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January 19, 1995

To: Members of the Executive Board

From: The Acting Secretary

Subject: GATT Council Meetings; 50th Session of the CONTRACTING PARTIES; Special Council Meetings - Trade Policy Reviews of Hong Kong, Canada, Indonesia, Zimbabwe, Sweden, and Israel; and Committee on Balance of Payments Restrictions - Consultations with India and Pakistan

Attached for the information of the Executive Directors is a report by the Fund representatives on the above GATT meetings held during the period October 4 to December 20, 1994.

Mr. Taplin (tel. 41.22.7343000) is available to answer questions on this paper.

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GATT Council Meetings; 50th Session of the CONTRACTING PARTIES; Special Council Meetings - Trade Policy Reviews of Hong Kong, Canada, Indonesia, Zimbabwe, Sweden, and Israel; and Committee on Balance of Payments Restrictions - Consultations with India and Pakistan

Report by the Fund Representatives 1/

January 18, 1995

I. GATT Council Meetings--October 4, November 10, December 15, 1994 2/

The three meetings between the summer break and prior to the entering into force of the World Trade Organization (WTO) were dominated by outstanding and new disputes and an overview of developments in international trade and the trading system. Positions taken reflected efforts to avoid undercutting the ratification process of the Uruguay Round Agreements.

1. The short meeting on October 4 dealt mainly with old and new disputes, but also with reports from a number of working parties. On disputes, parties continued to use their veto right to block adoption of reports. The United States blocked the adoption of the second tuna panel report on its secondary embargo of tuna imports, saying that it had not had sufficient time to study the report. The panel strongly condemned the use of unilateral trade measures to enforce a country's environmental policies outside its jurisdiction. Many--especially developing countries--underlined that the conclusions were critical for the trade and environment debate in the GATT/WTO and this would be a landmark case in this respect.

Some ten countries (including several developing ones) had been affected by a U.S. regulation requiring domestic tobacco manufacturers to purchase a certain amount of domestic tobacco or be subject to additional fees. The panel decided against the United States, and the United States indicated that changes to relevant domestic laws were already being made in Congress.

Venezuela requested the constitution of a panel to challenge U.S. environmental laws on reformulated gasoline that allegedly discriminate against imports and violate the most-favored-nation (MFN) principle--

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1/ Staff members of the Office in Geneva.
2/ Chaired by Ambassador M. Zahran (Egypt).

regulations for imports not originating from U.S. subsidiaries have different formulas to qualify for the "reformulation" standard than those from domestic sources.

A brief statement on the unadopted banana panel reports was made by Guatemala on behalf of a number of Latin American countries to keep the issue alive. Few solutions to the dilemma are likely before the new dispute settlement rules take effect and the issue is re-introduced in the WTO.

The European Union (EU), joined by Australia and Switzerland, requested more details and multilateral transparency on the recent U.S. bilateral agreement with Japan on market openings. They urged the publication of the texts of the agreements.

On regionalism, the report of the Working Party on the Fourth Lomé Convention shed little new light on the Convention's GATT-compatibility. No delegation questioned the objectives of the agreement, but rather the modalities of bringing it to GATT conformity. The EU claimed that it fitted GATT rules under Part IV (special treatment of developing countries) and Article XXIV (free trade areas), but others rejected the latter point, arguing that the article does not cover unilateral preferences. This was also a view expressed in the recent unadopted panel reports on bananas. The Convention could be made GATT-compatible with a waiver, which the EU was urged to request (see below).

The report of the working party on the customs union between the Czech and Slovak Republics concluded that the agreement was in line with GATT (Article XXIV), as it covered almost all trade and did not increase duties against outsiders.

Under "Other Business", Mexico informed the Council of the signing of a free trade agreement between Mexico and Bolivia, which will enter into force in January 1995 and have a twelve-year transition period.

Under "Other Administrative Issues", the United States tabled an unofficial paper on procedures to speed up efforts to improve derestriction of GATT documents. The Chairman of the CONTRACTING PARTIES will continue consultations on the matter. Lastly, the EBRD was admitted as an observer to GATT Council meetings.

2. The most interesting agenda items of the meeting of November 10 were: (i) a request by the EU for a waiver for the Lomé Convention - nearly thirty years after its initiation; and (ii) the first-ever resort by India to the GATT dispute settlement system.

