties on this category, however, and the provision never became operative.

The TEA further provided that the concessions negotiated be staged over a 5 year period, and that the limitation provided could be slightly exceeded where necessary in order to simplify computation.

Despite the fact that the special authority regarding the EEC remained virtually unused, major reductions in duty were concluded in the sixth (or Kennedy) round of negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The United States offered full 50 percent reductions across the board except for those sensitive agricultural and other products specifically reserved. This method of negotiation, which was also adopted by some major trading partner, resulted in a greater breadth of duty reductions than the item-by-item format previously used. The ad valorem equivalent of duties collected in 1972, by which time the Kennedy Round concessions were placed in effect, amounted to only 8.6 percent of the value of all dutiable imports and only 5.6 percent of the value of all U.S. imports for consumption.

U.S. Rates of Duty in 1972

U.S. import duties are contained in the Tariff Schedules of the United States (TSUS), which became effective on August 31, 1963. The TSUS, in essence, provides a numeric identification (tariff item) for each and every rate line, and two rates of duty. The rates provided in column 1 of the TSUS are those required or appropriate to carry out trade agreements and are applied in general accordance with the most-favored-nation principle. The rates in column 2 are the "full" or statutory rates and they are, for the most part, equivalent to those provided in the Tariff Act of 1930. One incidental advantage of the TSUS is, therefore, that it provides at a glance the rate level resulting from trade agreement concessions.

SIGNIFICANCE OF NON-TRADE ITEMS

In 1972, 6,760 tariff items were listed in the TSUS.[3] Imports were recorded in 4,955 of these items, or in about three-quarters of all possible tariff items. Of the 1,805 items in which no trade was recorded, the majority covered textile fibers and textile products. The textile schedule provides exceedingly fine "break outs"—some 29,000 statistical reporting numbers, for example—so that while it is possible that the duties on some items prohibit trade, a more likely explanation is that some of the rate specifications are more detailed than the trade requires. To these non-traded items must be added those which have already become obsolete (TSUS 730.37, for example, provides for shotguns valued not over $5.00 each), and anticipatory items, such as TSUS 694.40, which provides for spacecraft. Hence, one has some confidence that the analysis below, which is based on value of items imported in 1972, while probably biased downward is not unduly distorted by rates of duty which prohibit trade.

CURRENT RATE ANALYSIS

Although debate over tariff reductions might suggest otherwise, the United States has already reached the point where, with few

[3] Under the TSUS no separate "free" list is provided. Items where the rate of duty is "free" are listed in numeric sequence and are interspersed throughout the schedules.

exceptions, tariffs no longer provide a significant degree of protection.[4] The nominal rates are generally low. As shown below, of the $55 billion in imports that entered in 1972, nearly a third were duty-free, and practically another third were dutiable at 5 percent ad valorem (or equivalent (AVE)) or less.

VALUE OF U.S. IMPORTS FOR CONSUMPTION ARRANGED BY AD VALOREM EQUIVALENTS, 1972

Ad valorem equivalent	Imports	
	Value	Percent
Range in Percent		
Duty free	$17,786,392	32.2
Dutiable at—		
0.1 to 5	16,854,253	30.5
5.1 to 10	12,410,564	22.5
10.1 to 15	3,054,520	5.5
15.1 to 20	2,225,561	4.0
20.1 to 30	1,251,764	2.3
30.1 to 40	1,130,877	2.0
40.1 to 49.9	160,467	.3
50 or more	64,074	.1
Dutiable but no AVE[1]	343,847	.6
Total	55,282,319	100.0

[1] Includes a few tariff items covering mixtures dutiable at rates not less than the highest duty applicable to any component part.

Duties 5 percent or less have been called "nuisance tariffs" with "little economic significance".[5] Thus, already nearly two-thirds of U.S. import trade is duty free or dutiable at rates suggesting minor economic consequence. Of the remainder, most is dutiable at between 5.1 and 10.0 percent AVE.

Data are available which permit rate analysis by individual tariff schedule. Appendix Table 1 shows the value of imports in 1972, by each tariff schedule and the ranges of ad valorem equivalents applicable to each. Table 2 uses the same data, but instead of absolute values, it shows the proportions of each schedule dutiable at the various rate ranges.

