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To: Members of the Executive Board

From: The Acting 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 November 10 and 11, 1987.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observer 1/

December 17, 1987

The GATT Council of Representatives met in regular and special sessions on November 10 and 11, 1987 under the chairmanship of Ambassador A. Oxley of Australia. 2/ In its regular session, the Council approved texts extending the period of Tunisia's provisional accession to the GATT until December 31, 1988, and extended Pakistan's waiver concerning the renegotiation of its tariff schedule until December 31, 1988. In the area of dispute settlement, the Council: agreed to establish a panel to examine restrictions maintained by India on its imports of almonds; discussed a request for the establishment of a panel to examine the European Community's Third-Country Meat Directive; and adopted a panel report concerning Japanese practices in respect of imported alcoholic beverages. The Council discussed a proposal by the United States concerning the relationship of internationally recognized labor standards and international trade. The Council agreed to establish an Integrated Data Base, initially containing information on imports, tariffs, and quantitative restrictions. It also agreed to establish working parties to examine the annual reports (1984-86) of Switzerland, pursuant to its Protocol of Accession and the annual reports (1985-86) of the United States, pursuant to its waiver in respect of agricultural import restrictions. The Council adopted reports of the Committee on Balance-of-Payments Restrictions, the Committee on Tariff Concessions, and the Consultative Group of Eighteen, as well as its own report to the Forty-Third Session of the CONTRACTING PARTIES (November-December 1987). Issues were raised by several delegations under the agenda item of "Other Business." In its special session, the Council examined recent developments in the international trading system. The Fund observer at both sessions of the Council was Roger P. Kronenberg.

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

2/ GATT/AIR/2505.

I. Regular Council Meeting

1. Provisional accession of Tunisia

The Council considered a request from the Government of Tunisia for a further extension of the Declaration on Provisional Accession which, under the Eighteenth Proces-Verbal of November 5, 1986, was scheduled to expire on December 31, 1987. 1/ To facilitate its consideration, the Council also had before it a draft proces-verbal extending the Declaration and a draft decision prolonging the invitation to Tunisia to participate in the work of the CONTRACTING PARTIES. 2/ The representative of Tunisia reported that the Working Party on the Accession of Tunisia had met several times during the past year. Tariff negotiations were ongoing, and although there was no possibility of concluding all such negotiations before the end of 1987, he was confident that Tunisia would be in a position to accede to the GATT in early 1988.

The Council, without debate, approved the text of the Nineteenth Proces-Verbal, approved the text of the draft decision, and agreed to recommend its adoption by the CONTRACTING PARTIES at their Forty-Third Session.

2. Dispute settlement

a. India--Import restrictions on almonds

The United States resubmitted its request for the establishment of a dispute settlement panel to examine restrictions maintained by India on its imports of almonds. 3/ The United States considered that such restrictions were inconsistent with GATT Article XI (on quantitative restrictions) and could not be justified under Article XVIII:B (on restrictions by developing countries for balance of payments purposes). The representative of the United States said the issue was not a trivial one. Almonds were the seventh largest food export of the United States; while U.S. almond exports rose by 24 percent worldwide during 1981-86, such exports to India fell by nearly 50 percent. He noted that the two parties had held consultations most recently on November 6, 1987, and after six years of unsuccessful bilateral talks, the United States saw no purpose in conducting further consultations. The United States considered that its benefits were being impaired by India's failure to abide by its GATT obligations, and it believed the conditions for invoking Article XXIII:2 (on dispute settlement) had been satisfied.

1/ GATT document L/6251.
2/ GATT document C/W/533.
3/ GATT document L/6197.

The representative of India took note of the repeated requests by the United States for the establishment of a panel and said his delegation would not oppose the request. However, as a legal matter, he believed the panel's terms of reference should take account of the provisions of Article XVIII:12(d) (on dispute settlement). He maintained that India's import restrictions on almonds were imposed for balance of payments reasons and believed there was no prima facie case for impairment of U.S. benefits.

The representatives of Australia, Canada, the European Community, and Switzerland expressed satisfaction with India's decision not to oppose establishment of a dispute settlement panel; Australia and the European Community wished to be involved in consultations on the panel's terms of reference.

