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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 observer on the meeting of the GATT Council of Representatives, held in Geneva on January 26, 1983.

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INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observer 1/

February 25, 1983

The GATT Council of Representatives met on January 26, 1983 under the Chairmanship of Ambassador Hans V. Ewerlöf of Sweden. 2/ This was the first Council meeting since the GATT Ministerial Meeting of November 24-29, 1982, and the major item on the agenda was the drawing up of a program of action resulting from the decisions taken at the Ministerial Meeting. Other items included a report by the Balance-of-Payments Committee and the presentation of its work program for 1983, discussion of the complaint by the European Communities regarding U.S. tax legislation on Domestic International Sales Corporations (DISCs), and discussion of the suspension of Most-Favored-Nation treatment of Poland by the United States. 3/ The Fund observer at the meeting was Mr. Richard Eglin; this report summarizes the main points of the discussion.

1. Action Program resulting from the Ministerial Meeting

The Council had before it a note prepared by the Chairman listing the 17 items on which specific decisions had been taken at the Ministerial Meeting, and two proposals submitted by the United States and the Ivory Coast for work programs covering, respectively, aspects of trade in high technology goods and trade in tropical agricultural products. 4/ The Chairman introduced the documents and pointed out that the Council was not expected to consider the substance of any of the items at this meeting, but only to decide upon the mechanics of implementing the Ministerial Declaration. He also noted that he had held informal consultations with individual delegations on the various items prior to the Council meeting. As a result he was able to proceed item by item with specific proposals for work action that were adopted with scarcely any intervention from the floor.

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

2/ GATT/AIR/1875 and Add.1.

3/ GATT document C/W/408.

4/ GATT documents C/W/407 and 409, and W.38/3.

The following procedural decisions were adopted by the Council. The Council noted that the Ministerial Declaration stressed the urgency attached to a comprehensive understanding on Safeguards, and it was decided that the Safeguard Committee would convene shortly, following informal consultations between the Chairman and individual delegations. The Council also agreed that the Committee on Trade in Agriculture, the establishment of which had been called for in the Ministerial Declaration, should begin promptly its work and should convene its first meeting on March 2, 1983. The Council further decided to constitute a group to review Quantitative Restrictions and other Non-Tariff Measures, in line with the Ministerial Declaration, and set the first meeting of the group for March 10, 1983. The Council also agreed that the Committees on Tariff Concessions and on Trade and Development would give prompt attention to the Ministerial Declaration on the need for effective action on the escalation of Tariffs, and instructed the Committees to make recommendations as soon as possible on a common system for classifying products for tariff and statistical purposes and recommendations for the reduction or elimination of tariffs. The Council took note of the work of the Committee on Trade and Development in the field of Tropical Products, and urged the Committee to consult further with delegations on this issue and in addition to take whatever action is necessary to implement the Ministerial Declaration on GATT Rules and Activities Related to Developing Countries. The Council further noted that, pursuant to the Ministerial Declaration, the work on Structural Adjustment and Trade Policy should be continued, and it decided that the next meeting of the Working Party on Structural Adjustment and Trade Policy would be convened on March 1, 1983.

The Chairman stated that the Council had been instructed to examine the question of Trade in Counterfeit Goods by the Ministerial Declaration, and it was agreed that the Director-General of the GATT would hold consultations with the Director-General of the World Intellectual Property Organisation. On this item, the representative of the United States noted that, depending upon the outcome of these consultations, his delegation may request the establishment of a Working Party to consider the issue further.

The Council instructed the GATT secretariat to make the necessary arrangements for implementing the decision taken at the Ministerial Meeting on Exports of Domestically Prohibited Goods. The representative of the United States requested the Secretariat to begin work on this issue as soon as possible, since he foresaw that there might be considerable work to be done in this area. The Council reiterated the request in the Ministerial Declaration that the Director-General of the GATT consult with the CONTRACTING PARTIES on the issue of Export Credits for Capital Goods.

The Ministerial Declaration called for a study to be carried out on a priority basis on world trade in Textiles and Clothing, and the Chairman proposed that the Council instruct the Secretariat to prepare the study as soon as possible. The representative of the United Kingdom speaking for Hong Kong asked the Council to set up a Working Party on this issue as soon as the Secretariat study had been completed. The representative of the United States opposed this proposal, while the representatives of Brazil and India supported the proposal of establishing a Working Party at a later date. The representative of the European Communities asked that the Council not take a decision for the time being because he wished to make some general comments after all 17 points of the Ministerial Declaration had been discussed which would have a bearing on the matter under consideration, and the Chairman acceded to this request.

