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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, OCEANS AND ENVIRONMENT
SENATE COMMITTEE ON FOREIGN RELATIONS

ON

UNITED STATES PARTICIPATION IN THE MULTILATERAL TRADING SYSTEM

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss with you our work on U.S. participation in the multilateral trading system, a study we undertook at your request. We delivered to you this week the Comptroller General's report "Current Issues in U.S. Participation in the Multilateral Trading System" (GAO/NSIAD-85-118). As you know, the basic objectives of this study were (1) to provide information on the comparative trading practices of the United States and its major trading partners, (2) to identify and evaluate the reasons for alleged widespread variance from GATT principles and rules, (3) to explore the possibility of extending GATT coverage to services, and (4) to determine whether support of the GATT continues to be in the U.S. interest. To address the issues you raised we undertook three case studies of major areas of dispute within the GATT system--agricultural trade, services, and safeguard actions. The attachments to this statement summarize the findings of the individual case studies. Our summary comments today are based on these studies and also draw on our past and ongoing work on the trading system which includes reviews of the Tokyo Round non-tariff barrier codes, sectoral studies, and an indepth review of the determinants of exchange rates.

The extremely large U.S. trade deficit and its effects on the U.S. economy have focused public and congressional attention

on international trade issues. In response to the deficit, a large number of bills have been introduced into the Congress to better deal with unfair trade practices, to restrict the imports of various products, or to try to force certain countries to change what are viewed as unacceptable practices. Many of these bills represent what would be a major change in U.S. trade policy and provide for practices which run counter to GATT principles.

GATT AND MULTILATERALISM

The issues discussed in our report on U.S. participation in the multilateral trading system can be interpreted as painting a rather discouraging picture of GATT's ability to successfully resolve the world's trading problems. The continued existence of unresolved disputes challenges not only the principles of the GATT but also the value of the system itself. However, this lack of success does not support a conclusion that the GATT is no longer valuable or important.

Many trade conflicts result from conflicts over important domestic policies which also have trade effects. It is within a framework of government intervention in domestic economies that the GATT is being called upon to provide guidelines and to settle disputes over countries' trading behavior. Not surprisingly, the GATT has not been able to control government actions

nor to settle all disputes between trading partners. But to judge the GATT on it's ability to force governments to change their behavior is to judge it for failing to achieve objectives it was never intended nor given the wherewithall to achieve. The GATT does provide an external forum and force for change if national governments are willing to participate. However, trading disputes are often manifestations of domestic problems. Without attention on a national level to resolve these problems, no solution can be found between trading partners, GATT or no GATT.

Furthermore, the GATT system has been weakened by many countries participating in bilateral understandings and taking unilateral actions that violate the central non-discrimination principle of the GATT. In steel, we have noted the proliferation of numerous such bilateral arrangements to control the flow of steel products. The United States and the European Community have been major participants in this process. However, bilateral initiatives that do not violate the "most favored nation" (MFN) principle can be a constructive way to solve problems. For example, the agreement negotiated between the United States and Japan to gain access to the Japanese telecommunications equipment market is applied multilaterally. Such agreements can also serve as useful tools in bridging the gap between a lack of international consensus in an area (e.g., safeguards code) and conclusion of a full-fledged multilateral agreement.

Despite failures and problems, multilateralism and the principles contained in the GATT serve the United States well. As the world's largest exporter, the United States has a significant stake in this system. Our work leads us to believe that there remains a harmony between U.S. policy and interests and the underlying principles of the trading system. The benefits extend beyond the significant reductions negotiated in tariffs and the related expansion in trade over the last three decades. Today, with the growing number of participants in the world trading system, particularly developing countries, the GATT provides the United States with a framework of standards in which to conduct its trade relations.

