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To: Members of the Executive Board
From: The Secretary
Subject: Meeting of the GATT Council of Representatives

Attached for the information of the Executive Directors is a report by the Fund observers on the meeting of the GATT Council of Representatives held in Geneva on March 13, 1984.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

March 27, 1984

The GATT Council of Representatives held a meeting on March 13, 1984, under the chairmanship of Ambassador F. Jaramillo of Colombia. 2/ The main items on the agenda were consideration of the Fund's paper on Exchange Rate Volatility and World Trade prepared at the request of the CONTRACTING PARTIES' Ministerial Meeting of November 1982, consideration of three dispute panel reports, a request for dispute settlement proceedings by Canada against the European Economic Community, and a statement by the Chairman of the Committee on Balance of Payments Restrictions concerning the role the Committee could play in taking account of export restrictions facing consulting countries in balance of payments difficulty. 3/ The Fund observers at the meeting were Messrs. Carlos Sanson and Richard Eglin.

1. Exchange rate fluctuations
and their effect on world trade

The Chairman recalled that the meeting of the CONTRACTING PARTIES at Ministerial level in November 1982 had requested the Director-General of the GATT to consult with the Fund's Managing Director on the possibility of a study being made on the effects of erratic fluctuations in exchange rates on international trade, and to forward the study to the Council to consider any implications for the General Agreement. The study had been circulated to contracting parties with a covering note by the GATT secretariat stating that the study had been prepared by the Fund staff and that the Director-General of the GATT had decided that no additional work by the secretariat was necessary because it could add little to the study's key conclusions. 4/

The representative of the European Communities noted that his delegation had been the prime mover in initiating the request for this study and attached great importance to it. Exchange rate fluctuations weighed heavily on a wide variety of issues in the GATT, for example, on the calculation of compensation under Article XIX of the General Agreement. Because the study had been distributed to contracting parties only recently, and the Communities would need time to review it in detail, he

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

2/ GATT/AIR/1986.

3/ GATT document C/W/435.

4/ "Exchange Rate Volatility and World Trade," (SM/83/203 Revision 1, 12/9/83). Circulated to the contracting parties as GATT document L/5626.

would wish to revert to the issue at a future Council meeting. However, his initial reading of the paper suggested that its conclusions had not succeeded in demystifying the issue. The representative of Pakistan said that the international financial system was having an increasing impact on trade issues, and he supported a detailed examination of the link between international trade and finance in a GATT context; his initial reaction was that the study had not arrived at definitive conclusions. The representatives of Egypt, Norway, and Switzerland noted that they attached great importance to the study, but would need time to consider it carefully and reflect on its conclusions, so that they supported deferment of the issue until a later Council meeting.

The representative of Jamaica regretted that the secretariat had not added its own views to complement the study and address specifically what implications could be drawn from it for the operation of the General Agreement. He said the study was impressive, but it was unfortunate that it had deliberately not dealt with the exchange rate environment faced by developing countries. For these countries, for instance, the effect of fluctuations in exchange rates on the value of monetary reserves and on commodity earnings deserved to be studied. He also would have welcomed further information on the extent to which speculative capital flows and official intervention by central banks had influenced exchange rates. He failed to see the immediate relation of such a theoretical study to the practical work conducted in the GATT. The Director-General replied that, in his view, the request to him contained in the Ministerial Declaration had been fully carried out, and he expressed his thanks to the Fund staff for the work it had done. It was not up to the GATT secretariat to decide how the study's conclusions should be interpreted in light of the General Agreement, but up to the Council itself.

It was agreed that the Council would revert to this item at its next meeting, after delegations had had time to fully examine the study.

2. Dispute panels

- a. Report of the Panel examining
U.S. imports of sugar from Nicaragua 1/

The Chairman of the Panel presented the Panel's report and noted that it had been unanimously decided that the reduction of the United States sugar quota allocated to Nicaragua was inconsistent with U.S. obligations under Article XIII:2 and recommended that the United States promptly allocate to Nicaragua a sugar import quota consistent with its obligations under this Article. The representative of Nicaragua thanked the Panel for its findings, and appealed to the Council to adopt the report and instruct the United States to implement its recommendations at once. The representative of the United States did not object to the adoption of the report, but said that his Government's view of the matter remained unchanged and the resolution of this specific issue would depend

1/ GATT document L/5607.

upon the resolution of far broader problems that lay outside the GATT. Noting that they opposed the use of commercial policy for political ends and that the dispute settlement mechanism within the GATT needed to be respected and strengthened, the representatives of Argentina, Australia, Austria, Brazil, Canada, Chile, Colombia, Cuba, the Dominican Republic, Egypt, Hong Kong, Hungary, India, Jamaica, Nigeria, Norway on behalf of the Nordic countries, Peru, Poland, Portugal, Romania, Senegal, Singapore, Switzerland, Trinidad and Tobago, Uruguay, Yugoslavia, and Zaire, and the observers from Mexico and Venezuela, supported the adoption of the report and the Panel's recommendations. The Council adopted the report and the Panel's recommendations.

