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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 Executive Directors, is a report by the Fund Observers on a special meeting of the GATT Council of Representatives, held in Geneva on November 1, 1983.

Att: (1)

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Department Heads



INTERNATIONAL MONETARY FUND

Meetings of the GATT Council of Representatives

Report by the Fund Observers 1/

November 21, 1983

The GATT Council of Representatives held a special meeting on November 1, 1983, to review developments in the trading system under the Understanding regarding Notification, Consultation, Dispute Settlement, and Surveillance adopted by the CONTRACTING PARTIES in 1980. 2/ A regular meeting of the Council convened immediately after the special meeting. 3/ Ambassador Hans V. Ewerlöf of Sweden chaired both meetings. The Fund observers at the meetings were Messrs. Carlos Sanson and Richard Eglin.

Special Council Meeting

The Chairman recalled that the Ministerial Declaration of November 1982 had called upon contracting parties to refrain from taking or maintaining any measures inconsistent with GATT and to resist protectionist pressures. Introducing the Secretariat's background document cataloging trade measures that had been taken since the last special Council meeting, he noted that once again it contained a section for measures which had not been formally notified to the GATT, and recalled the Council's attention to a proposal of the Nordic countries that a working party should be set up to examine the notification process. 4/

The Director-General outlined the role he envisaged for the new Trade Policies Division of the GATT secretariat. There was a clear need to improve the secretariat's data base regarding nontariff measures, and he hoped notifications of nontariff measures could be raised to the level that had been achieved with tariffs. The new division would assist the Council in its monitoring of trade policies in the light of the Ministerial Declaration and would not confine itself to collating information on notified measures, but would also monitor as exhaustively as possible trade policies and measures that were not formally notified. It was his intention that the new division would help to strengthen GATT as the international center of information on trade policies, and that its work would also be oriented toward assessing the impact of trade measures on trade flows. Finally, he added that it would allow GATT to cooperate more closely with the Fund and other international organizations.

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

2/ GATT/AIR/1958.

3/ GATT/AIR/1962.

4/ GATT document C/W/420/Rev.1.

The representative of Norway, speaking on behalf of the Nordic countries, noted that, although the secretariat document showed that only a limited number of new measures had been taken since the special Council meeting in July, many of these measures would have a significant impact on trade flows, particularly those taken under Article XIX of the GATT. In his view, this added up to an important increase in protectionism in recent months, with no indication that contracting parties were complying with paragraph 7.i. of the Ministerial Declaration, which called for a standstill on protectionist measures. He said the Nordic countries felt that notification obligations were not being observed, and that their proposal for a working party was aimed at improving GATT guidelines on notification procedures, including the establishment of more uniform obligations for notifications under specific GATT Articles. The representatives of Australia, Chile, the European Communities, Japan, and Spain also expressed concern over the failure of contracting parties to honor their notification obligations, but, following discussion of the Nordic countries' proposal, it was decided that, in the first place, the Director-General should consider the need for a working party and report back to the Council. The representatives of Chile, Japan, the Philippines, Singapore, Spain, and the United States expressed support for the work of the new Trade Policies Division, and the Director-General stressed that the new division would not try to differentiate legal from illegal measures, nor assess to what extent contracting parties' measures were in compliance with paragraph 7.i. of the Ministerial Declaration.

The representatives of Japan drew the special Council's attention to recent trade liberalization measures taken by his Government. he said these measures were intended to break the ice of inaction with regard to trade liberalization, and he encouraged other countries to follow Japan's lead. The representative of the United States welcomed the Japanese measures, but stated that, in the view of his delegation, more substantive measures were needed on the part of the Government of Japan if the result was to be a significant increase in trade flows.

The Chairman summed up the special Council meeting by noting that the Council had stressed that the notification procedure needed to be improved, had instructed the Director-General to consider the need for a working party to review the notification process, and had commented on the lack of progress to date in achieving a standstill or rollback of protective measures as called for in the Ministerial Declaration.

#### Regular Council Meeting

The regular Council meeting was the last held before the Thirty-Ninth Session of the CONTRACTING PARTIES scheduled for November 21-24, 1983. As a result, many items on the agenda concerned annual progress reports on work under way in the GATT that are to be submitted to the meeting of the CONTRACTING PARTIES. 1/ Among the more important of these was the Chairman's report on Safeguards. In addition, the Council

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1/ GATT document C/W/430.

heard a report by the Director-General on recent meetings of the Consultative Group of Eighteen, and discussed the follow-up on the report of the Panel on Quantitative Restrictions on Imports by the EEC of Certain Products from Hong Kong, and a request by the United States for a waiver in respect of its Caribbean Basin Economic Recovery Act.

1. Safeguards

The Council Chairman reported on the status of his informal consultations with delegations that are aimed at establishing a comprehensive understanding on safeguards. 1/ He regretted that his consultations had not advanced far enough for such an understanding to be presented to the CONTRACTING PARTIES at their forthcoming session, as had been called for in the Ministerial Declaration, but he said he intended to make a determined effort to arrive at an agreement on immediate action to be taken on safeguards before the CONTRACTING PARTIES' meeting. He noted that the starting point in his informal consultations had been an examination of measures of a safeguard nature that had actually been taken, and the circumstances in which contracting parties had used Article XIX measures and so-called "grey area actions." The representatives of Australia, Canada, India, Japan, and New Zealand expressed their support for the Chairman's efforts, but noted that, in view of the importance and complexity of the question of safeguards, it may be some time before agreement on immediate action could be reached.