As shown in table 1, metals and metal products were by far the most important, accounting for $24.5 billion or for 44 percent of all U.S. imports. Some $7.2 billion, 30 percent, was duty-free and reflected

[4] "Tariff protection" means different things to different people. An economist, after assessing the protection conferred on the value added in manufacturing, might conclude that the "effective rates of protection" are high—despite the generally low nominal rates.

[5] Statement of Secretary of Commerce Luther H. Hodges, in support of H.R. 9900, The Trade Expansion Act of 1962, in *Legislative History of H.R. 11970, 87th Congress, Trade Expansion Act of 1962, P.L. 87-794*, Committee on Ways and Means, 1967, p. 160.

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in large measure the duty free treatment extended under the Automotive Products Trade Act of 1965 (APTA) to motor vehicles and original motor vehicle parts imported from Canada. In 1972, $2.6 billion in trucks and buses, piston engines, and motor vehicle chassis, parts, and accessories (classifiable as metal products) entered free under the provisions of the APTA. Other major duty free articles included ores and unwrought metals—iron ore ($416 million), nickel ($331 million), tin ($195 million), bauxite ($151 million), and platinum group metals ($90 million). Duty free manufactures included agricultural tractors and parts ($211 million), and manual typewriters ($106 million).

As indicated in table 2, some 40 percent of metal products imported were dutiable at rates between 0.1 and 5 percent AVE, while about 25 percent were dutiable at between 5.1 and 10.0 percent AVE. Major imports in the first range included passenger automobiles ($3.1 billion in trade dutiable at 3 percent AVE), motorcycles ($697 million at 5 percent), television apparatus ($680 million at 5 percent), tape players ($410 million at 5 percent), motor vehicle parts ($342 million at 4 percent), and aircraft parts ($309 million at 5 percent). Major items in the higher range included cold rolled steel sheets and plates ($558 million at 8 percent), other steel sheets and plates ($399 million at 7.5 percent), unspecified electronic tubes ($389 million at 6 percent), tape recorders and parts ($251 million at 5.5 percent), and coated sheets and plates valued not over 10 cents per pound ($210 million at 9 percent).

Imports of animal and vegetable products were valued at $8.0 billion. Two-fifths were duty free with the most important being coffee ($1.2 billion in trade), shellfish ($464 million), fresh bananas ($186 million), tuna and smelts ($168 million), cocoa beans ($151 million), and frozen fish blocks ($141 million). Nearly as large a proportion was dutiable at between 5.1 and 10.0 percent AVE. Major items dutiable within this range included: sugar ($824 million in trade dutiable at the equivalent of 8.1 percent ad valorem), beef and veal ($744 million dutiable at 5.2 percent AVE), still wines ($156 million at 8.9 percent), live cattle ($115 million at 7.1 percent), and cod, cusk, and haddock ($105 million at 5.1 percent).

Two thirds of the chemicals and related products entered in 1972 were dutiable within the 0.1 to 5.0 percent AVE range. Two tariff items covering crude petroleum, one covering $2.4 billion in trade (and dutiable at the equivalent of 3.9 percent), and the other covering $1.4 billion (dutiable at the equivalent of 2.2 percent), accounted for the bulk of the imports in this range.[6] These two tariff items were ranked third and fourth (by value) of imports entered in 1972. The aggregate of other chemical imports were valued at $3.1 billion.

Some $5.2 billion in imports were classed as miscellaneous products. This tariff grouping, perhaps more accurately termed "sundries", includes footwear, optical goods, watches, musical instruments, jewelry, antiques and works of art, rubber and plastic products, and a host of other products. Nearly half were dutiable at between 5.1 and 10.0 percent AVE. The largest items included leather footwear valued at over $2.50 per pair ($314 million in trade dutiable at 10.0 percent AVE), other leather footwear for males ($218 million at 8.5 percent), footwear having mostly rubber or plastic uppers ($177 million at 6.0

[6] Effective May 1, 1973, these rates of duty were suspended (see Presidential Proclamation 4210). A license fee system was also set up to substitute for the quota mechanism of the Mandatory Oil Import Program.

percent), bicycles valued over $16.66 each ($173 million at 5.5 percent), and articles of rubber or plastic ($142 million at 8.6 percent). Outside of this range, the remaining value of imports was fairly evenly scattered among those duty-free, those dutiable in the range of 0.1 and 5.0 percent AVE, those dutiable in the range of 10.1 and 15.0 percent AVE, and those dutiable between 15.1 and 20.0 percent AVE. Large individual items included furniture for motor vehicles entered under the APTA ($108 million—duty free), motor vehicle tires ($399 million in trade dutiable at 4 percent AVE), unspecified bicycle parts ($38 million at 15.0 percent), and unspecified toys ($115 million at 17.5 percent).