The Director General presented his annual report on the settlement of disputes. The number of formal disputes initiated during the past twelve months had declined from 31 to 15, a decline which may reflect in part the stability generated by the conclusion of the Uruguay Round, but perhaps also that delegations were awaiting the more "biting" dispute settlement rules of the WTO.

India requested a panel on Poland's trade policies regarding car imports. Poland had increased duties on cars from 15 percent to 35 percent two months before the Europe Agreement with the EU came into effect, and subsequently gave a duty free quota to 34,000 cars imported from the EU. India had been on the point of obtaining a foothold in the Polish market, when its cars, priced around US$3,500, were hit by a US$1,000 duty. According to India, the Polish action, by raising protection against outsiders in the context of the conclusion of a free trade agreement, is against GATT rules on regional arrangements in Article XXIV. The case raises a very sensitive, long-debated and unresolved issue in GATT on how to measure an increase in protection to outsiders with free trade agreements.

Other disputes discussed included the postponement of discussion on the recent U.S.-EU dispute on pollution taxes on imported cars, and outstanding panel reports on bananas and tuna. A proposed French rule requiring imported and domestic scallops to bear different labels was also discussed.

The waiver on the Lomé Convention, requested by the EU and 46 of the 70 developing country signatories to the Convention that are GATT members, was not yet accepted. After years of uncertain legal status, the EU had finally agreed to regularize the agreement vis-à-vis the GATT. By requesting a waiver at this time, the EU would transfer the waiver into the WTO, which it can do for a two-year period, but waivers in the WTO will be under closer scrutiny and stricter time limits. The wording of the waiver may also imply that some of the conclusions of the banana panels would no longer hold, thus allowing the EU to continue to grant preferential treatment to Lomé countries. The United States opposed the waiver at this meeting, partly because it wants to link it to the EU's acceptance of the two banana panel reports. The United States, an interested party because of banana multinational firms located in the United States, is presently negotiating (in Brussels) a larger EU quota for Latin American banana producers. With no resolution, there will be a return to this issue at future Council meetings.

Georgia and Sudan were admitted as observers to the Council.

3. Special Council Meeting on the Trade Policy Review Mechanism: Overview of Developments in International Trade and the Trading System, December 15, 1994 1/

The points in the overview which attracted attention, and were amplified in an introductory statement by the Director General, Mr. Peter Sutherland, related to challenges ahead. These were seen as being of two kinds: immediate challenges to translating the promise obtained in the Uruguay Round Agreements into enduring reality for enterprises and consumers worldwide; and of a more long-term nature, challenges for international commercial relations from other processes, such as the ongoing integration

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1/ Chaired by Ambassador K. Kesavapany (Singapore).

of the world economy and the attendant adjustment pressures on domestic economies.

Completion of the ratification process of the Uruguay Round Agreements was the immediate challenge. Nearly all GATT Contracting Parties had finalized their schedules of commitments on goods and on services, and the Director General announced at the time 55 Contracting Parties had ratified or had completed the domestic ratification procedures. The Secretariat report anticipated that up to 100 countries, covering most of GATT's membership, would have completed ratification by December 31, 1994. 1/ Other challenges noted in the report were ensuring an orderly transition from the GATT 1947 to the WTO, the creation of a global trading system (with the completion of the accession procedures now in course); ensuring a forward momentum by maintaining confidence in the existing system (marked by a willingness to abide by the letter and spirit of the WTO Agreement); and ensuring the effective participation of developing countries in the trading system.

As the most important challenge, the Director General identified the need to maintain confidence in the new system by full implementation of the WTO Agreement. The complex and far-ranging set of commitments contained a finely balanced package reflecting political compromises made during the negotiating phase. It was of paramount importance to respect this balance in the implementation process and to make sparing use of the flexibility provisions built into the accords. This implicit concern was echoed by a number of members (notably Hong Kong), which saw danger signals about the true strength of commitment to the WTO in the way antidumping arrangements were being interpreted by industrial interests in some countries.

Of a longer term nature, the Director General saw challenges arising from the continuing reform process in many developing economies, the transition to market systems in Central and Eastern Europe and the former Soviet Union, divergent demographic trends in different regions of the world, the increasing number of regional integration agreements, and the interface between the trading system and sectors of policy which was formerly considered to be purely domestic.

Delegations participating in the discussion endorsed this assessment of immediate and prospective challenges for the international trading system. In addition, some voiced concern over the strain which would be placed on the WTO by the heavy workload arising from the large number of requests for accession now under consideration.