The Council took note of the statements and agreed to establish a dispute settlement panel to examine the U.S. complaint; the Council authorized the Chairman to draw up the panel's terms of reference, select its membership, and designate a chairman, in consultation with interested parties.

b. European Community--Third-Country Meat Directive 1/

The United States resubmitted its request for the establishment of a dispute settlement panel to examine the European Community's Third-Country Meat Directive (TCMD) which was scheduled to enter into effect on January 1, 1988. The United States considered that the TCMD would be inconsistent with GATT Article III (on national treatment) on the grounds that it would require third-country meat exporters to comply with more stringent requirements than those imposed on domestic producers within the European Community. The United States believed that implementation of the TCMD would severely disrupt U.S. meat exports to the EC. 2/ The representative of the United States recalled that when this request was first brought before the Council at its meeting of October 7, 1987, the European Community had expressed the view that the two parties' differences could be significantly narrowed, if not entirely resolved, through further consultations. The representative of the United States reported that such consultations had been held on November 5, 1987 but had not reached conclusions satisfactory to the United States. Therefore, the United States reiterated its request for establishment of a panel and again called on the European Community to refrain from implementing the TCMD until such a panel had issued its findings.

1/ GATT document L/6218.
2/ SM/87/255.

The European Community considered that the time was still not right to establish a panel. It believed that good progress had been made on a number of issues raised by the United States; progress on the remaining issues would require action by higher political authorities. In view of the progress made to date, the European Community believed that conciliation was still possible. The representative of the Community recalled that, at the last meeting of the GATT Council, his delegation had not opposed the principle of establishing a panel but had merely requested time for further consultations. Today, his delegation was prepared to go one step further--it would agree in principle to the establishment of a panel but believed that a formal decision should not be taken at the present Council meeting.

The representative of Australia considered the U.S. request to be a reasonable one. He asked the European Community to consider the implications of its actions which, he believed, would signal to the world at large that the Community was still not prepared to address agricultural issues. The representative of Canada believed that the Council should agree to the U.S. request. In his view, any country bringing a complaint had the right to decide when consultations had reached an impasse.

The representative of the United States expressed profound disappointment with the position taken by the European Community. He considered that the process of negotiations had been exhausted and believed there was an urgent need to establish a panel to examine the matter in view of the pending implementation of the TCMD. He again called upon the European Community to delay implementation of the Directive.

The Council took note of the statements and agreed to revert to the matter at a future meeting.

c. Japan--Practices relating to imported alcoholic beverages 1/

At its February 4, 1987 meeting, the Council had agreed, at the request of the European Community, to establish a panel to examine certain Japanese practices in respect of imported alcoholic beverages. 2/ The EC complaint had two parts. First, the European Community had alleged that labelling practices used by Japanese manufacturers of wines and spirits frequently misled consumers to believe that their products were of European origin; the European Community considered that Japan had not fulfilled its obligations

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1/ GATT document L/6216.
2/ SM/87/57.

under GATT Article IX:6 to cooperate with a view to preventing such misrepresentations. Second, the Community had alleged that, for a number of reasons, the Japanese system of taxing alcoholic beverages was contrary to Article III:1,2 (on national treatment). 1/ The Council now had before it the Panel's report.

The Chairman summarized the conclusions of the report. As regards the first complaint, the evidence examined by the Panel seemed to confirm the Japanese contention that labels on bottles of liquor manufactured in Japan indicated their Japanese origin. Moreover, the evidence did not suggest that the use of English or French terms in labelling (e.g. whisky, brandy, chateau, reserve, etc.) had actually been to the detriment of distinctive regional or geographical names of products produced and legally protected in the European Community. Consequently, the Panel could not conclude that Japan had failed to meet its obligations pursuant to GATT Article IX:6. With respect to the second complaint, however, the Panel found that several categories of alcoholic beverages imported into Japan were subject to discriminatory or protective Japanese taxes, contrary to Article III:2. Having reached this conclusion, the Panel then examined whether these tax differentials could be justified by the Japanese tax policy objective of "taxation according to tax-bearing ability" of the respective consumers. While acknowledging the right of each contracting party to a large degree of freedom in its system of internal taxation, the Panel concluded that this policy objective did not justify discriminatory or protective taxes inconsistent with Article III:2. The Panel, therefore, suggested that the CONTRACTING PARTIES recommend that Japan bring its taxes on these alcoholic beverages into conformity with Japan's obligations under the General Agreement.