However, to continue to be relevant, the GATT must evolve to meet demands of the current trading environment, many of which were not of major concern when it was created. Thus, multilateral efforts such as successive rounds of trade negotiations have not only lowered tariffs but have also attempted to better define and establish some discipline for domestic policy actions which affect trade, such as government procurement, subsidies, and the imposition of product standards. Creation of the GATT Committee on Trade in Agriculture reflects the desire of contracting parties to see an evolution of the GATT. It is in the U.S. interest to support and to push for the successful conclusion of such endeavors.

The United States has initiated and supported calls for a new round of multilateral trade negotiations. Because of the numerous trade disagreements that exist, the necessary preparation for formal negotiations has been substantial. There appears to be some consensus that work in the agriculture and safeguard areas has progressed as far as it can go without commencing formal negotiations in a new round. A new round of trade talks should include agricultural and manufactured goods and service trade, to allow maximum latitude for exchanging concessions and thus provide greater likelihood of success. If the negotiations are limited to one group or the other, you may be sure that some nations will have little interest in participating in talks in which they have much to lose and little to gain. Including all sectors increases the prospects for giving every country something to bargain for and something to offer in return for concessions.

It should be noted that no matter what progress might be made in the GATT, the U.S. trade deficit will not, as a result, disappear. The U.S. international trade deficit is integrally connected with a number of fundamental economic imbalances, which include the U.S. budget deficit, Western European unemployment, the Japanese trade surplus, and the Latin American debt crises, and not a problem that can be addressed in isolation. Although efforts to reduce the trade deficit by erecting new barriers to imports may be perceived to be in the interest of the United States, similar actions taken by other countries

in retaliation would result in economic loss for everyone in the end. To solve the trade deficit and at the same time avoid the high cost of new protectionist measures, action is needed to address directly such fundamental problems as the federal budget deficit which has played a key role in driving up the value of the dollar and making U.S. products less competitive.

There is a disturbing parallel between the events of today and those of 1971-1973. In 1971-1973 fundamental imbalances in economic policy threatened the existence of the Bretton Woods international monetary system of fixed exchange rates. The problem at the time could have been addressed by either trying to save the system, by having the major developed countries more closely coordinate their macroeconomic policies, or by replacing the system with a new one that many thought would better accommodate differences in countries' macroeconomic policies. In the end, the Bretton Woods system was not salvaged, at least in part because of a consensus that a new system based on fluctuating exchange rates was generally preferable to fixed exchange rates. The parallel is that in 1985 we again have a situation in which imbalances in fundamental economic policies are threatening an international economic structure--this time it is the multilateral trading system. The disturbing difference between 1973 and 1985 is that there is no alternative system better than, or even as good as, the current one. Therefore, it

is essential that the fundamental problems, such as the U.S. budget deficit, be addressed directly rather than sacrificing the multilateral trading system to the U.S. trade deficit.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions at this time.

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AGRICULTURE

In our report, we note many exemptions, disagreements in interpretation and failures to abide by GATT rules in agricultural trade. Most of these are reflected in GATT's Committee on Trade in Agriculture work program. However, the most contentious areas have been closely related to important national policies and objectives. International concern has centered on establishing clearer GATT discipline over export subsidies and market access restrictions. There is also support for broadening GATT coverage to trading practices not presently covered, including those maintained under waivers and exceptions, and for improving transparency.

The Subsidies Code, developed during the Tokyo Round to improve GATT subsidy provisions, is still characterized by many of the same weaknesses as the provisions it interpreted. It prohibits export subsidies on non-primary products without qualification, but retains complex standards for determining the acceptability of export subsidies on primary products. Many terms crucial to the interpretation of these standards remain vaguely defined and are amenable to varying interpretations. As a result, disputes such as the U.S.-European Community (EC) wheat flour and pasta cases have been highly contentious.

Similarly, market access for agricultural goods is more restricted than for other kinds of products primarily because of unbound tariffs and non-tariff measures (NTMs). Fewer tariff lines are bound for agricultural commodities than for other exports.

