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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 observers on recent meetings of the GATT Council of Representatives, held in Geneva in November 1984.

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INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

December 13, 1984

The GATT Council of Representatives met on November 6-8, and on November 20, 1984 under the chairmanship of Ambassador F. Jaramillo of Colombia. The Council met first in special session to examine recent developments in the international trading system against the commitments taken by contracting parties at the GATT Ministerial Meeting in November 1982 to resist protectionist pressures and to ensure their trade policies and measures were consistent with the General Agreement. 2/ There followed a regular meeting of the Council, at which the major agenda items were a review of the status of implementation of the work program agreed at the Ministerial Meeting, and consideration of dispute panel reports, committee reports, and working party reports for submission by the Council to the Fortieth Session of the CONTRACTING PARTIES at its meeting of November 26-29, 1984. 3/ The Fund observers at the meeting were Carlos Sanson and Richard Eglin.

During the special Council session, most speakers expressed disappointment that international trade policies had become significantly more restrictive since the 1982 Ministerial Meeting and deep concern over the trend that had developed toward bilateral trade agreements at the expense of the multilateral trading system. Developing country representatives condemned in particular the increase in restrictions facing trade in agricultural products, textiles and clothing, footwear, and steel products. They expressed the view that the benefits to their economies from the upturn in international economic activity had been suppressed by the increase in protectionist measures applied by industrialized countries, which had failed to initiate structural adjustment programs in their less efficient sectors of production. They were dissatisfied with the industrialized countries' performance in according them special and differential treatment in trade matters under Part IV of the General Agreement, and several

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

2/ GATT/AIR/2072.

3/ GATT/AIR/2075.

rejected the notion of their participation in new multilateral trade negotiations unless industrialized countries displayed a greater willingness to discuss constructively the liberalization of trade in areas of interest to developing countries.

Industrialized country representatives said that trade policy developments since 1982 had been affected by the unfavorable international economic situation, particularly high levels of unemployment in their own countries and balance of payments difficulties in developing countries. They acknowledged that pressures had grown to seek bilateral solutions to trade imbalances in specific, sensitive sectors, and while some considered that the multilateral GATT system was surviving these pressures better than was generally perceived, most recognized the urgent need to strengthen this system and felt that a new round of multilateral trade negotiations was indispensable for this purpose.

At the regular Council session delegations expressed widespread dissatisfaction with the slow progress that had been made on the Ministerial work program. The most important aims of the work program were to reach a comprehensive understanding on safeguard (GATT Article XIX) measures, to examine the modalities of trade liberalization in textiles and clothing, and to strengthen GATT disciplines over trade in agricultural products. While agreement has been reached among delegations on some important elements of each of these items, contracting parties are not yet in a position to formulate comprehensive recommendations. Developing countries have not accepted that work begin on some items of the program of particular interest to industrialized countries, such as trade in services, counterfeit goods, and high technology products, because only limited progress has been made on items in which they hold particular interest, such as trade in agricultural products, textiles and clothing, tropical products and certain natural resource products, a review of the adequacy of the MTN Agreements and Arrangements (Codes), and an improvement in the implementation of Part IV of the General Agreement. The study prepared by the Fund for the CONTRACTING PARTIES on exchange rate fluctuations and their effect on trade has been reviewed in previous GATT Council meetings, but no consensus has been reached on the conclusions to be drawn from the study.

1. Special session of the Council

The background paper prepared by the GATT secretariat for the special Council session noted that during the previous six-month period, the main trends in trade policy had remained unchanged from earlier

periods. 1/ The introduction and intensification of nontariff restrictions had far outweighed the few measures of liberalization that had been taken, mainly in the tariff field. The trend toward bilateralism had continued, with the conclusion of a number of bilateral trade agreements and increasing recourse to countertrade arrangements. The strength of economic recovery in the United States, coupled with the high value of the dollar, had stimulated exports from its major trading partners, but its large merchandise trade deficit had fueled domestic protectionist pressures. Among other industrialized countries, economic recovery had been uneven, structural adjustment difficulties had continued, unemployment levels had remained high, and protectionist pressures had not relaxed. Many developing countries facing balance of payments difficulties had resorted to new trade restrictions. The paper drew attention to the difficulty of reconciling statements of resolve made at the highest political level to resist protectionism and to pursue multilateral cooperation, with the deterioration in trade relations that was taking place.