Imports of wood and paper and printed matter were valued at $3.8 billion, of which nearly 80 percent were duty free. By far the most important single item was standard newsprint paper valued at $1 billion. Other important items, all duty-free, included spruce lumber valued at $509 million, pulp valued at $494 million, and hemlock lumber valued at $158 million.

Imports of textile fibers and products were valued at $3.4 billion. Unlike imports in the other tariff schedules, imports of textiles tended to be mostly dutiable in the higher ranges. Nearly 70 percent, for example, were dutiable at rates above 15 percent AVE, and more than half were dutiable above 20 percent AVE. Major items imported at these high rates were: women's knitted apparel of man-made fibers ($444 million dutiable at a compound rate equivalent to 39.2 percent ad valorem), men's knitted apparel of man-made fibers ($191 million at 38.8 percent AVE), unspecified woven fabrics ($162 million at 26.5 percent), men and boys' wearing apparel, not knit ($146 million at 35.9 percent), knitted fabrics of man-made fibers ($115 million at 28.7 percent), and women's cotton apparel ($110 million at 16.5 percent).

Nonmetallic minerals and products comprise the smallest, in terms of trade reported, of the regular tariff schedules. Of the $1.7 billion in trade, 43 percent was duty-free and 26 percent was dutiable between 0.1 and 5.0 percent AVE. The largest duty free items were precious and semi-precious stones (valued at $345 million), crude asbestos (valued at $88 million), and hydraulic cement (valued at $70 million). The largest dutiable items were cut diamonds not over 0.5 carat ($227 million dutiable at 4.0 percent), cut diamonds over 0.5 carat ($61 million at 5.0 percent), and fluorspar ($34 million at the equivalent of 3.9 percent).

The last two tariff categories include special classifications, comprised almost entirely of U.S. goods returned and valued at $1.2 billion, and temporary modifications, which largely represent action taken under the escape clause. Some three-quarters of the value of imports in the latter category here were dutiable between 15 and 20 percent AVE.

Rate Reducing Authority as Proposed in the Trade Reform Act

Section 101 of the proposed Trade Reform Act sets out the basic authority for trade agreements. Although the delegation to proclaim modifications in rates is limited, as in the past, the authority conferred is nevertheless substantial. For a 5 year period, the President would be authorized to negotiate and proclaim decreases in rates of duty from *those existing on July 1, 1973*. By and large, the base rate to be used

under the TRA, therefore, would reflect concessions made in the Kennedy Round the last stage of which was implemented by January 1, 1972. For rates under five percent ad valorem no limitations would apply and, as under the Trade Expansion Act of 1962, these low rate items could be made duty-free. For duties currently between five percent and 25 percent ad valorem, a 60 percent reduction would be allowed. For duties above 25 percent ad valorem a 75 percent reduction would be allowed, except then no duty currently above 25 percent ad valorem can be reduced to rates below 10 percent ad valorem.

Staging requirements as provided in section 103, would permit annual tariff reductions up to and including the higher of (1) three percentage points, or (2) one-fifteenth of the total reduction. No staging would be required where the existing tariff is reduced 10 percent or less. A rounding authority like that in the Trade Expansion Act is also provided.

APPLICATION OF THE RATE REDUCING AUTHORITY

The analysis which follows assumes the maximum use of the authority granted under section 101. These authorized reductions are then applied to U.S. imports in 1972. While as a practical matter one would expect that certain items would be reserved from negotiations, and others not reduced the full amount, to simplify the analysis the full authorized reductions are assumed to be applied across the board.[7]

As shown in the tabulation below, the structure of U.S. rates of duty undergo a profound change when the full reducing authority of the Trade Reform Act is applied.

[7] The Kennedy Round experience is important enough to recount here. Although the Trade Expansion Act permitted the elimination of low rate duties and the 50 percent reduction of all others, when the neogtiations concluded, calculations by the Tariff Commission and other experts showed that the Kennedy Round concessions reduced the average level of U.S. duties existing prior to the negotiations by approximately one-third—despite the linear nature of the negotiations—rather than by one-half. The difference represented items reserved from the negotiations, less than full authorized reductions on others, concessionary "bindings" which did not actually reduce the applicable rates, and perhaps more significantly, the conceptual difficulties of "tariff averaging" and "trade weighting" (see Chapters IV and V, *Trade Barriers*) that tend to render the average amount or value of overall concessions, indistinct.