b. Report of the Panel examining
Japanese measures on imports of leather 1/

The Chairman of the Panel presented the report. The Panel had found that quantitative restrictions by Japan on leather imports had nullified or impaired benefits accruing to the United States under Article XI of the General Agreement, and recommended that these restrictions be eliminated in order to conform with GATT provisions. The representative of Japan said his authorities were still examining the Panel's report, and asked the Council to defer its own consideration until the next meeting. The representative of the United States accepted a deferment, provided the report was dealt with definitively at that meeting. The representatives of Argentina, Australia, Canada, Chile, the European Communities, the United Kingdom on behalf of Hong Kong, India, New Zealand, Pakistan, and Peru supported prompt elimination of the restrictions and questioned the final paragraph of the report, which suggested that the Council might wish to consider whether or not Japan should be given a certain amount of time to progressively eliminate the import restrictions concerned.

c. Report of the Panel examining
the U.S. Manufacturing Clause 2/

The Chairman of the Panel presented the report, and noted that it had found the Manufacturing Clause to be inconsistent with Article XI of the General Agreement and recommended the United States bring it into line with its obligations. The representative of the United States said his delegation was not in a position to discuss the report and asked that this item be deferred until the next meeting. The representative of the European Communities agreed to the deferment.

d. Recourse to Article XXIII:2 by
Canada over EEC imports of newsprint 3/

The representative of Canada said the European Communities had reduced the annual duty-free tariff quota on imports of newsprint from 1.5 million to 500,000 metric tons on January 1, 1984. The Canadian

1/ GATT document L/5623.

2/ GATT document L/5609.

3/ GATT document L/5628.

Government believed that this nullified or impaired its benefits under the General Agreement, and, since consultations between Canadian and EC authorities had not resulted in a satisfactory resolution of this matter, they were requesting that a panel be set up to examine the dispute under Article XXIII:2. The European Communities representative stated that, because the Scandinavian countries, which were large exporters of newsprint to the member states, had recently been accorded free market access as a result of an agreement between the European Communities and EFTA, the Communities were faced with two possible solutions: (i) to maintain the overall limit of 1.5 million metric tons, subtracting actual imports of newsprint from EFTA countries, and using the residuals as the duty-free tariff quota for other suppliers; or (ii) to establish a separate quota for non-EFTA countries. Since the former would have introduced a good deal of uncertainty for other suppliers, the Communities had chosen the latter solution. He added that the limit of 500,000 metric tons was provisional and the Communities hoped that agreement could be reached on specific duty-free tariff quotas for each non-EFTA supplier, including Canada. He said the Communities would accept establishment of a panel if this was the Council's decision, but he felt more could be gained by all parties from continuing conciliation talks for the time being. The representative of Canada hoped a settlement would be possible with the European Communities, but in the meantime his authorities wanted to go ahead with the establishment of a panel. The representatives of Austria, Chile, and Norway reserved their position on the issue, but supported the establishment of a panel. The Council agreed to establish a panel.

4. Statement by the Chairman of the
Committee on Balance of Payments Restrictions

The Chairman of the Committee on Balance of Payments Restrictions reported on the results of informal Committee meetings held in response to the request from the Consultative Group of Eighteen (CG-18) that the Committee should examine how the external trading environment confronting consulting countries could be taken into account more adequately in the course of its consultations. ^{1/} He noted that, for countries that had encountered severe balance of payments difficulties in the past few years, particularly the heavily indebted ones, considerable attention had quite properly been given to maintaining financial flows and debt rescheduling and, in several cases, to stand-by or extended facility arrangements with the Fund. However, trade had an essential role to play in the adjustment process, and ultimately the indebted countries' capacity to repay would depend largely on their ability to expand their exports. In view of the efforts made by other international agencies to contribute to the resolution of these countries' balance of payments difficulties, there was an increasing interest in the contribution that GATT might make.

He noted that the Committee had an existing mandate to consider the extent to which the external trading environment adversely affected the export trade of consulting countries, and, while it was agreed that the

^{1/} GATT document C/125.

basic role of the Committee remained the examination of trade measures taken for balance of payments purposes by a consulting country, it was widely felt that more attention could be paid to the external trading environment without detracting from this basic role. The general view had been that the Committee's task in relation to the external trading environment should be to identify in its reports to the Council possible areas in which contracting parties might take action to alleviate the restraints confronting the exports of the consulting country, and to encourage those contracting parties which were in a position to do so to respond in a positive manner. He emphasized that the Committee would not duplicate work under way in any other GATT fora or participate in a negotiating process between a consulting country and its trading partners.

He briefly reviewed possible areas in which the major trading partners of consulting countries, most of which were developing countries, could liberalize their import measures in a manner consistent with the multilateral principles embodied in the General Agreement. In particular, the major trading partners could focus on those measures having an especially restrictive effect on the major export products of the consulting country.