The representatives of Bangladesh, Brazil, India, Jamaica, and Singapore contrasted the increase in protectionist measures applied by the industrialized countries with their commitments under Paragraph 7(i) of the Ministerial Declaration to resist protectionist pressures and ensure that their trade policies and measures were consistent with the General Agreement. Protectionism was proving to be a significant barrier to the transmission of economic recovery to the developing countries. The multilateral trading system had been seriously eroded already, and further pressure by industrialized countries for bilateral solutions to trade imbalances in sectors such as agriculture and steel would place an intolerable burden on the system. In this regard, they stated that agreement on an understanding on safeguards was one of the most pressing issues of the GATT Ministerial work program.

The representative of Pakistan, on behalf of developing countries, exporters of textiles and clothing, commented that trade in textiles had been particularly seriously affected during the past year by the application of restrictive measures. In December 1983, the United States had announced additional criteria for assessing domestic market disruption arising from textile imports, and calls to developing country suppliers for consultations on their quota limits had increased significantly in 1984. Moreover, in August 1984, the United States had announced the introduction of new country-of-origin regulations for textiles and clothing imports, and the initiation of countervailing duty investigations on practically all textile and clothing imports from 13 developing countries.

1/ GATT document C/W/488.

These measures violated commitments undertaken at the GATT Ministerial Meeting to resist protectionist pressures, to pursue measures aimed at the liberalization of trade in textiles and clothing, and to adhere strictly to the disciplines of the MFA. In addition, they affected primarily developing country suppliers of textiles and clothing. New efforts were needed on the part of all contracting parties to arrest the erosion of the MFA.

The representatives of India, Jamaica, and Uruguay, referred to disequilibrium in the international monetary system, which they viewed as an important factor contributing to the increase in protectionist pressures. Developing countries were experiencing difficulties in managing their balances of payments as a result of the high level of real interest rates, excessive fluctuations in exchange rates, and the decline in capital inflows. These difficulties could not be resolved solely by the opening of export markets for their production, most particularly not if this were to be pursued bilaterally and in a manner that damaged the prospects for multilateral trade liberalization. The Director-General of GATT agreed that trade liberalization alone could not be considered a panacea for the economic problems confronting contracting parties, but he stated that it could remove an important area of uncertainty in international economic relations. Improvements to the international trading system were required urgently, independently of any action governments might deem it appropriate to take toward the international monetary system.

The representatives of Japan and the United States noted signs of an improving international economic climate in 1984, particularly the strength of economic recovery in their countries and the resumption of growth in international trade. They acknowledged the existence of strong, domestic protectionist pressures, which were particularly worrisome because they increased the tendency toward bilateralism. The Japanese Government's policy of opening markets to foreign competition was meeting growing domestic opposition, and could only be continued if reciprocal concessions were offered; in the United States, renewed protectionist pressures were likely to arise while the trade deficit remained large and as the growth of the economy slowed down. Initiation of a new round of multilateral trade negotiations was therefore urgently needed, and the recent communiqué of the Fund-Bank Development Committee was to be welcomed in this respect.

The representative of the European Communities felt that although protectionist measures had increased since the 1982 Ministerial Meeting, they had not reached a point where they jeopardized the international trading system or the relevance of the General Agreement as the basic

framework for international trade relations. In the Community many of these pressures had been successfully opposed, and it was unfortunate that these instances did not receive the same publicity as those where government opposition to protectionism was unsuccessful. Despite current indications of economic recovery in several industrialized countries, the international economic situation was likely to remain unstable in the next few years and this could bring additional protectionist pressures to bear and make trade liberalization efforts more difficult.

The representatives of Australia, Canada, and New Zealand expressed their concern over the growing restrictiveness of the international trading system, and the tendency for governments to seek bilateral solutions to trade imbalances. The best defense against protectionism and bilateralism was the strengthening of the multilateral system, and the first requirement for this was that urgent progress be made on the Ministerial work program. They supported the initiation of a new round of multilateral trade negotiations as soon as possible, and while they accepted the need for a wide-ranging agenda for negotiations, including trade in services, counterfeit goods, and high-technology products, they had a particular interest in ensuring that problems currently confronting the opening of negotiations on trade in agricultural products be resolved quickly.