2. Consultative Group of Eighteen

The Director-General reported to the Council on recent meetings of the Consultative Group of Eighteen. 2/ He said that valuable discussions had been held on developments in trade relations and trade policies since the GATT Ministerial meeting, and he referred in particular to the progress that the Group felt had been made on the question of safeguards and securing more effective functioning of the dispute settlement procedures. On the relationship between trade policy and the international financial system, he noted that the Group had discussed the scope for increased cooperation between the GATT, the Fund, and other international organizations, the possibility of improving the procedures of the GATT Committee on Balance-of-Payments Restrictions and extending the ambit of its concerns, and the difficulty of ensuring symmetry of treatment between indebted countries and creditor countries. He emphasized the importance the Group had attached to the principles of multilateralism and most-favored-nation treatment, and to firmly retaining the handling of trade problems and trade negotiations under the aegis of the GATT. In his written report to the Council, the Director-General called attention to the Group's conclusion that the GATT contribution to improved GATT/Fund cooperation could be to ensure that the Fund was made aware of trade policy problems for the purpose of discussion with its members, and was able to take better account of the trading environment confronting them. Finally, the Director-General noted that the Group had called for energetic pursuit of the work program set down at the Ministerial Meeting.

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1/ GATT document Spec(83)47.

2/ GATT document L/5572.

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

The United Kingdom representative, on behalf of Hong Kong, referred to the statement made by the representative of the European Communities at the last Council meeting that, in compliance with the Panel's findings, restrictive measures would shortly be removed from three of the products at the center of the dispute, and it was intended to eventually remove the restrictions on the remaining five products. He noted that the three products shortly to be liberalized represented only 1.5 percent of the total trade covered by the disputed restrictions, and asked what progress could be expected in liberalizing the remaining five products, the most important of which was quartz watches. The representative of the European Communities said liberalization would take some time, since it would meet opposition from entrenched interest groups and the restrictions were of a long-standing nature. The representatives of Brazil, Chile, Colombia, Hungary, India, Korea, and Singapore urged the Communities to comply with the Panel's findings as soon as possible in the interest of maintaining the credibility of the system of dispute settlement. It was agreed to revert to this issue at the first Council meeting in 1984.

4. Request by the United States for a waiver in respect of its Caribbean Basin Economic Recovery Act

The United States representative said his Government was requesting a waiver under Article XXV.5 of the General Agreement to extend duty-free status to certain imports from the Caribbean Basin countries. 2/ He said that, although it was recognized that this would create a preferential trading relationship between the United States and the Caribbean countries, his Government's view was that the Act did not establish barriers to trade and would lead to only a small shift in trade because of the limited production potential of the Caribbean Basin countries. The representatives of Argentina, Austria, Brazil, Chile, Colombia, Israel, Nicaragua, and Spain said they wanted time to study the documentation before deciding if, as was customary in such a situation, a working party should be set up to examine the request for a waiver. The representative of the European Communities favored the immediate establishment of a working party. Since no consensus could be reached, it was agreed to refer the matter to the CONTRACTING PARTIES at their forthcoming meeting.

5. Other annual progress reports on work under way in the GATT to be submitted to the CONTRACTING PARTIES at their Thirty-Ninth Session

a. Progress report on the Committee on Trade in Agriculture 3/

The representative of Argentina regretted that the Committee Chairman's report did not address the question of whether contracting parties were ready to accept the disciplines of Article XVI of the

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1/ GATT document L/5511.

2/ GATT documents C/M/171 and L/5573.

3/ GATT document L/5563.

General Agreement, which concerns subsidies, and, in his view, the Committee should address the question of implementing that part of the Ministerial Declaration calling for special treatment for developing countries in the area of trade in agriculture. The representative of Australia regretted that there had been a lack of policy content in the Committee's discussions, and said the future work of the Committee should focus on the trade-distorting effects of measures in the agricultural field. The representative of New Zealand said his delegation had been encouraged by the meetings the Committee had held so far, but felt there was still much to be done, and that the problems needed to be addressed more directly.

b. Report of the Working Party on  
the U.S. Agricultural Adjustment Act 1/

The representative of the United States said his Government was unwilling to remove the restrictions on certain agricultural imports under the Act while other countries retained measures affecting their own trade in agricultural products. The representatives of Argentina, Australia, Brazil, Canada, Chile, the European Communities, India, and New Zealand all stressed that, in their view, the removal of these measures by the United States could not be considered negotiable.

c. Reports on the MTN agreements and arrangements 2/

The representatives of Argentina, Colombia, and India noted that developing countries were reluctant to sign the agreements on the various MTN codes because of the rigidity with which the agreements were being implemented. In their view, the operation of the codes could be much improved if the disciplines contained within them were to be interpreted more flexibly so that a larger number of contracting parties, in particular the developing countries, would be willing to participate.

6. Other items

The Council again failed to reach agreement on the initiation of a study on Aspects of Trade in High Technology Goods, and it was agreed to revert to this item at the next meeting. 3/ With regard to the issue of Structural Adjustment and Trade Policy, many delegations felt that considerable progress had been made by the working party set up to examine this question. 4/ However, no agreement could be reached on the next step for the GATT's work program in this area, and it was agreed to revert to this item at the next meeting. The report of the Chairman of the Committee on Balance-of-Payments Restrictions was received without comment. 5/ The Council also approved, with some minor revisions, the draft report on the work of the Council which will be submitted to the CONTRACTING PARTIES at their forthcoming meeting. 6/

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1/ GATT document L/5569.

2/ GATT documents L/5486, L/5491, L/5496, L/5503, L/5545, L/5546, L/5548, L/5553, and L/5554.

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

4/ GATT document L/5568.

5/ GATT documents BOP/R/133 and 134.

6/ GATT document C/W/426.