Non-tariff measures are more widespread in agriculture than in other areas and take a variety of forms, including quotas, licensing, minimum pricing, and seasonal restrictions. GATT's Article XI places a general ban on NTMs but allows significant exceptions for grading and marketing standards and for protection of farm support programs that restrict domestic production or are designed to remove temporary surpluses.

The governments we studied have extensive agricultural programs that affect international trade. Some, such as import quotas, have a direct trade effect. Others, such as farmer subsidies, are designed and adopted for domestic impact but affect production and prices to such an extent that they change international trading patterns. Programs in both categories are adopted to advance specific domestic priorities, such as higher farm incomes or greater food self-sufficiency. Taken together, the explicit trade controls and the trade effects of domestic programs constitute de facto national trade policies.

Major changes in national trading practices or in the GATT principles guiding them are unlikely in the near term. The present regime, with its evident lack of discipline, reflects the consensus among contracting parties that the success of domestic agricultural programs is more important than international trade liberalization. As long as the parties retain this ordering of priorities, basic changes to ameliorate limits on free trade will be slow in coming.

However, marginal change in favor of better GATT discipline is likely. The major trading nations have recognized that the present situation needs improvement as reflected in their commitment to ongoing multilateral and bilateral negotiations under the auspices of the GATT and the creation in 1982 of GATT's Committee on Trade in Agriculture.

Two powerful stimuli are working to promote international movement toward better trade discipline: domestic budgetary pressure and the need to reestablish harmonious trade relations between competing agricultural exporters.

The mounting expense of farm support programs is a major concern in several of the countries we visited. Internal

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pressure for reform is present in each case. For example, the European Community's (EC's) Common Agricultural Policy (CAP) absorbed about two-thirds, or $16.5 billion, of the total EC budget in 1983, and Japanese, Korean, and Brazilian programs also incurred significant costs. The rising cost of the CAP prompted some minor reforms during 1984, with a promise of more to come. As already indicated, Korea and Brazil have acted to cut back on farm spending. The Japanese government recently lowered the payments made to farmers who divert rice acreage to wheat. In the United States, unprecedented farm program expenditures, including the record high net expenditures of $18.9 billion in 1983, have set the stage for an indepth examination of farm policy during deliberations on the 1985 farm bill.

The potential international political and economic costs of failure to reach a new accord on agricultural trade are very great. Settlement of the U.S.-EC dispute is of great importance to the continued health of the world trading system. In addition, protectionism must be reduced if the developing countries are to become full-fledged members of the international trading community. In keeping with Part IV provisions of the GATT, it is in the best interests of all countries that developing countries be given the opportunity to market their products internationally; the developing countries benefit directly from their exports and they earn foreign exchange to repay external

debt and to purchase developed nation's goods. Since many developing countries rely heavily on agricultural exports to earn foreign exchange, GATT's Committee on Trade in Agriculture was specifically assigned to take full account of their needs in considering its mandate.

The contracting parties' adoption of the Committee's recommendations at their November 1984 meeting signifies agreement only on an agenda for substantive work and does not commit the contracting parties to make any changes in their own policies or in the GATT. Real change in restrictive trade practices will be possible only through a mutually advantageous exchange of concessions within the framework of a new round of comprehensive multilateral trade negotiations.

The United States should continue to pursue marginal improvements in GATT discipline over trade in agriculture--a sector in which this country has historically enjoyed a comparative advantage.

More effective limitation of export subsidies, such as EC restitution payments, would reduce the participation of non-competitive suppliers in the international market and transfer sales to efficient producers. Abatement of market access restrictions, likewise, would allow efficient exporters to supply markets presently supplied by expensive and/or highly

subsidized domestic production. Other major exporters support U.S. efforts to reduce the scope of market distorting trade practices, particularly those maintained by the EC.

While working toward better international regulation, however, U.S. policymakers need to recognize that foreign trading practices are only one of several factors that are contributing to this country's agricultural trade difficulties.