2. Regular session of the Council

a. Ministerial work program

(1) Safeguards

The Council chairman reported that informal consultations among delegations on reaching a comprehensive understanding on safeguards were continuing, and that he would make a statement at the CONTRACTING PARTIES' meeting on this matter. 1/

1/ Reportedly, at the informal consultations, a measure of agreement has been reached that all safeguard (GATT Article XIX) actions should, wherever possible, take the form of tariffs rather than quantitative restrictions, be applied only temporarily and be liberalized progressively, and be the subject of surveillance in GATT. A fundamental difference of opinion among contracting parties remains, which already existed at the end of the Tokyo Round negotiations in 1979, over the question of whether they should be permitted to apply safeguard measures on a selective, or country-specific, basis.

(2) Dispute settlement procedures

The Director-General reported that informal consultations had taken place on resolving a procedural difficulty that had arisen over reaching agreement among parties to a dispute on the composition of panels. The proposal he would be putting to the CONTRACTING PARTIES' meeting was to establish a roster of experts who were not currently affiliated with national administrations and who would be available to serve on dispute panels in the event that agreement could not be reached on panel members drawn from national administrations. 1/

The representatives of Canada, Chile, Jamaica, and Nicaragua felt there was a need to address a more fundamental problem of the dispute settlement procedures, namely, the failure on several occasions of the losing party to the dispute to accept the panel findings and take action to amend its trade policy accordingly. 2/ They also expressed concern over the budgetary implications of the proposal that had been outlined by the Director-General.

(3) Trade in agriculture

The Council chairman introduced the report of the chairman of the Committee on Trade in Agriculture and the Committee's recommendations to the forthcoming session of the CONTRACTING PARTIES for further work that it should be mandated to carry out before the Forty-First Session of the CONTRACTING PARTIES in November 1985. 3/

In his report, the chairman of the Committee on Agriculture had outlined the Committee's work over the past two years. An examination of trade measures affecting market access and supplies, and of the operation of the General Agreement regarding subsidies affecting trade in agriculture, had been substantially completed. 4/ The Committee had discussed what recommendations it should make to achieve greater liberalization in trade in agricultural products. Divergent views had emerged, especially on the treatment of export subsidies, and these were reflected in the Committee's proposed draft recommendations to the CONTRACTING PARTIES, which suggest that the Committee continue its discussions in order to elaborate certain approaches to the liberalization of trade in agriculture as a basis for future negotiations. These approaches include:

(a) Bringing all quantitative restrictions and related measures affecting imports and exports of agricultural products, including voluntary restraint agreements, variable levies, and unbound tariffs, within the purview of strengthened and more operationally effective GATT rules and disciplines.

1/ GATT document L/5718/Rev.1.

2/ GATT documents L/5720 and L/5731.

3/ GATT documents L/5733 and L/5732.

4/ A record of the Committee's deliberations on this matter is contained in GATT document AG/M/3 and addenda.

(b) Improving the existing framework of GATT rules and disciplines with regard to export subsidies and other forms of export assistance, including subsidized export credits.

(c) In conjunction with the previous approach, prohibiting the use of export subsidies and other forms of export assistance, subject to carefully defined exceptions.

Discussion of this item at the Council meeting was brief, since delegations had expressed their views in recent meetings of the Committee on Trade in Agriculture. The representatives of Austria, the Nordic countries, and Spain said they were accepting the draft recommendations in a spirit of compromise, but regretted that these did not take sufficient note of the special characteristics of agricultural production and national priorities for attaining a degree of food self-sufficiency. The representative of the European Communities stated that his delegation was seeking a careful balance in the work program, and its final approval of the draft recommendations would be conditional on it making a favorable overall assessment of the results achieved in other areas of work.

The Council approved the draft recommendations of the Committee on Trade in Agriculture for submission to the CONTRACTING PARTIES.

(4) Quantitative restrictions
and other nontariff measures

The chairman of the Group on Quantitative Restrictions and other Non-Tariff Measures presented the Group's report to the Council for submission and adoption by the CONTRACTING PARTIES. ^{1/} Since the Ministerial meeting, the Group had developed a substantial, but not comprehensive, data base of measures maintained by contracting parties. It had concluded that trade in agricultural products, textile products, and iron and steel products were the most severely affected by quantitative restrictions. The Group had conducted a review of the grounds on which measures were maintained and their conformity with the General Agreement, but its report noted that some contracting parties had not advanced GATT justification for their measures. It was proposing that the CONTRACTING PARTIES authorize the Group to continue its work on the basis of the mandate agreed to at the Ministerial meeting.