The Chairman also recalled that the issue of notification of measures relating to trade policy agreed under stand-by or extended facility arrangements with the Fund had been questioned in the CG-18 last year, although it was clear that, under paragraph 4 of the 1970 consultation procedures, consulting countries were required to keep the GATT secretariat regularly informed of any changes in trade measures. During the Committee's informal discussions, there had been opposition to the idea that a formal link might be established between commitments undertaken by countries with the Fund and the response to their requests for trade liberalization. Some members of the Committee had resisted the suggestion that there should be greater synchronization between consultations in the Committee and consultations undertaken by the Fund.

The representatives of Brazil, the European Communities, Hungary, India, and the United States requested the Council to revert to this item after delegations had had time to reflect on the Chairman's statement.

5. Other items

a. Problems of trade in certain natural resource products

The representative of Canada requested the prompt establishment of a working party to examine tariff and nontariff measures and other factors relating to trade in nonferrous metals and minerals. ^{1/} He recalled that the Ministerial Declaration had instructed that the problems of trade in these products, as well as the problems of trade in forestry products and fish and fisheries products, should be examined, and he noted that the secretariat had already distributed two background studies on nonferrous

^{1/} GATT document C/W/434.

metals and minerals which could serve as the basis for a working party's examination. He urged that the work be begun as soon as possible. The representatives of Australia, Chile, Cuba, Egypt, Indonesia, Japan, Peru, the Philippines, Poland, Senegal, Thailand, and Zaire supported the immediate establishment of a working party. The representative of Sweden, on behalf of the Nordic countries, opposed the suggestion and urged that nothing be done in this area until the secretariat had completed reports in all three fields of natural resource products and these studies had been reviewed. The Ministerial Declaration had not set a time frame for completing the work in this area, and it could not be considered a high priority item. The representatives of Austria, the European Communities, and Spain also felt that there was insufficient information at present to warrant the establishment of a working party. The representative of the United States agreed that this had not been a high priority item in the Ministerial Declaration, but he felt that progress should be made in this area and he suggested that a single working party be set up, empowered to review all three areas of natural resource products. The representatives of Australia, Canada, Chile, and Colombia supported the U.S. proposal for a single working party, provided it would have separate terms of reference for each of the three areas of natural resource products and would prepare three different reports. The Council agreed that a working party would be set up, with a mandate to examine and prepare separate reports on all three areas of natural resource products, and that the terms of reference would be worked out through informal consultations.

b. Trade in textiles

The Director-General, as Chairman of the Textiles Committee, presented the 1983 report of the Textiles Surveillance Body and reports on two Textiles Committee meetings held in December 1983 and January 1984. ^{1/} He noted that the second annual review of the Textiles Arrangement had been undertaken at the December meeting and that, at its January meeting, the Committee had considered the trade implications of certain new elements of the U.S. textile import program announced in December 1983. The Committee had expressed serious concerns over these measures and their implications, particularly by developing countries. The representative of Mexico, on behalf of developing country exporters of textiles and clothing, expressed serious regret at the new U.S. measures and said a dangerous trend was emerging toward greater restrictiveness in international textile trade. He urged that the matter be kept under close scrutiny by the Council, and the representative of Pakistan asked the Council to revert to this item at its next meeting. This was so agreed.

c. Japanese measures affecting the world market for copper ores and concentrates

The representative of the European Communities requested the establishment of a working party under Article XXII:2 to examine distortions observed by the copper industry in the world market for

^{1/} GATT documents COM.TEX/SB/900, COM.TEX/35 and 36.

ores and concentrates as a result of pricing practices in the Japanese market for refined copper, and Japan's purchasing practices in respect of copper concentrates. ^{1/} The representative of Japan opposed the establishment of a working party, stating that the European Communities had no legal grounds for their request. Most representatives who spoke on this matter stated that they had insufficient information to reach a determination, and it was agreed to revert to this item at the next Council meeting.

d. Other business

Under other business, the representative of Poland stated that an informal meeting would be held in Geneva in the late spring, where Polish economists would present features of Poland's current economic reforms, and he invited contracting parties to attend and pose questions on GATT-related matters.

The representative of the United States said that his authorities remained convinced that an examination of trade in high technology goods should be urgently pursued in the GATT. Work on this issue was proceeding in the OECD and on a bilateral basis, and his delegation intended to bring this back to the Council agenda at a later meeting.

The representative of Jamaica, noting that the Director-General, in a speech delivered in London in February, had said that the failure of countries to adjust was the main factor holding back trade liberalization, urged the Council to consider how further work on structural adjustment could be undertaken in the GATT. He also noted that momentum seemed to be building up for a new round of multilateral trade negotiations, and he thought it appropriate that preparations for this new round should begin with an assessment of the progress made so far on the Ministerial work program.

^{1/} GATT document L/5627.