U.S. farm programs over the past few years have encouraged foreign competitors to increase production for export by establishing a relatively high floor under the international market price of wheat. This country has been willing to defend that price by removing U.S. production from the market. Other factors contributing to the decline in U.S. export sales include the rising value of the dollar against other currencies, the constraint on worldwide effective demand caused by recession and widespread credit difficulties, and the negative impression left on purchasing nations by U.S. agricultural embargoes.

It should also be remembered that the United States itself maintains restrictive trade practices similar to those which it is trying to remove from other countries' trade programs. The U.S. retention of a GATT waiver allowing restrictions on imports that disrupt farm support programs and its recent use of subsidized export credit could undercut its arguments in favor of greater control over access restrictions and subsidies, respectively.

In attempting to maximize the benefits this country can obtain from its comparative advantage in agriculture, then, U.S. policymakers cannot focus exclusively on the restrictive trade practices used by our trading partners and/or competitors. The international repercussions of U.S. farm and trade programs must also be taken into account.

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SERVICES

As trade in goods did 40 years ago, trade in services now faces entrenched national policies which may restrict trade flows with no general framework within which to define parameters or negotiate changes. The trade effects of most nontariff regulations often are not known and not measurable. This makes the concept of mutual concessionary reductions, used in the past to develop tariff schedules, difficult to negotiate. In addition, countries have not agreed that a decrease in restrictiveness is beneficial. Without such basic agreement, multilateral negotiations will be difficult and protracted.

With few exceptions, most telecommunications markets are protected by monopoly post, telephone and telegraph (PTT) companies which most often are government-owned and operated. Until recently, the U.S. telecommunications market was dominated by a private monopoly. Within these monopolistic markets, there are varying investment requirements, tariff restrictions, interconnect restrictions, licensing requirements, local content requirements, and so on. Most of these restrictions are justified on the basis of protecting the integrity of the national telecommunications network and national security.

Despite the growing significance of the service sector, there are no comprehensive multilateral rules for trade in services. The GATT covers services only to the extent that they are incidental to goods trade. There are, however, some individual sectoral agreements and there have been some multilateral discussions involving service trade. For example, the Organization for Economic Cooperation and Development (OECD) adopted codes as early as 1961 in an attempt to liberalize service sector trade and to reduce regulations that hamper the international flow of funds. Most recently, OECD has encouraged service sector trade discussions and urged members to cooperate in removing obstacles to trade. Numerous bilateral agreements, such as Friendship, Commerce and Navigation treaties and investment treaties, cover trade in various service industries.

With primary support of the United States, the 1982 GATT Ministerial meeting initiated a program for interested parties to gather and exchange information on service sector trade issues. This program is continuing and, as of the 1984 meeting of the contracting parties, the Secretariat has formally become involved in supporting these discussions. It remains unclear, however, whether this program will lead to negotiations for a multilateral agreement on trade in services.

The U.S. Trade and Tariff Act of 1984 reflects the administration's intention to pursue a services agreement; it gives the President negotiating authority for the first time to reduce or eliminate international barriers in services trade. It contains, in addition, enhanced retaliatory powers for the President and the Office of the U.S. Trade Representative. One or several bilateral agreements, such as that consummated with Israel and under discussion with Canada, may further U.S. trading interests in services. But without access to other large country markets, many of which are members of the GATT, these agreements will not substitute for a broad-based multilateral agreement.

Opinions expressed by representatives of a number of countries makes it apparent that there is no clear consensus on the desirability or need for a multilateral agreement covering the service sector. Many developed countries agree that such an agreement is desirable but prefer a period of study before negotiations begin. Some countries hold that each service industry has unique characteristics and concerns and, therefore, concluding a service-wide agreement would be difficult at best and not very useful. These countries urge a sector-by-sector approach. A number of key developing countries object to even discussing services in the GATT at this time. Many developing

countries, based on their belief that they could not effectively compete with developed countries, do not see a need for a multilateral agreement. Finally, there is no agreement as to how GATT principles such as national treatment and non-discrimination could apply to services, whether their application would be desirable, or whether principles currently not in the GATT are needed. Despite the reservations of many countries concerning the need for a service sector agreement and the significant differences concerning the proper forum to negotiate such an agreement, developed countries at least agree that GATT trading principles would have to be modified to effectively apply to service sector trade.