The chairman of the Group had proposed that it should adopt a working hypothesis, in carrying further its review of the conformity of measures with the General Agreement, to the effect that, if no GATT justification for a measure was advanced by the contracting party applying it, it would be considered as not conforming with GATT; conversely, if a GATT justification for a measure was advanced, and as long as it was not challenged by another contracting party, the measure would be considered to conform with GATT. Taking note of the working hypothesis proposed by the chairman, the Group had agreed that contracting parties should make

^{1/} GATT document L/5713.

specific written proposals by April 30, 1985 on how they would bring all of their measures into conformity with the General Agreement, or eliminate them, and how they would achieve progress in liberalizing their quantitative restrictions and other nontariff measures.

The Council approved the Group's report for adoption by the CONTRACTING PARTIES.

(5) Structural adjustment and trade policy

The chairman introduced the report of the Working Party on Structural Adjustment and Trade Policy, drawing the Council's attention to the recommendation that it consider how the work of the Working Party might be taken into account in other GATT bodies. 1/ The representative of Canada, supported by the representatives of Chile, Egypt, New Zealand, and India, proposed that the Working Party be instructed to resume its examination of contracting parties' structural adjustment policies, and their implications for trade policy. 2/ The representatives of the European Communities, the Nordic countries, Switzerland, and the United States said it was premature to agree to a new mandate for a working party on this matter, and that problems in this area could be addressed most appropriately in the context of the safeguard consultations.

The Council approved the report of the Working Party for submission to the CONTRACTING PARTIES, and took note of the Canadian proposal.

(6) Trade in counterfeit goods

The chairman stated that informal consultations were taking place on this matter, based on a GATT secretariat paper outlining existing international provisions and regulations. One imperative agreed upon in these consultations was that any action that might be taken to prevent trade in counterfeit goods should be designed so that it could not be used as a protectionist device.

The representative of the United States, supported by the representatives of Canada, the European Communities, Japan, New Zealand, the Nordic countries, and Switzerland, urged the Council to approve his Government's proposal to establish a working party in GATT to consider this matter. 3/ He said that trade in counterfeit goods posed serious risks to consumers and threats to legitimate producers. The representatives of Argentina, Brazil, India, and Korea opposed the U.S. proposal, saying this was not a priority issue on the Ministerial work program, and, in their view, satisfactory international provisions to deal with the matter already existed under the auspices of the World Intellectual Property Organization.

1/ GATT document L/5568.

2/ GATT document C/W/454.

3/ GATT document C/W/451.

The Council agreed that informal consultations should continue on this matter, and that the Council chairman should report on these consultations at the meeting of the CONTRACTING PARTIES.

(7) Trade in textiles and clothing

The chairman of the Working Party on Textiles and Clothing introduced the Working Party's report, noting that work had begun on examining one approach toward further trade liberalization, namely, that of fully applying GATT provisions to trade in textiles and clothing. ^{1/} Other approaches, including trade liberalization within the framework of the MFA, remained open for discussion, and the Working Party proposed that the Council agree to recommend the extension of its mandate for a further period after the Fortieth Session of the CONTRACTING PARTIES.

The representative of Pakistan, on behalf of developing country exporters of textiles and clothing, supported the Working Party's report and the recommendation that its mandate be extended. The representative of the European Communities also supported extending the Working Party's mandate, and expressed the view that the approach considered in discussions held so far, namely, to apply GATT provisions fully to trade in textiles and clothing, might not be the most fruitful. Other approaches would have to be given equal consideration.

The representative of the United States stated that the Ministerial work program had to be considered in its entirety when taking a decision on extending the mandate of the Working Party. Trade in textiles and clothing was a sensitive area for the United States, and his Government could support further discussions toward liberalization only if real progress was being made in other areas of trade that were of more direct interest to the U.S. economy, such as counterfeit goods. As a result, he could not endorse the proposal to extend the mandate of the Working Party.

The representative of the United Kingdom, on behalf of Hong Kong and Pakistan, deplored the attitude of the United States. Different items of the Ministerial work program should not be linked together, as this would reduce the overall rate of progress. Furthermore, a sharp difference of priority had been attached in the work program to trade in textiles and clothing and trade in counterfeit goods; ministers had instructed that work begin to bring about liberalization of trade in textiles, but they had required only that initial discussions take place on the GATT's appropriateness as a forum for considering trade in counterfeit goods.