The Trade Policy Review Mechanism itself also came in for a new round of comments. All speakers urged that greater attention be paid to creating an open and genuine dialogue on trade policy issues and stances, rather than continuing the present trend of questions and answers primarily on technical

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1/ In the event, 81 countries had completed the ratification process as of January 1, 1995, the start-up date of the WTO.

detail. In that connection, some delegates were encouraged by the shift in many government reports prepared for trade policy reviews with greater emphasis on policy matters.

II. 50th Session of the CONTRACTING PARTIES 1/

In an overview of the trading system, Ambassador Szepesi (Hungary), Chairman of the CONTRACTING PARTIES, observed that world trade growth had doubled during 1994 (from 3.5 percent to 7 percent) and prospects were good for growth to continue as a result of the implementation of the WTO Agreement. Four main areas likely to receive attention in the near term were: (a) speedy handling of the numerous accessions; (b) processing and examination of regional trading arrangements; (c) rethinking the operation of the Trade Policy Review Mechanism; and (d) the achievement of greater transparency in activities and access to relevant information to improve the image of the organization.

A number of themes emerged in the addresses by delegations. Agricultural exporters (e.g., Argentina, Australia, Canada, Uruguay) called for rapid steps to initiate further liberalization in agriculture beyond Uruguay Round commitments, and the elimination of all export subsidies. The dangers in the resurgence of protectionism was the main issue in the EU speech, which was echoed by Hong Kong. Potential problems with regionalism and a need to review existing practices in dealing with them in the GATT/WTO were raised by Australia, Hong Kong and Korea. Mention was also made of competition policies and investment issues as relevant near term issues in the international trading system.

Both China and Russia addressed the meeting. China, in the midst of difficult negotiations on its status as a Contracting Party, reminded the meeting that the GATT/WTO and China needed each other. China had participated actively in the Uruguay Round and made commitments in all areas; irrespective of the outcome of the GATT negotiations, China's reform process was assured and would continue. Russia stated that it was eager to join the WTO. It also informed the meeting that Russia had started a new phase of reforms, with the goal of improving the investment climate and the removal of export restrictions in 1995.

The CONTRACTING PARTIES also approved reports of the Council and of various committees. A waiver for the Lomé Convention was approved with little discussion. The United States and Guatemala spoke, stating that the waiver should not permit discrimination in the EU banana regime. Another waiver was granted for the transitional arrangements related to German unification.

The Arab Maghreb Union was granted observer status.

1/ December 8-9, 1994.

III. Special Council Meetings--Trade Policy Reviews

1. Hong Kong, October 5-6, 1994 1/

There was broad commendation for Hong Kong's trade policies--a prime example of successful implementation of free trade principles. Since the last review four years ago, Hong Kong had undergone rapid structural change toward a high value-added service economy. Manufacturing had shrunk from 20 percent to 13 percent of GDP between 1988-92, although the share of textiles and clothing had remained disproportionately high at 44 percent of manufacturing employment. Hong Kong's key in maintaining growth and high employment levels in a period of drastic structural change was in stable economic fundamentals, and letting market forces determine resource allocation.

The "China factor"--the opening of China--provided a new growth pole for Hong Kong. It speeded structural change and eased adjustment by relocating land- and labor-intensive manufacturing to China, while increasing skill-intensive activities in Hong Kong. In response to questions about the potential uncertainties of Hong Kong's return to China in 1997, the Hong Kong representative 2/ said that business would continue as usual, as Hong Kong would remain an independent customs territory with independent economic policies. However, the dependence on trade with China would mean that Hong Kong would also be dependent on China's access to third markets.

On competition issues, while free trade guaranteed competition in its mostly small-scale manufacturing sector, the situation was less clear in Hong Kong's services. Some delegations criticized the exclusive role of local conglomerates in sectors such as distribution, banking, and telecommunications, or restricted access to licenses for doctors and lawyers. Hong Kong currently has no anti-trust laws in place, and the authorities were not convinced of the need for competition laws, or of the existence of anti-competitive behavior in the economy. As some studies had shown that competition laws could also lead to anti-competitive behavior by enterprises, the authorities preferred to study the merits and problems of competition laws carefully, and to this end had undertaken competition studies in selected sectors (banking, supermarkets, gas supply, telecommunications, and broadcasting).