It appears that significant changes would have to occur in the structure of telecommunications markets for GATT principles to be relevant. For example, government monopolies would have to be curtailed for the principles of non-discrimination, national treatment, and the right of establishment to be meaningful. That would require significant changes in government attitudes about the necessity of strict control over national communications systems. Some liberalization may occur as business is lost to countries that have more liberal, technologically advanced, and therefore competitive communications regimes. The complexity of this service industry alone may provide compelling

justification to pursue a service-sector-wide agreement first. Even then, it may be necessary to work toward a multilateral agreement in telecommunications to address specific problems of that industry. Although no one industry is representative of the service sector, each may provide problems just as difficult to resolve as those described above. Consequently, we do not expect short-term successes from current U.S. efforts.

Because of the difficulty in effecting changes of this nature, it may be prudent in the short-term to pursue an agreement that would include the principles of transparency and least distortion to trade and would also seek to prevent the establishment of new barriers to trade in services. Our report describes how such an agreement, if concluded in the GATT, could usefully serve as the basis for including services in a new round of multilateral trade talks. The contracting parties agreed in November 1984 to involve the GATT Secretariat in exchanges of information from country studies and in subministerial-level meetings being held to prepare for a new round. This provides both the forum and time necessary to achieve an agreement on services. A significant obstacle to achieving this agreement will no doubt be objections raised by developing countries, and negotiators will likely need to agree on some form of preferential treatment for these contracting

parties in order to bring them into the negotiating process. Notification and cross-notification of regulations and restrictions in service industries, a process already begun through the submission of country studies, would promote the dialogue necessary to begin analyzing how GATT principles might apply to a specific service industry, permitting trade talks to occur on either a horizontal or sector-by-sector basis. The U.S. Trade Representative recently proposed that the agenda of a new round include a plan similar to that described in our report (and also described in our April 1985 draft report forward to the Trade Representative for comment).

By including services in a new round of trade talks along with agriculture and manufactured goods, increased options are created for trading off concessions between sectors, and thus, it may be that an increased number of contracting parties, both developed and developing, would participate. Given the precedent established in the last round of trade talks--conclusion of a series of codes, or agreements, that interpret and modify GATT--good potential exists for conclusion of a service sector trade code or a code on one or more specific service sectors.

Negotiating any agreement covering services trade will not be easy. The most contentious issue will no doubt be defining national treatment--i.e., does it incorporate the notion of

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right to establish? Including this investment issue under the national treatment principle would be tantamount to an agreement that GATT does extend to investment. The traditional uneasiness of countries to place "sovereign" investment issues under international scrutiny would be a major obstacle to concluding such as agreement. Nevertheless, an agreement to prohibit new barriers and on the broad principles necessary to discipline service trade would undoubtedly promote increased trade. Since no clear consensus exists on the desirability of any agreement, the main advocates may be forced to make major trade concessions to gain general acceptance of service sector discipline and liberalization. Moreover, careful preparation is necessary; failure to achieve agreement once negotiations begin could be harmful for the GATT, both as an institution and as a value system. These considerations should figure largely in any policy decision to push for a GATT agreement. Care should be taken to ensure that an agreement is not concluded at the expense of the underlying GATT objective of mutual gain through expanded production and exchange of resources.