The representative of Australia said that the statement of the U.S. representative, linking progress on each item of the work program, was a negative development, since it would not be reasonable to conclude that no recommendations could be made on any area of the work program while progress in other areas was lagging. The representative of Austria added that, in his view, it was too early to try to compile the results of the

^{1/} GATT document L/5709.

work program as a complete package, while the representative of the European Communities expressed the view that the overall work program would continue throughout the 1980s, but that one could not wait that long to make final recommendations on some items where work had been completed. Nevertheless, work needed to proceed in a balanced manner, and this required that contracting parties recognize and accept a difference between those items on which work could be completed in the near future, those on which discussions should continue, and those which would become central to the agenda only in the future.

The Council agreed that informal consultations would take place and that the Council chairman would report on them at the CONTRACTING PARTIES' meeting.

(8) Problems of trade in certain
natural resource products

The chairman of the Working Party on Trade in Certain Natural Resource Products made an interim report of the Working Party's progress, noting that a detailed examination of trade in specific natural resource products was still taking place. Work would continue after the CONTRACTING PARTIES' meeting.

(9) Exchange rate fluctuations
and their effect on trade

The Council chairman reported on informal consultations among delegations on exchange rate fluctuations and their effect on trade, held since receipt of the Fund's study on Exchange Rate Volatility and World Trade. ^{1/} He noted that some participants in these consultations had expressed the view that the Fund study had not exhausted the ministers' request on this matter. Erratic fluctuations could have an inhibiting effect on commercial risk-taking, and this could lead to increased protectionist pressures. While difficult to quantify, additional costs imposed on traders could be serious at the margin. Further, currency instability could be expected to have more serious effects on traders in developing countries than on those in industrial countries, but this had not been brought out in the Fund study, which had concentrated attention on data relating to industrial countries.

Other participants had noted that exchange rate risk was only one of many factors affecting international trade flows, and frequently a minor one. Furthermore, it could be minimized through forward currency markets, although it was acknowledged that this might not be a practical option for small traders. The floating exchange rate system had made a positive contribution to the maintenance of international trade and payments, and to the global adjustment process. Clearly, erratic exchange rate fluctuations could not justify protectionist measures, which would not resolve the uncertainty and could even aggravate it.

^{1/} GATT document L/5626, and Fund Occasional Paper No. 28.

Several participants had drawn attention to the implications of currency instability for the operation of the General Agreement, and particularly the basis for calculating antidumping and countervailing duties, the application of safeguard provisions, and contracting parties' willingness to bind tariffs.

The chairman concluded by noting that informal consultations on this matter were continuing, and that he would report on them at the CONTRACTING PARTIES' meeting.

(10) Trade in services

The chairman noted that a request had been received from the United States for the establishment of a working party on trade in services. 1/

The United States representative said that eight national studies on trade in services had been prepared and submitted to the GATT secretariat. These studies accounted for the bulk of world trade in services, and it was essential that they be reviewed expeditiously in a GATT working party, otherwise work on this area of trade would progress outside the GATT, in fora such as the OECD. The representatives of Canada, the European Communities, Israel, Japan, the Nordic countries, and Switzerland supported the U.S. proposal. It was opposed by the representatives of Argentina, Brazil, Cuba, Egypt, Hong Kong, India, and Yugoslavia, who stated that this had not been a priority item on the work program.

It was agreed that further informal consultations would take place on this matter and that the Council chairman would report on them at the CONTRACTING PARTIES' meeting.

(11) Aspects of trade in high-technology goods

The United States representative, who had requested that this item be added to the agenda, stated that work on trade in high technology goods was being carried out on a bilateral basis in fora other than GATT, but that it was an area of world trade subject to rapidly growing protectionism. Work should therefore also begin immediately in GATT on this matter, and he hoped that other delegations would share his delegation's view and agree to begin consultations on a multilateral basis.

The representatives of Israel, Jamaica, and Japan supported the U.S. proposal. The representative of the Nordic countries agreed that this was an important area of trade, but felt it could be adequately discussed in existing GATT working groups and committees without establishing a comprehensive and special program of work. The representatives of Argentina and the European Communities felt the matter did not warrant high priority on the Ministerial work program, and opposed the opening of formal discussions in the GATT.

1/ GATT document C/W/453.

It was agreed that the Council would come back to this matter at a future date.

b. Consultative Group of Eighteen

The Director-General introduced the annual report of the Consultative Group of Eighteen (CG-18) and reviewed the discussions that had taken place. 1/ Five separate subjects had been discussed during the course of the year, namely, trade policy and the international financial system, the status of the Ministerial work program, subsidies in GATT, structural adjustment and trade policy, and countertrade.