The Hong Kong delegation stated that the proportionately large role of the textiles and clothing sector in the economy was caused by external factors (Multifibre Arrangement (MFA)). Many industries only exist because of rent in export markets created by MFA quotas. The liberalization

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1/ The meeting was chaired by Ambassador M. Zahran (Egypt). The discussants were Mr. P. Palecka (Czech Republic) and Ambassador W. Armstrong (New Zealand).

2/ Mrs. Regina Ip, Deputy Secretary for Trade and Industry.

resulting from the Uruguay Round Agreements would change this over the next ten years. However, most labor would likely be absorbed in other booming activities.

2. Canada, November 21-22, 1994 1/

Council members commended Canada for its continued commitment to an open and stable international trading regime, especially through its active and constructive participation in the Uruguay Round. Many members welcomed the continued efforts to remove inter-provincial trade barriers and streamline Canada's tariff structure. However, numerous criticisms were directed at Canada's current and anticipated policies, especially the slow pace of reform in some sectors, and many issues that had been raised in the two previous TPRs. Specifically:

. the high level of public debt, especially its effect on export growth via currency depreciation;

. the perceived drift towards regionalism, and the danger of trade diversion resulting from regional pacts;

. the high level of inter-provincial trade barriers, especially in the areas of public procurement, alcoholic beverages, and food products;

. the complexity of Canada's tariff structure;

. frequent recourse to antidumping procedures; and

. heavy protection, especially in textiles and clothing and agriculture, and the imposition of very high, above quota tariff rates on agriculture.

The Canadian representative 2/ noted that since the previous TPR the Canadian economy had experienced a significant recovery, largely driven by trade. Also, the completion of the Uruguay Round and the NAFTA negotiations constituted a substantial liberalization effort that was expected to produce significant gains for Canada. The Canadian statement responded to issues raised in the Secretariat report and by Council members. The Canadian representative noted that the Canadian tariff structure had undergone significant improvements and a major three-year review of the entire tariff system had been launched recently. On NAFTA, the rules of origin constituted an improvement on those set out in the Canada-U.S. Free Trade Agreement. Canada held the view that NAFTA was GATT-consistent and open to any interested country, and its policy was to diversify its trade structure, particularly towards the Asia-Pacific region. Regarding agricultural support, Canada intended to convert existing agricultural import controls to

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1/ The meeting was chaired by Ambassador M. Zahran (Egypt).
2/ Geneva-based Ambassador G.E. Shannon. The discussants were Ambassador L.F. Lampreia (Brazil) and Mr. O. Lundby (Norway).

a system of tariff rate quotas that would be allocated according to their present allocation.

3. Indonesia, November 29-30, 1994 1/

Taking place shortly after the Asia-Pacific Economic Cooperation (APEC) summit meeting in Bogor, there was respectful praise for the reform and liberalization policies pursued by Indonesia, but broad criticism of the "opaqueness" of the trade policy regime, which preserved many distortions and protectionist measures.

The Secretariat's report noted that policy-making was highly informal and centralized. It criticized the anti-export bias inherent in Indonesia's trade regime and called for reforms "to go beyond removing restrictions on international trade to tackle impediments to competitive behavior within the domestic economy". The discussants, 2/ and Council members, 3/ dealt with the pace, direction and nature of Indonesia's transition from an import substitution development strategy, as pursued up to the 1970s, to the present course of encouraging export-led growth. However, the functioning of the trade and investment regimes were considered to be complex and discretionary, and many requested fuller information on government support for "strategic commodity industries". It was suggested that transparency could be facilitated by setting up a public independent statutory body to advise the Government and by publication of the documents of the Tariff Team.

In his introductory remarks, the leader of the Indonesian delegation 4/ reviewed positive developments in the Indonesian economy, stressing that sound macroeconomic policies had been implemented since the previous trade policy review in 1990. Since then, real economic growth had averaged over 6 percent, inflation had been kept below 10 percent in recent years, trade and investment liberalization had continued--although at a slower pace--and the diversification of exports from the petroleum sector into manufacturing had been maintained (non-oil exports accounting for 76 percent of the total in 1993). Indonesia was playing an active role in the development of cooperation within ASEAN and the APEC zones, had been an active and effective participant in the Uruguay Round, and had recently ratified the WTO Agreement.

The Indonesian representative recalled that the need to eradicate poverty and frame policies in such a way as to avoid social disruption was a

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1/ Chaired by Ambassador M. Zahran (Egypt).