The representative of the European Community recommended that the Council adopt the Panel report, despite the fact that his authorities were not fully satisfied with its conclusions. In particular, the EC had some reservations concerning the Panel's findings on labelling practices, which it intended to raise in the Uruguay Round's Negotiating Group on Trade-Related Aspects of Intellectual Property Rights.

1/ The complaint cited Japanese practices governing the categorization of liquor products for tax purposes, grading, the differential use of ad valorem and specific taxes, the calculation of price for tax purposes, and taxation according to extract content.

The representative of Japan expressed satisfaction with the Panel's findings with respect to labelling but expressed serious doubts and concern over the Panel's interpretation of Article III:1,2. He recalled that the General Agreement reserved the right for contracting parties to exercise a large degree of freedom over their internal taxation, noted that taxes on alcoholic beverages were an important source of revenue in Japan, and stated that the structure of such taxes in Japan was intended to correct the regressive effects of direct taxation. The representative of Japan maintained that Japanese taxes on alcoholic beverages were applied in a nondiscriminatory manner. In his view, the Panel had not taken sufficient account of Japanese tastes and consumption patterns when attempting to define "like or similar products." Having expressed his delegation's concerns, the representative of Japan reaffirmed his authorities' commitment to maintaining the credibility of GATT dispute settlement procedures and said his government would not stand in the way of the Council's adoption of the Panel report. He further stated that the Government of Japan would make every effort to take appropriate steps, bearing in mind the recommendations of the report.

The representatives of Argentina, Canada, Finland, and Yugoslavia supported the adoption of the report and (along with the delegation of the European Community) welcomed the constructive attitude demonstrated by Japan. The representatives of the European Community, Finland, and the United States expressed the hope that Japan would implement appropriate domestic measures at an early stage.

The Council took note of the statements and adopted the Panel report.

3. Integrated Data Base

The Council had before it a draft decision for the establishment within GATT of an Integrated Data Base (IDB). 1/ The possibility of establishing such a data base had been raised at the July 15-17, 1987 meeting of the Council by the GATT Director-General, Mr. Arthur Dunkel. 2/ As described in the draft decision, the data base would initially bring together information on imports, tariffs, and quantitative restrictions; the data base could later be extended to include other categories of nontariff measures. The draft decision stressed the need to ensure the broadest possible participation of contracting parties in the IDB while recognizing the difficulties that

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1/ GATT document C/W/532.

2/ SM/87/214 and GATT document C/W/521.

some countries, particularly the developing countries, might have in supplying the necessary detailed information. It also affirmed that all contracting parties would have access to the data base.

In introducing the proposal, the Chairman said that the draft decision was a carefully crafted package that must be viewed in its entirety. The draft decision was warmly welcomed and fully supported by the representatives of Mexico, the Nordic countries, and Uruguay. Brazil and the European Community said that the text was balanced and pragmatic. The representative of Hong Kong said that approval of the IDB should not prejudge the way the information should be used in the Uruguay Round negotiations. Canada, Japan, New Zealand, Switzerland, and the United States welcomed the prospect of proceeding with the data base but emphasized that the success of the project depended on wide participation by contracting parties; most of these delegations also said they would have preferred to see a link established between participation in the project and access to the data base. The United States said it was essential for at least some developing countries to participate in the project, and it reserved its rights in the matter. The representative of India said the draft decision was a vast improvement over earlier efforts; he assumed it would not be modified by the statements of the U.S. representative. The representative of Yugoslavia understood that nothing in the draft decision would oblige her government to participate in the project. The representative of Tanzania said his delegation had difficulties with the reference to the "initial" data requirements of the project (Paragraph 2); this suggested that the project might be allowed to evolve in unknown directions. In reply, the Chairman noted that Paragraph 7 of the draft decision called on the Council to keep the IDB under review.

The Council took note of the statements and approved the draft decision concerning establishment of the Integrated Data Base.

