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To: Members of the Executive Board

From: The Secretary

Subject: Meeting of the GATT Council of Representatives

There is attached, for the information of the Executive Directors, a report by the Fund observers on a meeting of the GATT Council of Representatives, held in Geneva on February 7, 1984.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

February 23, 1984

The GATT Council of Representatives held a meeting on February 7, 1984 under the chairmanship of Ambassador F. Jaramillo of Colombia. 2/ The main items on the agenda were a follow-up on the Report of the Panel on EEC Quantitative Restrictions on Imports of Certain Products from Hong Kong, the notification of compensatory measures by the European Economic Community with respect to Article XIX action by the United States on specialty steel, and a report by the Chairman of the Committee on Balance of Payments Restrictions on consultations held in December 1983. 3/ In addition, under other business, the Council heard a statement by the representative of the European Communities calling upon the U.S. Government to resist protectionist pressures and spearhead trade liberalization. The Fund observers at the meeting were Messrs. Carlos Sanson and Richard Eglin.

1. Report of the Panel on quantitative restrictions on
imports by the EEC of certain products from Hong Kong 4/

The Report of the Panel which examined the dispute brought by Hong Kong against the European Communities over quantitative imports maintained by France on eight product categories found that there was an infringement of obligations which constituted a case of nullification or impairment of benefits accruing to Hong Kong under the General Agreement. The representative of the United Kingdom on behalf of Hong Kong said that France had announced in January 1984 the extension of quota restrictions on several of the items that had formed the basis of the dispute, and most importantly on quartz watches. This reflected a complete failure to comply with the Panel's findings and Hong Kong was registering its concern and reserving all its rights under the General Agreement in this matter. He added that as a result of the quantitative restrictions, exports of quartz watches to France had dropped continually and substantially over the past two years. He urged the European

1/ Documents referred to in this report are on file in the Secretary's Department.

2/ GATT/AIR/1979.

3/ GATT document C/W/431.

4/ GATT document L/5511.

Communities to remove all of the quotas in question. The representatives of Brazil, Egypt, India, Jamaica, Nicaragua, and Pakistan supported Hong Kong's concern in this matter, noting the damage that would be done to the dispute settlement process in the GATT by failure to implement the Panel's recommendations. The representative of the European Communities stated that the Panel's recommendations were being studied.

2. Article XIX action by the United States on specialty steel 1/

The Chairman said that the European Communities had notified the compensatory measures that they were taking with effect from March 1, 1984 in response to the safeguard measures imposed by the United States on imports of certain articles of specialty steel in July 1983. He added that a communication had been received from the United States arguing that the action proposed by the European Communities exceeded that permitted under Article XIX:3. The representative of the United States said that in the view of his delegation the response of the European Communities was excessive in relation to its right to suspend substantially equivalent concessions or other obligations in response to the U.S. safeguard action. In the view of the United States, the European Communities had overestimated the effect of the U.S. quotas on specialty steel, had not taken account of substantial differences which existed between E.C. and U.S. estimates of trade data and had used the 1982 U.S. dollar/ECU exchange rate to denominate their compensatory measures which would result in a harsher restrictive effect than if current exchange rates were used. He added that bilateral discussions which had taken place so far had not led to a satisfactory reconciliation of the problem and the U.S. delegation was requesting that the European Communities delay its implementation of the compensatory measures until the middle of March to allow for further bilateral discussions. He emphasized that the United States was not questioning the right of the European Communities to take compensatory measures but did believe that the measures currently proposed would exceed the level permitted under Article XIX:3(a) of the General Agreement and that an extension of the time period to allow for further bilateral discussions could avoid the threat of a formal dispute arising over this matter. The representative of the European Communities replied that his delegation could not support an extension of the period before retaliatory action was taken. The representative of Switzerland urged the two parties to consult intensively in order to avoid eventual dispute proceedings.

3. Report of the Committee on Balance of Payments Restrictions 2/

The Chairman of the Committee on Balance of Payments Restrictions presented the conclusions of the Committee on the consultations held in

1/ GATT documents L/5524 Add.15 and Add.17.

2/ GATT documents BOP/R/135, 136, 137, and 138. The report to the Executive Board by the Fund representative on the Committee meeting was issued as SM/83/254.

December 1983 with Brazil, Ghana, Peru, Tunisia, and Turkey. The Council adopted the reports of these consultations without comment.