2/ Ambassador D. Kenyon (Australia) and Mr. M. Kumar (India).

3/ Australia was among the more active members in the discussion, and had tabled detailed written questions. The delegations of Canada, the EU, New Zealand, Canada, Sweden and the United States also offered detailed comments.

4/ Ambassador Kartadjoemena, Senior Advisor to the Board of the Central Bank of Indonesia.

central concern. A stable macroeconomic environment was needed to ensure that trade liberalization had lasting effects and to sustain growth over the long term. The shift to outward orientation had required major measures of deregulation, and institutional changes would have to be put in place to deal with the Uruguay Round implementation. The Government conceived the role of strategic industries, support to which had been declining, as being to provide an adequate base on which to build high-tech capacities for the future.

Comments on the import regime recognized that Indonesia had made great strides in moving from heavy reliance on non-tariff measures to greater use of bound tariffs. However, the overall average tariff was still high (especially by regional standards); tariff escalation and dispersion had increased, frequently magnified by import surcharges; significant tariff peaks remained; and also surviving import licensing procedures were complex and often backed up by state-trading enterprises or monopolies. Concern was also expressed about Indonesia's government procurement practices, which remained restrictive and gave preferences to domestic suppliers.

While declining to offer a precise timetable for future reforms, the Indonesian authorities intended to reduce average tariffs further (including those on motor vehicles), and reduce tariff disparities. Surcharges were temporary; discriminatory taxes would be eliminated; import licensing would be reduced (though still used to allow infant industries to develop scale economies); and the commitment was accepted to eliminate non-tariff measures in agriculture.

4. Zimbabwe, December 1-2, 1994 1/

In its first review of trade policies by the GATT Council, Zimbabwe was mostly complimented for its bold reforms undertaken since 1990. In its opening remarks, the Zimbabwean delegation 2/ noted that trade policy reforms had been one pillar of its adjustment program supported by the Bank and the Fund, along with deregulation and fiscal and monetary reform. The country was undergoing a drastic shift from a sanctions-driven inward-looking and regulated economy inherited at independence in 1980, to an open and market-based one. The reform effort had been sustained despite the severe drought in 1992. The fruits of reform were already apparent--inflation had been reduced from some 46 percent in January 1993 to some 22 percent per annum in December 1994.

On the macroeconomic framework, the discussants 3/ and some delegations (especially the EU and the Nordic countries) raised concerns about the persistent fiscal deficit, driven in part by large subsidies and net lending to state enterprises, and about the high inflation. In its

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1/ Chaired by Ambassador M. Zahran (Egypt).
2/ Headed by Mr. Nkomani, Permanent Secretary for the Ministry of Industry and Commerce.
3/ Mr. A. Lecheheb (Morocco) and Ms. A. Stoddard (United Kingdom).

response, the delegation of Zimbabwe noted that efforts were being made to keep inflation and the budget deficit close to targets--single digit levels for the former and 5 percent of GDP for the latter. Privatization would be gradually undertaken by the recently established Privatization Committee, and it was hoped that privatization of many state enterprises relying on government subsidies would reduce the deficit.

On trade policies, many members (e.g., Australia, the United States, EU, Canada, Nordics) expressed concern about the low number of bindings and that many important products still remain under restraints, such as textiles and clothing in which the country was likely to have a comparative advantage. Other more general issues raised (primarily by Australia, Canada, the United States) were the use of tariffs for emergency protection instead of safeguards or antidumping duties; progress in reducing the 10-15 percent surcharge on imports; and the permit system in agriculture (Argentina, Australia).

The Zimbabwean delegation replied that many of the existing anomalies reflected the fact that they were still in the process of rationalizing the tariff system, and many of the issues raised would be addressed in this context in the near future. A recently conducted study on tariffs would serve as a basis for further work and discussion in the Government. While recognizing the importance of bindings, they were unwilling to make firmer commitments before finalizing the trade reform. The use of changes in unbound tariffs as safeguards was explained by a need for flexibility during the reform process. However, the Zimbabwean delegation recognized that safeguards or antidumping laws would be more appropriate now that most controls on imports had been removed.