4. Pakistan--Request for extension of waiver

The Council considered a request by Pakistan for a further one-year extension until December 31, 1988 of a waiver granted to Pakistan under GATT Article XXV:5. The waiver, which was first granted in 1977 and was presently scheduled to expire on December 31, 1987, had allowed Pakistan to suspend the application of GATT Article II (on its schedule of concessions) to the extent necessary to enable the Government of Pakistan to maintain in force the rates of duty in its revised customs tariff pending the renegotiation of the relevant parts of its schedule of concessions. 1/ The Council also had before it a draft decision

1/ The request is contained in GATT document L/6242; the previous waiver is contained in GATT document L/6096.

on the matter. 1/ In presenting the request, the representative of Pakistan explained that the waiver was necessary to enable Pakistan to mobilize resources for development and to minimize its fiscal deficit; the modification of tariffs had not been taken as a trade measure. Negotiations on a new schedule of concessions had been completed with a few contracting parties and were now at an advanced stage with a few others. However, these negotiations had been overtaken by Pakistan's decision to implement the Harmonized System (of tariff nomenclature) sometime in 1988. In order to avoid the need to enter into another round of Article XXVIII negotiations immediately after completing the present negotiations, Pakistan requested that it may present a new schedule of concessions in the Harmonized System which takes into account the negotiations conducted under the present waiver.

Pakistan's request was supported by the representatives of Bangladesh, Hong Kong, Nicaragua, Peru, Sri Lanka, Turkey, and Uruguay, some of whom noted with appreciation Pakistan's decision to implement the Harmonized System. The representative of Sweden wondered why it had taken Pakistan so long to complete its tariff negotiations but said that his authorities were prepared to support another waiver extension if Pakistan now expected to complete the negotiations expeditiously.

The Council took note of the statements, approved the text of the draft decision, and recommended the adoption of the draft decision by a vote of the CONTRACTING PARTIES at their Forty-Third Session.

5. United States--Relationship of internationally recognized labor standards to international trade

The Council had before it a request by the United States to establish a working party to examine the relationship of internationally recognized labor standards to international trade and to the attainment of the objectives of the General Agreement. 2/ In introducing the request, the representative of the United States said that the idea of a relationship between international labor standards and international trade was not new to GATT. In this context, he cited the preamble to the GATT, which states, inter alia, that trade relations should be conducted with a view to raising standards of living and ensuring full employment. He also noted that GATT Article XXIX obliges contracting parties to undertake to observe the general principles of certain chapters of the Havana Charter, among which are the "Fair Labour Standards" of Chapter II, Article 7.

1/ GATT document C/W/530.

2/ GATT document L/6243. A previous submission by the United States on this subject was issued as GATT document L/6196 and was discussed in SM/87/214.

The U.S. request for establishment of a working party was supported by the delegations of Canada and New Zealand. The representative of the Nordic countries said that his authorities would welcome the opportunity to discuss the subject. New Zealand and the Nordic countries emphasized, however, that the subject of labor standards and trade must not be manipulated for protectionist purposes. South Africa said it could support the request on the condition that the practices of all contracting parties would be examined.

Many delegations said they could not support (or, they had strong reservations about, or, they explicitly opposed) the establishment of a working party on the grounds that the subject of international labor standards did not fall within the competence of the GATT. Among those who spoke in this vein were the representatives of the ASEAN countries, Bangladesh, Brazil, Cuba, Egypt, India, Mexico, Nicaragua, Nigeria, Pakistan, Peru, Romania, Turkey, Uruguay, Yugoslavia, and Zaire. Mexico and Zaire agreed that the subject was an important one, and they encouraged the United States to raise the issue at the International Labour Office (ILO); Brazil suggested that the United Nations Economic and Social Committee (ECOSOC) might be an appropriate forum. A few delegations said that the United States could begin to address the issue of internationally recognized labor standards by ratifying a number of ILO conventions.

Several delegations called for further informal consultations on the matter, among them the European Community, Hong Kong, Israel, and Japan. The representative of the European Community drew a distinction between the "regulatory competence" and the "deliberative competence" of the GATT and said the subject might fit within the latter category. While the Community did not object to the establishment of a working party, it did not wish to see such a working party established over the concerns or objections of a large number of other delegations. Japan had no procedural objections to the establishment of a working party, but it sought further clarification from the United States as to the objectives of its request; it appeared to Japan that the ILO would need to be involved.