The CG-18 had received a report from the Director-General on his discussions with the Managing Director of the Fund and the President of the World Bank during the past year, in which he had underlined in particular the strong view held by the CG-18 that trade problems and trade negotiations should be dealt with under the aegis of the GATT and in conformity with its basic principles. The secretariats of the three organizations could cooperate most usefully by increasing the awareness of their respective constituents to the linkages that existed between the subjects that were their primary fields of concern while respecting their different fields of competence. The CG-18 had supported a stronger role for the GATT Committee on Balance of Payments Restrictions in highlighting external factors that adversely affected the export prospects of countries' consulting over their use of trade restrictions for balance of payments purposes. While it was generally accepted that industrial countries had a responsibility to liberalize access to their markets for exports from developing countries to enable them to service their debts, the readiness of industrial countries would depend on developing countries maintaining relatively liberal trade policies themselves.

The CG-18 had expressed widespread concern over the slow pace of work on the Ministerial work program, and over the lack of a sense of shared commitment among contracting parties to the strengthening of the GATT system. Some members had stated that many items of the work program could only be brought to fruition in a negotiating context, and that to this extent the work program should be acknowledged to be a process of preparation for negotiations. Some members had stated that their readiness to commit themselves to negotiations would depend on far more progress being made with the work program than was evident to date; others had expressed concern over the threat of paralysis of the GATT system which would lead to initiative in trade policy passing outside the contractual framework of the General Agreement.

1/ GATT document L/5721.

The CG-18 had viewed the marked rise in public subsidies during the 1970s with concern, particularly their effect in distorting international market forces. There was a general view that existing rules on subsidies in the General Agreement and the Subsidies Code were not working satisfactorily, but there was no agreement on whether this reflected deficiencies in the rules themselves or in their implementation.

The CG-18 had agreed on the vital role of structural adjustment in promoting efficiency and growth, and on the close relationship between the flexibility of domestic economies and open trade policies. However, there was no agreement on whether structural adjustment policies and developments could be satisfactorily reviewed within a special GATT forum set up for this purpose.

The CG-18 had acknowledged the proliferation of countertrade in recent years, and some members had deplored this as an inefficient form of international exchange and a move toward bilateralism. However, some other members had pointed out that countertrade might be unavoidable for countries in extreme balance of payments difficulties. No conclusions had been drawn on this subject.

Following this report by the Director-General, the representatives of Argentina, Brazil, Chile, Colombia, Egypt, Jamaica, Korea, Malaysia on behalf of the ASEAN countries, Peru, Senegal, and Uruguay expressed dissatisfaction with their representation on the CG-18, and its effectiveness. The Director-General agreed to hold informal consultations on this matter. The representative of Jamaica went on to suggest that, in future, the CG-18 discuss how the monetary and financial policies of the major trading countries influence trade. An extended Fund-Bank Development Committee meeting was scheduled in April 1985, and he was concerned that the Fund and the World Bank were becoming centrally involved in trade issues. The Director-General replied that he would be attending the Development Committee meeting and felt that the representative of Jamaica's concern could be met if he was in a position at that time to report that substantive progress was being made in GATT in dealing with problems confronting the international trading system. He had not been able to do this when attending previous Development Committee meetings.

c. Trade in textiles

The Director-General presented the reports of the Textiles Committee and the annual report of the Textiles Surveillance Body. ^{1/} The representative of Pakistan, on behalf of the developing country exporters of textiles and clothing, noted that this had been a poor year for trade in textiles because of the increasing recourse to restrictions. Urgent progress was called for in this area of trade.

The Council approved the reports for submission to the CONTRACTING PARTIES.

^{1/} GATT documents COM.TEX/38 and 39, COM.TEX/SB/984 and Add. 1.

d. Committee on Balance of Payments Restrictions

The Chairman of the Committee on Balance of Payments Restrictions (BOP Committee) reported on consultations in the past year with Brazil, Ghana, Hungary, Israel, Korea, Nigeria, and Portugal, and examinations under simplified procedures with Bangladesh, India, Pakistan, Peru, the Philippines, Tunisia, Turkey, and Yugoslavia. ^{1/} During their consultations, Brazil and Korea had drawn attention to the fact that restrictions maintained by their major trading partners were suppressing their export earnings and hindering adjustment. At its December 1983 consultation, Brazil had presented a list of trade liberalization measures which, if implemented by Brazil's main trading partners, would greatly improve its prospects for increasing export earnings. The trading partners to which this initiative had been addressed were Australia, Austria, Canada, the European Communities, Japan, Sweden, Switzerland, and the United States. At the October 1984 BOP Committee meeting, the representative of Brazil had expressed disappointment at the lack of positive reactions from these countries. What was worse, in some cases barriers to Brazilian exports had been strengthened or new ones created in this period. Brazil had expected a more cooperative response from its trading partners, and would take due note of the refusal of some contracting parties to accept their share of the responsibility for alleviating Brazil's balance of payments difficulties.