VALUE OF U.S. IMPORTS FOR CONSUMPTION 1972, ARRANGED BY TARIFF RANGES APPLICABLE, GIVEN THE MAXIMUM RATE REDUCTIONS PROPOSED IN THE TRADE REFORM ACT OF 1973

Ad valorem equivalent	Gross imports	
	Value	Percent
Range in percent	*1,000 dollars*	
Duty free	34,640,645	62.7
Dutiable at—		
0.1 to 5.0	14,233,800	25.7
5.1 to 10.0	5,839,486	10.6
10.1 or over	224,540	.4
Dutiable but no AVE [1]	343,848	.6
Total	55,282,319	100.0

[1] Includes a few tariff items covering mixtures dutiable at rates not less than the highest duty applicable to any component part.

The 30 percent of imports now dutiable at 5 percent AVE or less would become duty free. Articles dutiable in the 5 to 12.5 percent AVE range would drop to the 0.1 to 5.0 range. Those articles currently dutiable at 12.6 to 25 percent AVE would drop to the 5.1 to 10.0 percent AVE range. Above 25 percent the TRA would permit 75 percent reductions subject to the 10 percent ad valorem "floor." It is this 10 percent ad valorem "floor" that is the principal operative level on the small portion of trade remaining. A current duty would have to be above 40 percent ad valorem before a full 75 percent reduction could be made. In fact, however, less than one-half of one percent of trade is dutiable at such high levels. Thus, excluding the nearly two-thirds of U.S. import trade which would be duty-free, virtually all the remainder trade would be compressed into a rate structure no higher than 10 percent AVE. The few items which would remain dutiable above ten percent AVE (rounding authority not considered) would include principally, women's lace or net wearing apparel of man-made fibers (valued at $64 million in 1972), certain woolen woven fabrics ($26 million), concentrated citrus fruit juices ($16 million), certain nonbone chinaware sets ($14 million), certain bottled brandies ($14 million), certain women's woolen knits ($13 million), and a few dozen items such as lace wearing apparel, glasswares, artificial flowers, tobacco and cigarettes, and leather gloves, trade in which was trivial.

Of the staging requirements, the three percentage points per year appear to be the principal operative limit. A duty reduction would have to exceed 45 percent ad valorem to bring into play the one-fifteenth provision, which, in turn, would require the current duty to exceed 60 percent AVE. In 1972, only 22 individual items in which trade occurred carried trade agreement rates in excess of 60 percent AVE.

RAMIFICATIONS

Such a restructuring of the applicable rates of duty, if the full authority were utilized and once fully implemented, could affect other Reform Act provisions.

Balance of payments authority.—Section 122 would authorize the President to make temporary rate changes in response to serious balance of payments disequilibria. When the United States has a large deficit, he could impose an import surcharge not to exceed 15 percent ad valorem for 150 days. It should be made clear that such a surcharge, in order to achieve maximum effect, be applied to both free and dutiable articles inasmuch as two-thirds of U.S. import trade could be duty free. When the United States runs a large surplus he could reduce duties by not more than 5 percentage points for 150 days. If such full reductions were placed into effect, on top of the full reductions authorized in section 101, and again extrapolating from the 1972 trade, about 90 percent of U.S. imports would be made duty free for the 150 day period. It should be noted that the net merchandise balance, which these measures would seek to affect, represents only a part—although a significant one—of the entire balance of payments. Presumably this temporary power would be used in conjunction with others to achieve long-run payments equilibrium.

Anti-inflation authority.—Section 123 would authorize the President to reduce or suspend duties, when, during a period of sustained or rapid price increases, he determined the supplies of dutiable imports (or imports subject to any other restriction) were inadequate to meet domestic demand at reasonable prices. Action taken under this authority could not be applied to more than 30 percent of the estimated total value of all articles, and would be limited to 150 days duration. Subsection (b) would apply other limitations; for example, the authority could not be used where it would cause or contribute material injury to firms and workers in any domestic industry.