The representative of the United States reiterated that the subject of internationally recognized labor standards had an important bearing on the conduct of international trade and was relevant to the work of the GATT. He also believed that the right of any contracting party to request establishment of a working party was of fundamental importance. He said the United States was prepared to continue to hold informal consultations on the matter, and he hoped a decision to proceed with the establishment of a working party could be reached at a future Council meeting.

The Council took note of the statements and authorized the Chairman to conduct further informal consultations on the matter.

6. Other reports

a. Committee on Balance-of-Payments Restrictions 1/

The Chairman of the Committee on Balance-of-Payments Restrictions reported on the full consultations with India and Israel and on the consultations under simplified procedures with Ghana, Pakistan, and Sri Lanka. As regards the simplified consultations, the Committee recommended to the Council that: (i) Ghana and Sri Lanka be deemed to have fulfilled their obligations under GATT Article XVIII:12(b) for 1987; and (ii) that full consultations be held with Pakistan at an appropriate time in 1988. With respect to the latter recommendation, the representatives of Egypt and Mexico expressed the hope that established procedures concerning the timing of consultations would continue to be followed. In discussing the consultation with India, the representative of Brazil, supported by the representative of Yugoslavia, stated that the practices governing the conduct of consultations must be in accordance with the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes and that these procedures must not be changed without consensus; the statement in the report reading, "it was felt that the next consultation with India should be a full consultation" must not be seen as setting a precedent. The representative of the European Community said that there were differing views as to how the procedures set forth in the 1979 Declaration were to be applied. Although questions of interpretation would undoubtedly recur, he agreed that the statement cited by the representative of Brazil did not imply a change in the Committee's procedures. The representative of Canada considered that the full consultation with India and Israel had been thorough and useful. In accepting the Committee's reports, however, Canada continued to reserve its GATT rights. In particular, the Government of Canada did not consider that the Committee's review of a contracting party's balance of payments restrictions constituted acceptance of such measures as GATT-consistent.

The Council took note of the statements and adopted the reports on consultations with India and Israel held by the Committee on Balance-of-Payments Restrictions. The Council also deemed Ghana and Sri Lanka to have fulfilled their obligations under GATT Article XVIII:12(b) for 1987 and decided that full consultations should be held with Pakistan in 1988.

1/ GATT documents BOP/R/168, 169, and 170.

b. Committee on Tariff Concessions

The Chairman of the Committee on Tariff Concessions reported that the activities of the Committee during the past year mainly related to the introduction of the Harmonized System (for tariff nomenclature) and to the GATT Article XXVIII renegotiations of tariff concessions to be carried out in this respect. He recalled that five contracting parties (Finland, New Zealand, Norway, Japan, and Sweden) had signed the first Geneva (1987) Protocol on the introduction of the Harmonized System. In view of the fact that several countries intending to implement the Harmonized System on January 1, 1988 had not been in a position to meet the requirements of the first Protocol, it had been necessary to prepare a second Protocol. 1/ The second Protocol had exactly the same legal status as the first Protocol but contained later deadlines for annexation (November 20, 1987) and for acceptance (December 31, 1987). Both Protocols would enter into force on January 1, 1988.

The Council took note of the Committee chairman's report.

c. Switzerland--Annual reports

The representative of Switzerland submitted to the Council his government's Nineteenth and Twentieth (1984-1985) Annual Reports and its Twenty-First (1986) Annual Report, as required under Paragraph 4 of the Swiss Protocol of Accession. 2/ 3/ The representative of Australia, supported by the representatives of Argentina and Canada, requested that the Council establish a working party to examine the reports, as it had done in the past. He suggested that the working party be given the same terms of reference as in the past.

The Council agreed to establish a working party and authorized the Chairman to designate its chairman in consultation with interested parties; membership in the working party would be open to all interested contracting parties.

1/ GATT document L/6222.

2/ GATT documents L/6101 and L/6229.

3/ Paragraph 4 of the Protocol for the Accession of Switzerland to the GATT provides that Switzerland shall furnish annually to the CONTRACTING PARTIES a report on the measures maintained by Switzerland consistent with its reservations with regard to the application of Article XI of the General Agreement to the extent necessary to permit it to apply import restrictions pursuant to certain specified federal laws and decrees.

d. Consultative Group of Eighteen

The GATT Director-General, Mr. Arthur Dunkel, reported briefly on the work of the Consultative Group of Eighteen. 1/ He noted that there was a general feeling that the Group should meet once or twice yearly; the next meeting of the Group was expected to take place in early 1988. Consultations were now taking place on the Group's membership for 1988. The Director-General emphasized the importance he attached to an early conclusion on these consultations.