The representative of the European Communities said that, regarding the Brazilian authorities' requests for relief from restrictions facing Brazil's exports, his authorities had been asked to explore the possibility of providing Brazil with tariff preferences on textile products, and had replied that it was not possible to do so. However, the European Communities had resisted protectionist pressures in the past year, some of which would have affected Brazilian exports, and the Brazilian authorities should recognize this. He noted with satisfaction that Brazil's exports were rising markedly and that it had been able to reconstitute its reserve position, so that its economic situation was less desperate than it had been at the time of its BOP Committee consultation.

The representative of Colombia said his authorities had agreed that Colombia should consult in the BOP Committee in 1985 over changes in its import licensing system. However, his authorities felt there was a fundamental imbalance under the General Agreement of rights and obligations between industrial and developing countries that was exemplified by the BOP Committee. Typically, developing countries had more vulnerable balance of payments positions than industrial countries, and when they were forced to resort to restrictive import measures to defend those positions, their trade and financial policies were subject to critical scrutiny in the BOP Committee. Industrial countries also frequently resorted to restrictive import measures, but there was no forum in GATT equivalent to the BOP Committee where their measures were scrutinized in respect of their conformity with the provisions of the General Agreement.

^{1/} Reports by the Fund representatives on these consultations are contained in SM/83/254 (12/20/83), SM/84/76 (4/11/84), and SM/84/135 (6/14/84).

The representative of Chile welcomed the efforts in the BOP Committee to find ways in which countries in balance of payments difficulties could expand their export earnings by opening up foreign market access. The heavily indebted countries, in particular, needed to base balance of payments adjustment more on export expansion than on import contraction. The BOP Committee could contribute to this aim by consulting with countries in balance of payments difficulties on the possibility of improving their access to overseas markets before applying import restrictions for adjustment purposes. Under current procedures, BOP Committee consultations were held ex post of the imposition of import restrictions, and on the assumption that efforts to expand export earnings had been exhausted. Under the procedures proposed by his delegation, consultations could be held ex ante of the imposition of restrictions, and, if successful in identifying areas where exports could be expanded, would act as a preventive mechanism and help to defend a liberal import policy in the country facing balance of payments difficulties. Such a mechanism would require the participation of the Fund to identify the scope of the impending payments problem, and of the GATT secretariat to assist in identifying restrictions that affected products of particular export interest to the country concerned.

The remarks of the Colombian representative and the proposal of the Chilean representative were supported by the representatives of Argentina, Brazil, Peru, and Uruguay.

The Council approved the reports of the BOP Committee, and the Council chairman requested the chairman of the BOP Committee to hold informal consultations on the Chilean proposal.

e. United States-Caribbean Basin Economic Recovery Act and Agricultural Adjustment Act

Considering the reports of the working parties set up to examine the U.S. Caribbean Basin Economic Recovery Act (CBERA) and the Agricultural Adjustment Act, ^{1/} the Council agreed to recommend that the CONTRACTING PARTIES grant the United States a waiver in respect of the CBERA under paragraph 1 of Article I of the General Agreement. The representatives of Cuba and Nicaragua felt the CBERA was discriminatory and a further step toward bilateralism by the U.S. Government. The representative of the Nordic countries said a comprehensive discussion was needed in the GATT on the consistency of granting preferential treatment to developing countries with the principle of multilateralism.