SAFEGUARDS

GATT principles face one of their most critical tests when trade actions are used in response to fundamental problems of declining industries. Such industries typically face a host of problems, such as declining demand, unemployment, and import competition, which generally have significant political and economic impacts. GATT Article XIX permits safeguard relief for industries suffering as a result of fairly traded import competition. As our case study of steel indicates, however, countries have tended to avoid the use of Article XIX because of its stringent requirements and a perception that it does not provide an adequate solution for industries in secular decline. Moreover, GATT provisions and codes and related national statutes to deal with unfairly traded imports, e.g., subsidies and dumping, are generally considered inadequate to deal with problems of major declining industries. The process of filing and determining cases and imposing remedies is often abandoned and replaced by administrative, negotiated solutions without reference to dumping or subsidy margins. As a result, there has been a significant rise in the number of actions taken outside the purview of Article XIX, which in many instances may violate other GATT provisions. The rise in these so-called grey area actions has led to renewed calls to develop a realistic and responsive GATT safeguard code. The United States continues to support this effort despite the contracting parties' inability to conclude such a code over the last decade.

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In assessing the role of the GATT and any future safeguard code, it is important to recognize that GATT provides a disciplinary structure to trade. To the extent that trade remedies are appropriate resolutions to problems facing a given industry, GATT provides general guidance for the structure of these resolutions. Where an industry's problems go beyond basic trade problems, trade actions consistent with the GATT are unlikely to resolve the difficulties and pressures will remain strong to negotiate grey area trade barriers. In these cases, it is clear that domestic actions to facilitate and encourage industry adjustment will likely be necessary.

Article XIX has explicit provisions as well as provisions implied when taken in context with other GATT articles. Serious injury to a domestic industry must be present or threatened for a nation to restrict imports. This injury must be the result of or caused by the imports in question. The countries involved must hold consultations concerning the action to be taken and report to the GATT (transparency provision). Finally, if countries do not agree on the action during such consultations, the affected parties have the right to retaliate by suspending substantially equivalent concessions or obligations they have made under the GATT, subject to disapproval by the contracting parties.

In addition, Article XIX is generally interpreted to mean that import restrictions should be temporary and applied in a non-discriminatory fashion (i.e., on a most favored nation basis). The concept of compensation provided by the importing country has evolved as a means to avoid retaliation by affected exporting countries.

The stringency of Article XIX features, particularly the serious injury standard, MFN application, and the potential for demands for compensation, has made recourse to Article XIX a last resort measure. The United States has been among the most frequent users of Article XIX through its escape clause provision, section 201 of the Trade Act of 1974, as amended. In addition, questions have been raised as to the adequacy of a temporary restraint under Article XIX to help industries experiencing long term structural decline, such as steel or apparel. Although Article XIX was clearly intended to be used in exceptional rather than routine and normal circumstances, the plethora of alternative, grey area actions that have been taken instead was not envisioned when the GATT was created. These grey area actions, due to their flexibility, have been increasingly used, distorting trade patterns and imposing economic costs.

Grey area actions are taken outside the purview of Article XIX, but within the purview of the GATT to the extent they are inconsistent with other GATT provisions, e.g., Article I (MFN),

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and Articles XI and XIII which refer to the use of quantitative restrictions. Grey area actions pose a threat to the GATT for four major reasons. First, a pattern of protectionism by sector has evolved in such industries as steel, machine tools, consumer electronics and textiles. Second, permanent protection for weak domestic industries has costs to the domestic and international economy. This trend runs counter to GATT's purpose and underlying themes of encouraging trade liberalization and disciplining trade-restricting actions. Further, economists stress that it makes no economic sense to single out the most competitive (and thus, often disruptive) suppliers, although it may be politically expedient. Third, the victims of grey area arrangements are often (1) third country industries which are efficient producers and could potentially capture market shares that have been allocated to less competitive producers or (2) third countries whose industries face greater import competition caused by trade being diverted from newly limited or closed markets. These affected third parties have difficulty proving injury and therefore cannot claim compensation or take retaliatory measures when grey area actions are taken. And lastly, the concept of non-discrimination embodied throughout the GATT has come to be almost totally disregarded, with a disproportionately adverse effect on new, and presumably more efficient, market entrants.