The Council took note of the Director-General's statements.

e. Council report

The Council examined the draft report on its activities since the Forty-Second Session (November 1986) of the CONTRACTING PARTIES. 2/ The Chairman noted that the report would be updated to reflect the work of the present Council meeting. Delegations noted a few factual corrections. The Council approved the report and agreed to submit it to the Forty-Third Session of the CONTRACTING PARTIES (November-December 1987).

7. Other matters

Several issues were raised by delegations under the agenda item of "Other Business."

The representatives of Mexico and the United States informed the Council that on November 6, 1987, trade ministers of the two governments signed a bilateral agreement on trade and investment. The Agreement contained understandings on trade and development, the exchange of statistics, and consultations, including an agenda for immediate action. The text of the Agreement would be circulated to interested contracting parties. The Council took note of the statements.

The representative of the European Community noted that the United States had recently submitted, with some delay, its Twenty-Ninth and Thirtieth Reports on Import Restrictions in effect under Section 22 of the U.S. Agricultural Adjustment Act, as amended, for which the United States had a waiver from its obligations under GATT Articles II and XI. Although the waiver was now 32 years old the Community believed the matter should not be taken lightly, and it requested the establishment

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1/ GATT document L/6244.
2/ GATT document C/W/529.

of a working party to examine the report. The representative of the United States called attention to the negotiating proposal tabled by his delegation in the Uruguay Round Negotiating Group on Agriculture; he said that support for that proposal would enable the United States to eliminate its trade barriers in agriculture. The representative of the European Community replied that the tabling of a negotiating proposal did not absolve a contracting party of its obligations under the General Agreement.

The Council took note of the statements and agreed to establish a working party to examine the Twenty-Ninth and Thirtieth Reports on Agricultural Import Restrictions by the United States with a view to making appropriate recommendations. Membership in the working party would be open to all interested parties. The Council authorized the Chairman to appoint a chairman of the working party in consultation with interested parties.

The representative of the European Community informed the Council that the Cyprus/European Community Customs Union Protocol would enter into force on January 1, 1988. 1/ He explained that the Protocol provided for the gradual adoption by Cyprus of the EC's Common Customs Tariff (CCT) over a period of ten years and would result in the effective dismantling of virtually all trade restrictions in both directions over that period. In reply to a question from the United States, the representative of the European Community said that he did not believe the agreement would result in changes to the Community's CCT. The United States reserved its rights in the matter to the extent that any changes in the CCT were implied. The Council took note of the statements.

The representative of Japan informed the Council that on November 4, 1987 the United States had further reduced the incidence of its unilateral measures concerning trade in semiconductors. The Government of Japan regarded this decision as a step in the right direction but considered it extremely regrettable that some of the U.S. unilateral measures remained in force. Japan continued to believe that the measures applied by the United States were, prima facie, in contravention of GATT Articles I and II, and it called again on the United States to eliminate all such measures. If appropriate action by the United States was not forthcoming, Japan intended to refer the matter to the CONTRACTING PARTIES, with a view to establishing a dispute settlement panel. The Council took note of the statements.

1/ The Protocol will be annexed to, and form an integral part of, the 1973 Association Agreement of Cyprus and the European Community. See GATT document C/W/528, Paragraphs 128-135.

The representative of Nicaragua said that, on October 30, 1987, the President of the United States had sent a report to the U.S. Congress which renewed, for a further six-month period, the U.S. trade embargo against Nicaragua; the embargo had been in effect since March 1, 1985. Nicaragua believed that the embargo constituted a clear case of intervention in the domestic affairs of a sovereign state; the U.S. action was all the more regrettable since it followed the signature of an agreement aimed at bringing peace to the region. The representative of Nicaragua said that her government intended to request the CONTRACTING PARTIES, at their Forty-Third Session, to implement Paragraph 21 of the Understanding Regarding Notification, Consultation, Dispute Settlement, and Surveillance, with a view to their taking any appropriate measures. 1/ Bearing this in mind, the representative of Nicaragua requested that wide consultations be held prior to the upcoming session of the CONTRACTING PARTIES.