Most questions on the external environment related to the consequences for Zimbabwe of the erosion of EU preferences resulting from the Uruguay Round, regional trade arrangements, and trade relations with South Africa. To this the Zimbabwean delegation replied that most regional agreements were still under consideration and it was too early to report any results or direction of changes in existing arrangements. In contrast to frequently voiced international concern over preference erosion, the Zimbabwean delegation stated that this was not a major issue for them, as the authorities would seek to export new products to markets outside the EU.

5. Sweden, December 15-16, 1994 1/

The review took place only 15 days before the commercial policy-making autonomy of Sweden would disappear with its accession to membership of the European Union (EU). Sweden's willingness to accept the review at such a time won compliments for the sense of "fair play" this manifested. A positive assessment of Sweden's trade policy was widely shared by members of the Council, who paid tribute to the important market-opening measures which

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1/ Chaired by Ambassador M. Zahran (Egypt). The discussants were Ambassador B. Gardner (United States) and Mr. A. Constantinescu (Romania).

Sweden had taken in the past four years, especially in textiles, clothing and agriculture. This was taken as evidence of Sweden's continuing adherence to liberal trade principles. Nevertheless, many wanted to know the expected effects on trade flows of Sweden's impending accession to the EU, but the Swedish delegation 1/ offered no firm answers. It hoped that Sweden would play an active role within the EU in promoting more liberal external trade policies. The EU observed that it was premature, even if feasible, to venture any quantitative predictions of the effects of Swedish membership. The appropriate time and place for such a discussion would be in July 1995, in the context of the next TPR of the EU.

On the role of trade in Sweden's macroeconomic recovery, after three years of recession, the Swedish economy had regained momentum in 1994 (with export growth close to 3.5 percent), demonstrating the role of trade as an engine of growth. One discussant suggested that trade policy should be supported by complementary measures to address domestic imbalances and the public deficit in particular. In reply, the Swedish delegation stated that the reduction of the budgetary deficit and foreign debt were priorities. Moreover, a more broadly based increase in domestic activity would be needed to maintain recovery, and prospects were at present good for a renewal of investment growth, but high interest rates were beginning to hamper expansion.

Many Council members expressed concern about the maintenance of Sweden's traditional trading ties and existing market access. Some members stated their conviction that Sweden's integration with its European partners would have a net trade-growth effect, while others called attention to the prospect of "retrogression", because the Common External Preferential (CEP) tariff of the EU would be slightly higher than that of Sweden, and access to certain commodities would be narrowed (e.g., Australia's exports of beef to Nordic countries, preferential access for Norwegian fish, limitations placed on imports of bananas, and restrictions on market access for semi-conductors).

In concluding, the Swedish delegation stated that it saw the EU as a dynamic trade-creating entity within which its Government would see a priority task as being to maintain an open and competitive policy as well as preserving existing levels of trade. Thus, in its negotiations on accession to the EU, Sweden had sought and obtained quotas which would generally maintain existing levels of trade in textiles. The integration of Sweden's tariff in the CEP tariff on January 1, 1995 would lead to both upward and downward tariff adjustment, but these issues properly belonged to GATT Article XXIV.6 discussions.

1/ Led by Geneva-based Ambassador C. Manhusen.

6. Israel, December 19-20, 1994 1/

The main themes of this first review of Israel were its economic restructuring program, the pattern of trade liberalization, agricultural policies and practices, and specific trade policy issues. The discussants and the delegations commended the reforms, but raised a number of questions on issues such as the perhaps insufficient depth of the reforms and the slight impact they seemed to have had on the economy. Some pointed to the remaining large role of the public sector in the economy, with up to two-thirds of activity conducted under publicly owned companies.

Many delegations (e.g., Australia, Hong Kong, Japan, and Poland) found the Israeli system of border taxation extremely complex, with approximately 85 different rates and a high share of specific duties with minimum and maximum rates. The United States raised the problem of high port fees and mentioned also that a somewhat non-transparent customs valuation method complicated tax administration at the border. Complaints were also made about the high level of some duties, especially in agriculture (Australia), steep escalation of tariffs (EU), and high effective protection (Canada). A number of delegations were concerned about the complex system of standards, sample testing procedures and Kosher rules (Australia, the Nordics, United States, Poland, Hong Kong) that could serve as import barriers. Many questions were raised about the 15 percent domestic preference in Government Procurement in areas outside the GATT Code.

Agricultural exporters (e.g., Argentina, Australia, Canada) pointed out the high protection of agriculture, even after the Uruguay Round (bound rates would vary between 0 percent and 553 percent). Questions were also raised about the marketing boards, remaining prohibitions on imports and exports and allocation of minimum access quotas from the Uruguay Round. The use of export subsidies for agricultural products was also of concern.