The Council approved the report of the working party that had examined the U.S. Agricultural Adjustment Act. The representatives of Argentina, Australia, and New Zealand deplored the fact that the U.S. Government had applied quantitative restrictions on certain important agricultural imports since 1955, when it had first been granted a waiver under the General Agreement for the Agricultural Adjustment Act. During

^{1/} GATT documents L/5708 and L/5707.

this period, it had taken no meaningful steps toward structural adjustment in the agricultural sector. Australia retained its view that the waiver should be examined in detail to determine if its terms of reference were relevant and if certain amendments might be introduced, such as a fixed date for its termination. The representative of the European Communities saw no possibility of U.S. agreement to termination of the waiver within a fixed time, and suggested that the matter be pursued through the Committee on Trade in Agriculture. He felt the waiver was an intolerable privilege for the United States which increased the imbalance in contracting parties' rights and obligations.

The Council approved these reports for submission to the CONTRACTING PARTIES' meeting.

f. Dispute panel proceedings

The Director-General reported that currently eight dispute panels were in session. Five were examining disputes under various articles of the General Agreement, and their work was generally proceeding satisfactorily, but there was cause for serious concern over the three examining disputes under the MTN Code on Subsidies and Countervailing Duties. Reports by two panels examining EEC subsidies on wheat flour exports and pasta product exports had been submitted to the Committee on Subsidies and Countervailing Measures in March 1983 and May 1983, respectively, but the Committee had not yet found agreement among its members to adopt these. Consultations were continuing on the terms of reference for a panel to examine a complaint by the EC on the U.S. sale of wheat flour to Egypt in February 1983. Several delegations shared the Director-General's concern in this matter, and supported further informal consultations on ways to improve the functioning of the dispute settlement mechanism.

The United States representative, supported by the representatives of Australia, New Zealand, and Uruguay, expressed disappointment at the Japanese Government's slow progress in implementing the recommendations of the panel that had examined Japanese restrictions on leather imports, to the effect that substantial liberalization take place. ^{1/} The representative of Japan said his Government was progressing as fast as was prudently possible with this matter.

The representative of Nicaragua said his Government would appeal to the CONTRACTING PARTIES for help in the face of the U.S. Government's refusal to implement the recommendations of the panel that had examined the reduction in the Nicaraguan quota for sugar exports to the U.S. market. ^{2/} The representatives of Argentina, Brazil, Cuba, Hungary, India, Poland, and Uruguay expressed their concern at the U.S. refusal to abide by the panel findings, and were particularly worried about the repeated U.S. assertion that measures applied for noneconomic reasons were of no concern to the GATT Council, even if they were shown to contravene elements of the General Agreement.

^{1/} GATT document L/5623

^{2/} GATT document L/5607.

The representative of Canada welcomed the willingness of the European Communities to enter Article XXVIII negotiations over the findings of the panel that had examined EC restrictions on imports of newsprint. 1/

g. Other matters

(1) The People's Republic of China was admitted as an observer to GATT. In a brief statement, the representative of China noted that representation at GATT meetings would assist his Government to prepare for a final decision on accession to the General Agreement.

(2) The representative of the European Communities requested that a working party be established to examine distortions observed in the world market for copper ores and concentrates as a result of pricing policy in the Japanese market for refined copper and Japan's purchasing practices in respect of copper concentrates. 2/ Informal consultations between his delegation and that of Japan had not resolved this matter. The representative of Japan opposed the establishment of a working party, noting that his authorities maintained that the practices referred to by the European Communities were entirely the result of private sector operations, and were therefore not a matter for discussion in the GATT.

The Council took note of the discussion and agreed that informal consultations should continue.

(3) The representative of the European Communities, supported by the representatives of Argentina, Australia, Austria, Brazil, Canada, Hungary, India, Japan, New Zealand, the Nordic countries, Portugal, and Switzerland, said his authorities doubted that the new U.S. Foreign Sales Corporation Act, which had replaced the DISC legislation, was compatible with GATT. He asked that this be examined in an appropriate GATT body. The United States representative said his delegation could not support a formal examination of the matter in GATT, but it would welcome bilateral consultations for the purpose of providing information.

The Council agreed to keep the matter on the agenda, and to hold informal consultations on the most appropriate way to proceed.

(4) The representatives of Australia, Brazil, Canada, the European Communities, and Spain addressed their concern over the U.S. Trade and Tariff Act of 1984 (the Omnibus bill). They were particularly doubtful about the compatibility with GATT of Sections 207 (dealing with country-of-origin markings on steel pipes and tubes) and 612 (rendering grape growers eligible to allege material injury from imports of subsidized wine and thereby to demand the initiation of countervailing duty investigations). The representative of the United States acknowledged their concerns and said that his delegation was willing to consult bilaterally on these matters.

1/ GATT document L/5680.

2/ GATT document L/5627.