In considering the decision in the Ministerial Declaration on Problems of Trade in Certain Natural Resource Products, the Chairman proposed that the Council take note that informal consultations were underway on this issue, and that the Council revert to this matter at its next meeting. The representative of Finland stated that he would like the Secretariat to provide documentation on this subject as soon as possible, and that although he foresaw that Working Parties would be needed, their composition and terms of reference should be decided upon after the material to be provided by the Secretariat was available. The representative of Canada noted the importance attached by the Canadian Government to the study of forestry products and fish and fisheries products in the forum of the GATT. The representative of Chile expressed the view that the study of non-ferrous metals and minerals should be undertaken separately from forestry and fishery products. Reverting back to the question of the work program resulting from the Ministerial Meeting, the representative of New Zealand expressed his support for the Chairman's proposal that the Council should consider this topic again at its next meeting after the completion of informal consultations, and this proposal was adopted by the Council.

On the issue of Exchange Rate Fluctuations and their Effect on Trade, the Council noted the decision of the Ministerial Declaration and instructed the Director-General of the GATT to consult with the Managing Director of the Fund on the possibility of a study on the effects of erratic fluctuations in exchange rates on international trade. There was no discussion from the floor on this issue.

On the issue of Dual Pricing and Rules of Origin, the Council took note of the request in the Ministerial Declaration for studies to be made, and the Chairman invited delegations to send comments to the Secretariat

on these studies and the way they will be carried out. The Council decided that it would review the question of world trade in Services again at a later stage, and that in the meantime delegations should prepare their own positions on this issue and consult informally with each other. The representative of the United States stated that his Government was keenly interested in this topic, and he encouraged other delegations to consult informally with his own delegation. The representative of Colombia expressed the belief of his Government that the Council should not proceed with undue haste on this matter.

On the issue of Dispute Settlement Procedures, the Chairman noted that the Council would probably increase its activities in this field but that the Ministerial Declaration did not call for immediate action. On the subject of MTN Agreements and Arrangements, the Council took note of the fact that the Ministerial Declaration called for a review of progress made under the Tokyo Round of Multilateral Trade Negotiations. The Chairman reported, however, that in his informal consultations with delegations he had not been able to find a common view on how to proceed with this issue, and the Council therefore decided that he should continue with his consultations and report back to the Council at its next meeting in March.

Two further issues were discussed by the Council in the context of the work program deriving from the Ministerial Meeting. The delegation of the United States tabled a proposal that the Council should agree to examine barriers and distortions affecting international trade in high technology goods, and that the work program should include studies on this issue by the Secretariat and the establishment of a working party which should present its findings to the Council no later than the 1984 session. 1/ The Council decided to note this proposal, and instructed the Chairman to revert to the issue in due course. The delegation of the Ivory Coast had tabled a proposal that studies be made of trade in tropical agricultural products prior to the Ministerial Meeting, and while it had not been possible to deal with this proposal in the Ministerial Declaration, it had been agreed that the issue would be taken up after the Ministerial Meeting in the normal course of GATT work. 2/ It was therefore decided by the Council that the Committee on Trade and Development should examine the proposal at its next meeting.

Following the adoption of the work program on an item-by-item basis, the representative of the European Communities made a statement containing the overall comments of his delegation. He said that the decisions taken by the Council should be viewed as establishing a long-term work program

1/ GATT document C/W/409.

2/ GATT document W.38/3.

for the 1980s, and that none of the individual items of the work program should be approached aggressively. He noted that several of the texts of individual items in the Ministerial Declaration called for the submission of decisions by 1984, and he argued that the Council should not adopt such deadlines since they would probably lead to disappointing results. He went on to argue that the Council should avoid setting up too many working parties, since these tended to tie up the work of the GATT in excessively political debates, and also placed enormous work pressure on individual delegations, particularly the smaller ones. In this context, he expressed his belief that the work of the Secretariat suffered from the need to spend too much time servicing working parties. He suggested that the Director-General should be allowed to exercise full responsibility for guiding the work of the Secretariat, and that while it should continue to consult with delegations, it should be given a good deal more independence to determine its work priorities.

He then reverted to detailed comments on a number of items of the work program that had just been discussed. On the question of trade in counterfeit goods, he noted that his delegation was interested in progressing as fast as possible but not aggressively. He felt that delegations should await the results of the consultations between the Directors-General of the GATT and WIPO. On the question of trade in textiles and clothing, he noted that, while he sympathized with the request of the representative of the United Kingdom speaking for Hong Kong and he did support the establishment of a working party, he felt that the Council should await the report of the Secretariat. Subsequently, the Council adopted this proposal. Lastly, he expressed his support for the comments of the representative of Colombia that undue haste should not be introduced into work on the issue of trade in services on the pretext of the 1984 deadline called for by the Ministerial Declaration.

In response to these comments, the representative of Poland stated that while he felt that informal consultations between delegations were the proper channel for pursuing compromise, he thought that the proposal of the representative of the European Communities to substantially limit the number of working parties went too far since informal and formal channels of consultation needed to be properly balanced. The representative of Brazil, however, lent his support to the proposals of the representative of the European Communities, and also expressed support for the comments of the representative of Colombia on the specific question of the work program to be pursued with respect to trade in services.