The free trade agreements (FTAs) concluded by Israel were of interest especially to non-parties. Israel had FTAs with the EU, EFTA, and the United States, and was negotiating with others, such as Canada. Some raised questions about the relatively small impact on trade of the FTA with the EU (Argentina), and the trade diversion that had resulted from the agreements (Japan). The non-parties, however, welcomed the recent steps taken by Israel to reduce the higher duties to third countries (Japan, Australia, Argentina). India and Japan stated that they are keen to initiate stronger trading links with Israel now that the political situation has changed in the region.

The Israeli delegation 2/ noted that reforms had started with a stabilization program in 1985, and had succeeded in bringing down inflation from about 400 percent annually to a more manageable 16-20 percent. At the

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1/ Chaired by Ambassador C. Manhusen (Sweden); the discussants were Ambassador E. Tironi (Chile) and Mr. J.L. Sanchez (Spain).

2/ Led by Geneva-based Ambassador I. Lior.

same time, Israel had opened its markets to products from the EU and the United States, in the context of free trade agreements concluded with these countries. Stabilization continued with reforms in trade and other structural policies aimed at creating a more market-based economy. Moreover, reforms had been pursued despite a number of adverse external factors. The country had had to absorb a massive wave of immigrants--the 600,000 new immigrants since 1989 had increased the country's population by 12 percent. The Arab boycott had excluded trade with neighboring and a number of other countries, although this was now starting to change as a result of the peace process. The Uruguay Round should also help to improve external market access for Israeli products.

A number of delegations raised a general point on the developing country status of Israel. They pointed out that many indicators such as GDP, share of services in its economy, levels of education or social development suggested that the economy is closer to that of an industrial country.

The Israeli delegation also stated that many of the concerns about trade policies would be addressed in the ongoing trade policy reform. Specific duties would be eliminated and duties in general reduced over a pre-announced time schedule. This would reduce escalation while maintaining reasonable effective protection rates. The duties on industrial goods at the end of the period (1996 or 2000 depending on goods) would be within the range of 8-12 percent. Progress was also being made on reducing protection in agriculture. For most products non-tariff protection will be tariffied. The delegation also confirmed that remaining BOP restrictions would be abolished by September 1995, as foreseen. No agriculture board (except that for poultry) is engaged in price setting, and state trading had been recently privatized for imports of frozen beef. Kosher certification was issued by the Chief Rabbinate according to religious laws without government interference. Non-Kosher imports of meat were forbidden. There were no import prohibitions, but some sensitive agricultural products required licenses that were issued according to the domestic supply situation.

Regarding trade arrangements, the Israeli delegation responded that, in their view, the slow growth of exports to the EU reflects various secondary and tertiary embargoes related to the Arab boycott. The upcoming strengthening of the agreement with the EU should improve the situation.

IV. GATT Committee on Balance of Payments Restrictions

1. Consultations with India and Pakistan 1/

Both consultations had common threads. Although both countries had made noticeable progress in trade liberalization, both continued to invoke GATT Article XVIII to cover import restrictions for balance of payments

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1/ Under the Chairmanship of Mr. Peter Witt (Germany).

purposes, some of which have been in force for over 30 years. Note was taken that both countries had accepted the obligations of Article VIII, sections 2, 3, and 4 under the Fund's Articles of Agreement. Committee members generally agreed that the external position of both countries was vulnerable, and that recent improvements might not be sustainable. Still, there was a need for a more thorough examination of each country (namely a full consultation) to determine whether continued recourse to Article XVIII was warranted.

For India, this turned out to be the most contentious point in the consultations. The Committee members pushed for a full consultation as soon as possible, but in view of availability of Fund documentation, this was unlikely before the second half of 1995. The Indian delegation noted that the "surveillance" activities were taxing the capacity of the authorities. Thus, it argued that the next consultation should be a simplified one, and take place in 1996. The Committee penciled in a full consultation for 1995, but there will be consultations between the Chairman and India to establish an agreed date.

An attempt to shape agreement on a similar time frame for Pakistan (proposing a full consultation as early as June 1995) was unsuccessful, in part because Pakistan's trade policy will be reviewed within the framework of the TPRM in early 1995. Thus, the Committee agreed to hold a full consultation in 1996.