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

Attached for the information of the Executive Directors is a report by the Fund observer on the meeting of the GATT Council of Representatives, held in Geneva on October 2, 1984.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observer 1/

October 23, 1984

The GATT Council of Representatives met on October 2, 1984 under the chairmanship of Ambassador F. Jaramillo of Colombia. 2/ The only item on the agenda on which substantive discussion took place was a review of recent U.S. measures affecting imports of textiles and clothing. The Fund observer at the meeting was Richard Eglin.

1. Recent developments in international trade in textiles and clothing

The representative of Pakistan made a statement to the Council on behalf of the group of developing countries, exporters of textiles and clothing (the Group). 3/ He recalled that on December 16, 1983 the United States had announced revised criteria for assessing market disruption resulting from imports of textiles and clothing. The Group had stated before the Council at that time their view that the new criteria were discriminatory, and were contrary to the undertaking by the United States in the Ministerial Declaration, particularly paragraph 7 which required that protectionist pressures be resisted and that the rules of the Multi-Fibre Arrangement (MFA) be strictly adhered to.

In August 1984 the U.S. Customs Service had published amended "country-of-origin" regulations for imports of textiles and textile products, and, at about the same time, countervailing duty petitions had been filed by producers in the United States against the entire range of textile and clothing products of 13 developing countries. 4/ The proposed rules of origin were complex and likely to produce a restrictive effect on imports. In the view of the Group, they could

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

2/ GATT/AIR/2053.

3/ GATT document L/5685.

4/ The 13 countries are Argentina, Colombia, Indonesia, Malaysia, Mexico, Panama, Peru, the Philippines, Portugal, Singapore, Sri Lanka, Thailand, and Turkey.

also be used in a discriminatory fashion against certain developing country exporters. The countervailing duty petitions were currently under investigation by the U.S. Department of Commerce. None of the 13 developing countries in question was a signatory to the GATT subsidies code, and they would not benefit, therefore, from injury test criteria in the countervailing duty investigations. Many of them were small suppliers and new entrants to the U.S. market, and they should receive special treatment as a result of this and not be singled out as suppliers who could cause significant market disruption.

The Group considered that these amounted to deliberate protectionist actions. Once the new rules of origin became effective, and if affirmative determinations were reached in the countervailing duty investigations, they would have an extensive reinforcing effect on the restrictions already contained in the MFA. The United States would therefore be in violation of Article 9.i of the MFA and the provisions of paragraphs 5 and 23 of the 1981 Protocol of Extension, since a significant disruption of supplies would result. In addition, it would again have failed to respect its commitments under Paragraph 7 of the Ministerial Declaration. The Group was therefore asking the United States not to proceed with the proposed amendments to its "country-of-origin" legislation and to discontinue the countervailing duty investigations.

The representative of the European Communities expressed his sympathy for the position of the Group. Consultations with the United States had led the Communities to conclude that the proposed new rules of origin would serve a protectionist purpose. They were particularly complex and difficult to interpret, and would have a harassing effect on exporters to the U.S. market. The aim of the new rules, according to the U.S. authorities, was to prevent fraud among textile exporters, but their effect in restricting imports were likely to be out of all proportion to this aim. With respect to the countervailing duty investigations, he stressed that the United States should ensure that these were carried out fairly and transparently. In his view, they represented an overreaction by U.S. industry to the relatively small volume of textile products supplied by the 13 countries affected, and they reflected poorly on the goodwill of the United States at this critical time in international trade relations when a new round of multilateral trade negotiations was under consideration. He asked the U.S. authorities to delay implementation of the new rules of origin until further plurilateral consultations could be held with all parties concerned.

The representatives of Colombia, Japan, and the United Kingdom on behalf of Hong Kong, also expressed their concern over the U.S. actions. They asked the United States to reconsider its textiles trade policy, and reserved all their rights under the GATT.

The representative of the United States said that he would report to his authorities on the degree of concern expressed at the meeting. He noted that they had extended the period of the countervailing duty investigations and delayed implementing the new rules of origin so that consultations could be held with all interested contracting parties. With respect to the countervailing duty petitions, these lay outside the influence of the U.S. Administration, and as long as textile imports continued to increase to the U.S. market, severe pressure from industry and labor representatives for protection was to be expected.

The Council took note of the discussion.

2. Other matters

The Report of the Working Party on the Australia/New Zealand Closer Economic Relations Trade Agreement was approved by the Council without discussion, and the representative of Australia, speaking also on behalf of New Zealand, stated that biennial reports on the Agreement would be furnished to contracting parties until it became fully effective in 1995. 1/

The Council agreed to a request from the representative of Finland that a dispute panel be established to examine his Government's complaint that anti-dumping duties had been levied unfairly by New Zealand on imports of electrical transformers from Finland. 2/

The Council agreed to a request by the representative of Australia to set up a working party to conduct a triennial review of measures maintained by Switzerland under Paragraph 4 of its Protocol of Accession. 3/

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1/ GATT document L/5664.

2/ GATT document L/5682.

3/ GATT documents L/5423, L/5596, and L/5673.

Finally, biennial reports on regional agreements on customs unions and free-trade areas were approved by the Council without discussion. 1/ Also, requests for observer status at the GATT Council by the World Bank, the Inter-American Development Bank, and the Latin American Economic System were approved without comment. 2/

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1/ GATT documents L/5671, L/5668, L/5667, and L/5674.

2/ GATT documents L/5679, L/5678, and L/5683.