Because of these problems, countries have attempted to negotiate a safeguards code. It has been hoped that such nego-

tiations could result in more uniform, non-discriminatory application of Article XIX actions; prevent a further drift toward sectoral approaches to trade, such as the multifiber arrangement in textiles; ensure that import protection is temporary; and strengthen the GATT by increasing adherence to the injury standard, notification, and transparency provisions.

In discussions on developing a safeguards code, the most basic change under consideration is to reject the MFN principle and permit countries to take actions selectively. Advocates of selectivity, such as the EC, state that it would provide needed flexibility in taking safeguard actions, targeting only the nations causing injury and not the more established exporters. This would also reduce the potential costs of using Article XIX and discourage grey area actions. These same "advantages" of selectivity are also the reasons why other nations oppose the concept of selectivity. They state that lowering the costs of Article XIX and making it exempt from the fundamental GATT principle of non-discrimination would make its use too easy and allow protectionism to undermine the GATT itself.

Developing countries believe that they would be the most hurt by selectivity. How a nation defines injury could determine its ability to act selectively and the extent to which these actions are discriminatory. If imports are not damaging at 12 percent of the market but are considered injurious at 16 percent, some, including the EC, believe that they should be

able to identify and apply restrictions on this marginal 4 percent of imports. As this allocation is determined on the basis of historical market share, it in effect restricts the access of the most recent entrants to the market. Developing nations believe that their exports would thus be unfairly and selectively targeted and restricted and that developed countries would be allowed to maintain market share without regard to comparative advantage or trade practices.

As noted earlier, some contracting parties have found Article XIX to be inadequate in the case of steel because of its temporary nature. Article XXVIII could provide an alternative to grey area actions. Under Article XXVIII which provides for renegotiation of bound tariffs, a contracting party could raise specific tariff bindings permanently on the condition that affected parties are consulted and compensation agreed upon. From discussions with GATT officials, we understand that this idea is being surfaced as a potential alternative or complementary solution to the international steel problem and grey area actions. Because of the compensation requirement in Article XXVIII, this solution may not overcome all the problems associated with Article XIX actions. Nevertheless, from a GATT perspective, an Article XXVIII action may be appealing for several reasons: (1) it is a tariff adjustment, the preferred method of protection in the GATT, rather than a quantitative restraint, (2) it requires payment of compensation to any and

all affected parties, and, (3) given the GATT's success in negotiating tariff reductions, it provides potential for the actions to be reversed.

Recourse to GATT mechanisms cannot resolve the problems of the world steel industry--problems that go beyond trade between nations to issues of changes in demand, global oversupply, technological change, and sensitive national security and employment issues. Where these problems are trade specific, GATT principles and mechanisms can be useful in providing some order, fairness, and discipline to trade. Increasingly, however, nations have ignored GATT provisions, preferring what is perceived as less costly, more flexible, informal negotiated approaches. Therefore, in cases like steel where governments are under strong domestic pressure to take some action, GATT approaches have been bypassed. In the process, there has been an increasing tendency to blur the distinction between fair and unfair trade in developing remedies. Continued recourse to grey area actions is at variance with the fundamental principles upon which the GATT was so painstakingly built.

Concluding a safeguards code may or may not lead to greater adherence and support for GATT's procedures and remedies. Many of the problems of steel industries in developed countries are fundamentally structural, but they have directly affected international trade. However, even with a safeguards code, pressure to use grey area measures will likely continue when the problems

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at issue are fundamentally structural rather than trade specific. In such cases, a safeguards code can, at best, help to make responses to larger problems of decline less disruptive to a market trading system strongly supported by the United States. It is clear that, in cases like steel, domestic actions whether government- or market-induced, are necessary to facilitate and encourage structural adjustment of industries.

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