Under the assumptions used throughout this analysis, the 30 percent limitation would be broad enough to permit the reduction or suspension of duties on about four-fifths of the dutiable imports remaining after the maximum section 101 concessions were implemented. Most of the duties remaining, as already indicated, would be at generally low levels. Actions taken under section 123 could perhaps break "bottlenecks" causing inflationary price increases for certain individual articles, but overall, the value of all U.S. imports, both free and dutiable has been relatively small—less than 5 percent of U.S. gross national product in 1972. The anti-inflation authority could be applied to only a fraction of imports, for only a 5 month period and, finally, the duties affected might not constitute a significant barrier to entry.

Revenues and adjustment assistance.—For much of this country's history customs duties provided the bulk of federal revenues. Seventy years ago they were still providing about half of the total. In fiscal year 1972 they provided about 1.6 percent.

The revenues provided by tariffs now attract little attention. In 1972, however, they amounted to about $3.1 billion, not an insignificant amount in absolute terms, and nearly enough, for example, to equal the total federal budget outlay for space research and technology, or the total general revenue for the State of Indiana in the previous year.

The Trade Reform Act would liberalize the eligibility criteria for firms and workers to apply for adjustment assistance. Under the liberalized criteria, the Department of Labor estimates a total first year cost (including administration costs) at $300 to $350 million.[8] The Act would provide for the creation of an adjustment assistance trust fund (sec. 245) to be financed from customs revenues. In 1972, customs duties were more than sufficient to cover the total federal funds for the U.S. Customs Service (expenditures estimated at $259 million) and a trust fund of the amount indicated.

Extrapolating again from the 1972 import data, one sees that a much larger proportion of U.S. imports could be duty free—assuming full reductions—and, hence, provide no revenues. Moreover, if full utilization were made of certain portions of the balance of payments and anti-inflation authority very large percentages of trade could be at least temporarily duty-free. Thus, if the customs financed adjustment assistance trust fund is viewed as a long-time proposition, projections should be developed to determine whether the fund can be sustained from those duties expected to remain. As an alternative,

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[8] By contrast, expenditures for worker adjustment assistance under the Trade Expansion Act have been: FY 1970—$3.0 million, FY 1971—$18.0 million, FY 1972—$20.8 million, FY 1973—$15.0 million, FY 1974—$6.6 million.

a provision could be added that would permit direct financing from general revenues should customs duties prove insufficient to maintain the fund.

Generalized system of preferences (GSP) and the most-favored-nation principle.—Title V would permit the President to extend duty-free treatment, for a 10 year period, to certain beneficiary developing countries (BLDC). Articles eligible would have to be imported directly from the BLDC, contain a minimum value component added in the BLDC, and not exceed $25 million or 50 percent of total U.S. imports of that article. Articles subject to escape-clause relief would also be excluded.

Many developed countries have already instituted a GSP for products of the LDCs. The U.S. GSP would thus be one of several already in operation or planned. How effective such a system would be in increasing U.S. imports from the BLDCs is not clear. Many of the products provided from developing countries are already duty-free. The full application of the authority in section 101 could significantly increase the percentage of U.S. imports duty-free, without any GSP, and much of the remainder would be dutiable at such low levels that the limited duration GSP might not prove to be a strong incentive to switch sources.

While it is not clear how much "trade assistance" would be provided by the GSP, it is clear that the GSP would further weaken the "most-favored-nation" principle already seriously eroded. MFN has been a hallmark of U.S. trade policy, and section 127 of the Trade Reform Act would still require its general application. Nevertheless, the U.S. has long provided for some preferential arrangements (the Cuban and Philippines trade agreements) and more recently required a waiver of the MFN provision of the GATT (Article I), to implement the Canadian Automobile Agreement.

Suspension of the application of tariff items 806.30 and 807.00.—As a means of import relief the Trade Reform Act would provide for the suspension of items 806.30 and 807.00 of the TSUS (sec. 203(4)(1)). Tariff item 807.00 provides special tariff treatment for articles assembled abroad in whole or in part of fabricated components which are the product of the United States. Such articles are subject to duty upon the full value of the imported article, less the value of the U.S. components. This item and 806.30, which is a similar statutory provision covering metals, did not result from—and has never been subject to—concessions negotiated in trade agreements. Accordingly, under the TEA, industries, firms or workers, injured by increased imports chiefly because of the duty-saving provisions of these tariff items generally fail that Act's eligibility criteria for relief or adjustment assistance. Hence, the proposal to suspend these statutory provisions as a means of increasing duties originated. In like manner the GSP provided under Title V of the TRA could also be suspended.