The representative of Brazil made a brief statement to the Council on his delegation's continuing consultations with other contracting parties in seeking an easing of the trade restrictions facing Brazilian exports. He recalled that at the time of Brazil's consultation in the Committee on Balance of Payments Restrictions, his delegation had drawn the attention of the Committee to the importance of the external trading environment facing Brazil in accordance with Paragraph 12 of the 1979 Declaration on Trade Measures taken for Balance of Payments Purposes, and had indicated to the Committee that certain immediate trade actions, if taken by Brazil's major trading partners, could help to alleviate Brazil's balance of payments problems and ultimately permit Brazil to liberalize its import restrictions. These trade actions were (a) a rollback, for the benefit solely of developing countries, of all existing import restrictions inconsistent with the GATT affecting in particular products of interest to developing countries with balance of payments problems; (b) to suspend, for the duration of the adjustment program agreed upon with the Fund, all safeguard actions taken or under consideration against export products of a consulting developing country; and (c) to refrain from imposing for the duration of the adjustment program agreed upon with the Fund countervailing or anti-dumping duties on products exported by developing countries. He emphasized that Brazil was not proposing new rules for adoption by the Committee, but was trying to obtain unilateral concessions from its major trading parties during the balance of payments adjustment period through consultations under Paragraph 12 of the Declaration.

The Chairman of the Committee on Balance of Payments Restrictions noted that the Consultative Group of Eighteen had invited the Committee to consider how Paragraph 12 of the Declaration could be given greater weight in its deliberations and had instructed him to report to the Council on the Committee's findings. He said that further consultations were necessary and would continue in future informal meetings of the Committee, but he added that in his view the discussions that had been held so far had been fruitful and constructive.

4. Statement by the European Communities on trade liberalization

Under other business the representative of the European Communities made a statement calling upon the U.S. Government to resist protectionist pressures and to spearhead trade liberalization. He said that there had been a sharp increase in the number of requests for protection by various sectors in the U.S. economy in the last six months which was developing

into a very dangerous trend. He dwelt at length on proposed legislation before Congress that would restrict U.S. imports of wine and also noted increasing protectionist threats to a host of other products such as footwear, textiles, metal products, tires, home appliances, and certain machinery. He urged the U.S. Government not to indulge in short-term expediency and give in to such protectionist pressures, but rather to recognize that the economic recovery underway in the United States allowed the U.S. Government to actively pursue trade liberalization to an extent that was not possible in countries which were not benefiting from a strong resurgence of economic activity.

5. Other items

a. Report of the Working Party on
Structural Adjustment and Trade Policy 1/

The Chairman noted that informal consultations among contracting parties had indicated the need for additional work in the area of structural adjustment and trade policy but that further reflection was needed to decide how best the work could be carried out. The representatives of Egypt and Jamaica emphasized their interest in this issue.

b. Aspects of trade in high technology goods 2/

The representative of the United States said that his delegation was frustrated that its proposal for a study of aspects of trade in high technology goods had not been accepted so far, after having been considered at every Council meeting in 1983. He urged the Council to adopt the proposal for such a study since, he said, a real threat existed that rules governing trade in these products would emerge by default outside the GATT. The representatives of Australia, Canada, Israel, Jamaica, and Switzerland said that they could support such a study, but the representatives of Argentina, Cuba, the European Communities, and New Zealand said it was premature to make a decision on this item. The Council agreed to revert to the issue at a future meeting.

c. Safeguards

The Chairman informed the Council that consultations had begun again on this item on an informal basis and that he would keep the Council fully informed of progress.

1/ GATT document L/5568.

2/ GATT documents SR.38/9, C/W/409 Rev.2 and Corr.1.

d. Report of the Panel set up to examine
Canada's Foreign Investment Review Act 1/

The representative of Canada said that his Government supported the adoption of the Panel report and was taking appropriate action to ensure that the implementation of the Act was consistent with Canada's GATT obligations. The Council adopted the report, but the representatives of Argentina, Brazil, Chile, Colombia, India, Nicaragua, Pakistan, Peru, and the Philippines stressed that, as was indicated in paragraphs 4.2 and 5.2 of the Panel report, the provisions and arguments invoked against Canada in this case were not necessarily those which could be legitimately invoked against less developed contracting parties given their rights to protect national industries under Article XVIII:C of the General Agreement.

e. U.S. Agricultural Adjustment Act 2/

The representative of the United States presented his Government's Twenty-Sixth Annual Report on the Agricultural Adjustment Act, noting that this discharged his Government's obligations in the matter. The representatives of Argentina, Australia, Brazil, Canada, Chile, the European Communities, New Zealand, Nicaragua, and Pakistan, acknowledging the ritual nature of the exercise, nevertheless called for the establishment of a working party to examine the report and the United States' request for a waiver under the General Agreement. The Council agreed to set up the working party.

1/ GATT document L/5504.

2/ GATT document L/5595.