2. Balance of Payments import restrictions

The Chairman of the Committee on Balance of Payments Restrictions reported on the work of the Committee since October 1982. 1/ He presented the conclusions of the Committee on the 1982 consultation with Israel, noting that while the effect of the additional restrictive measures on imports imposed in 1982 was relatively small, the Committee believed that the increase in the restrictiveness of the import regime could have been avoided through a strengthening of other, more fundamental, adjustment policies. He stated that the Committee had concluded that full consultations with Bangladesh and the Philippines were not necessary, and that it was recommending to the Council that these countries be deemed to have fulfilled their obligations under Article XVIII:12(b) for 1982. He added that the Committee had decided that a full consultation should be held with Ghana in 1983. Lastly, he presented the schedule of consultations on restrictive import measures taken for balance-of-payments purposes in 1983. 2/ The schedule includes full consultations with Ghana, Hungary, Israel, Nigeria, and Portugal.

No comments were received on this item.

3. United States tax legislation (DISC)

The representative of the European Communities asked the United States for a report on the progress that was being made in amending the DISC tax legislation. The representative of the United States replied that his delegation had informed the Council in October 1982 that the U.S. Administration had decided to propose to Congress an amendment of the DISC legislation. Efforts had been made through informal consultations with other delegations to find an alternative to the DISC which all contracting parties could agree to. He stated that more work on the details was needed, and anticipated that a final answer could be given to the Council at its next meeting in March.

The representative of the European Communities felt that the contracting parties had already been kept waiting too long on this issue, and proposed that the Council adopt the draft decision tabled by the Communities in July 1982 authorizing the Communities to suspend the application of tariff concessions or other GATT obligations to the United States. 3/ He added that such a move might exert useful pressure on the U.S. Administration to resolve this issue promptly. The representative of Canada stated that his delegation was encouraged by

1/ GATT documents BOP/R/127, 128, 129, and 130.

2/ GATT document C/W/406.

3/ GATT document C/W/392.

the U.S. statement that the matter was moving ahead, and that while sympathetic to the point of view of the European Communities, he would prefer the Council to adopt an earlier draft decision of April 1982, also tabled by the European Communities, calling upon the United States to bring the DISC legislation into conformity with the provisions of GATT without delay. 1/ The representatives of Australia, Brazil, Japan, Spain and Sweden all expressed their agreement with the statement of the representative of Canada. The representative of the European Communities accepted the statement of the U.S. representative, and noted that his delegation looked forward to a decision being taken by the Council, either that proposed in C/W/384 or that proposed in C/W/392, in March.

4. Poland--suspension of MFN treatment by the United States

This matter had been discussed by the Council at its previous meeting. The representative of Poland stated that it had been three months since the United States had suspended MFN treatment to Poland, and he tabled a draft decision for the Council to consider urging the United States to restore MFN treatment immediately. 2/ He stated that it was the view of his delegation that the Council should reject the justification for the suspension that had been offered by the United States, namely, that Poland had failed to honor its commitments under Schedule LXV of Poland's Protocol of Accession to the GATT, and he quoted figures to support his arguments that the total value of Poland's imports from contracting parties had grown by an average of more than 7 per cent per annum since 1968. He added that in the view of his delegation the suspension had been made for non-economic reasons. In response, the representative of the United States stated that it was the view of his delegation that no progress had been made since the last Council meeting in resolving the issue. The Chairman therefore determined to bring up the question again at the next Council meeting.

5. Other matters

The Council had a number of other items on its agenda. No delegations wished to comment on the report of the panel set up to examine the tariff escalation on imports of certain automotive spring assemblies by the United States, and it was agreed that the Chairman would consult informally with interested parties to determine how to resolve this matter. 3/ Similarly, no comment was made on the notifications of consultations between the delegations of Canada and the European Communities over Canada's Article XIX actions on leather and non-leather footwear. 4/

1/ GATT document C/W/384.

2/ GATT document C/W/401.

3/ GATT documents L/5333, C/W/396, and C/W/400.

4/ GATT documents L/5351/Add.5 and Add.6, L/5263/Add.8 and Add.9.

The Council took note of announcements by the Chairman of the composition of the panel to examine the imposition of quantitative restrictions on imports of certain products from Hong Kong by the European Communities, and the establishment of a Working Party on the Accession of Paraguay to the GATT. 1/

The representative of Japan submitted a document outlining the recent liberalization of certain import restrictions. 2/ The representative of Canada stated that the European Communities had recently imposed a quota on imports of lumber to France, and he expected that the EEC would notify the GATT accordingly in the near future. The representative of the European Communities explained that this had been necessary because, due to bad weather, a large number of trees had recently been uprooted in France. The Council took note of a statement by the representative of the United Kingdom speaking for Hong Kong that his delegation believed the imposition of a tariff on garment imports from Hong Kong by Canada in 1979 had not been in accordance with the GATT. Finally, the representative of Argentina noted that in the light of paragraph 7(iii) of the Ministerial Declaration, his delegation wished the Council to review Argentina's complaint about trade restrictions taken for non-economic reasons again, but that there was no particular urgency. On this matter, the representatives of the European Communities and the United States stated that they reserved their positions.

1/ GATT document L/5446.

2/ GATT document L/5454.