It is not clear in the TRA how these suspensions would be effectuated. It is sufficient here to note, however, that the economic incentive to use either 806.30–807.00 or the GSP diminishes as applicable rates of duty diminish. Presumably, 806.30 and 807.00, which require substantial verification before the duty savings can be realized, would become unattractive as soon as the bookkeeping and other expenses involved exceed the duty savings. As a result, should duty reductions of the kind projected occur, both items could become largely obsolete within some years of the Act's passage.

APPENDIX

TABLE 1.—VALUE OF U.S. IMPORTS FOR CONSUMPTION, BY TARIFF SCHEDULE, BY RANGES OF AD VALOREM EQUIVALENTS, 1972

[In thousands of dollars]

Tariff category	Total	Duty free	Dutiable at—								
			0.1 to 5	5.1 to 10	10.1 to 15	15.1 to 20	20.1 to 30	30.1 to 40	40.1 to 49.9	50 or more	Dutiable but no AVE
1. Animal and vegetable products	8,003,459	3,232,339	968,747	2,949,623	512,764	159,952	36,950	36,346	18,064	25,305	63,369
2. Wool and paper; printed matter	3,850,536	3,029,721	211,733	335,527	28,022	241,886	3,617	30	.....	.....	.....
3. Textile fibers and textile products	3,358,654	353,294	32,502	366,959	298,984	534,625	650,843	985,455	135,505	457	30
4. Chemicals and related products	6,919,702	1,563,445	4,461,698	205,453	532,388	127,681	18,575	177	51	1	10,233
5. Nonmetallic minerals and products	1,739,070	744,635	444,704	118,087	179,632	77,221	135,477	15,640	924	22,750	.....
6. Metals and metal products	24,498,867	7,235,623	9,879,351	5,969,060	946,119	110,455	123,990	15,920	3	8,277	210,069
7. Miscellaneous products	5,215,681	392,397	855,518	2,465,855	556,611	581,348	267,986	70,773	3,884	735	20,574
8. Special classifications	1,183,893	1,144,321	.....	.....	.....	.....	.....	.....	.....	.....	39,572
9. Temporary modifications	512,457	90,617	.....	.....	.....	392,393	14,326	6,536	2,036	6,549	.....
Total	55,282,319	17,786,392	16,854,253	12,410,564	3,054,520	2,225,561	1,251,764	1,130,877	160,467	64,074	343,847

Source: Compiled by the U.S. Tariff Commission from official statistics of the U.S. Department of Commerce.

TABLE 2.—U.S. IMPORTS FOR CONSUMPTION, BY TARIFF SCHEDULE, PROPORTIONS DUTIABLE IN VARIOUS RANGES OF AD VALOREM EQUIVALENTS, 1972

[In percent]

Tariff category	Total	Duty free	Dutiable at—								
			0.1 to 5	5.1 to 10	10.1 to 15	15.1 to 20	20.1 to 30	30.1 to 40	40.1 to 49.9	50 or more	Dutiable but no AVE
1. Animal and vegetable products	100	40.4	12.1	36.8	6.5	2.0	0.5	0.5	0.2	0.3	0.8
2. Wool and paper; printed matter	100	78.7	5.5	8.7	.7	6.3	.1	(1)			
3. Textile fibers and textile products	100	10.5	1.0	10.9	8.9	15.9	19.4	29.3	4.1		
4. Chemicals and related products	100	22.6	64.5	3.0	7.7	1.8	.3	(1)	(1)	(1)	.1
5. Nonmetallic minerals and products	100	42.8	25.6	6.8	10.3	4.4	7.8	.9	.1	1.3	
6. Metals and metal products	100	29.5	40.3	24.4	3.9	.4	.5	(1)	(1)	(1)	.8
7. Miscellaneous products	100	7.5	16.4	47.3	10.7	11.1	5.1	1.4	.1	(1)	.4
8. Special classifications	100	96.7									3.3
9. Temporary modifications	100	17.7				76.5	2.8	1.3	.4	1.3	
Total	100	32.2	30.5	22.5	5.5	4.0	2.3	2.0	.3	.1	.6

[1] Less than 0.05 percent.

Source: Table 1.