The Chairman said that he was prepared, if requested by the parties, to undertake consultations on the basis of previously followed procedures. He would contact the parties concerned. The Council took note of the statements.

The representative of Argentina expressed concern over the tariffs, in particular those on certain meat imports, which the European Community intended to impose as a result of its adoption of the Harmonized System. Argentina informed the Council that it wished to hold consultations with the EC on the matter. Australia expressed an interest in participating in any such consultations. The European Community reserved its rights in the matter. The Council took note of the statements.

II. Special Session of the Council

The Chairman noted that the purpose of the semiannual special sessions of the Council was to review developments in the trading system and to monitor Paragraph 7(i) of the 1982 Ministerial Declaration in which contracting parties had undertaken to resist protectionist measures, to conduct their trade policies in conformity with GATT rules and disciplines, and to avoid measures which could distort or limit international trade.

1/ GATT Basic Instruments and Selected Documents, Supplement 26, Page 210. The paragraph states that, in considering appropriate action in dispute settlement cases, the CONTRACTING PARTIES shall take account of the impact on the economies of less-developed contracting parties.

The Chairman drew the Council's attention to the Secretariat's background paper "Developments in the Trading System, April-September 1987." Among the important recent developments cited in the report, the Secretariat was encouraged to note a rising trend toward the use of GATT dispute settlement procedures but expressed concern over the continued preoccupation of some countries with bilateral trade balances. The Secretariat noted that contracting parties were beginning to implement their standstill and rollback commitments embodied in the Punta del Este Declaration. In general, the Secretariat believed that the launching of the Uruguay Round had promoted greater appreciation, on the part of governments, of the need to look for long-term solutions to the problems of producers and industries experiencing trade difficulties. Nevertheless, trade-restrictive and distorting measures taken during the recent period continued to impair the climate of confidence needed for investment and other business decisions. Moreover, concern over possible changes in trade policy, in the direction of greater protection (particularly the omnibus trade bill under consideration by the U.S. Congress), continued to exercise an unsettling influence on financial markets and raised concerns for the future of the Uruguay Round.

Among other developments, the report noted that quantitative restrictions continued to be used fairly extensively by many contracting parties. While some developing countries, including Colombia, Indonesia, Korea, and Morocco, had introduced trade-liberalizing measures as part of wider structural adjustment programs, the pace of liberalization in certain other developing countries had faltered amid continued concerns over the impact of an unfavorable financial and trading environment. Quantitative restrictions were also introduced by a number of developed countries under GATT safeguard provisions. The Secretariat paper reported that the main new development in the area of subsidies was the increased funding for the United States export enhancement program. Attention was also drawn to the European Community's decision to extend the coverage of antidumping regulations to include imported components of goods which had been made subject to antidumping measures. As regards voluntary export restraints, the Secretariat noted that the United States had negotiated eight bilateral agreements, outside the MFA, to limit U.S. imports of textiles.

In the Council's discussion of recent developments in the trading system there was widespread recognition of the important interrelationships between trade and financial policies. In particular, many delegations noted that the maintenance of an open trading system had been rendered more difficult by financial imbalances and by the growing

debt burdens of some countries. These delegations emphasized that recent disruptions in financial markets must not be exacerbated by a worsening in the trading environment. They, therefore, attached great importance to the success of the Uruguay Round and, as a first step, called for a renewed commitment to the standstill and rollback provisions of the Punta del Este Declaration.

The representative of Japan called attention to the links between fiscal and monetary policies on the one hand and external imbalances on the other. He noted that protectionist responses could not provide a lasting solution to external imbalances, as clearly pointed out in the recent GATT Annual Report. In this connection, he stated that the United States' twin deficits seemed to have played an important role in triggering recent upheavals in world financial markets. The representative of Japan believed that widespread disregard for GATT rules and disciplines had contributed to the highly uncertain economic environment. He called for greater transparency in the conduct of trade policies and supported the principle of conducting trade reviews of national trade policies in the GATT. As regards particular trade measures discussed in the Secretariat's report, the representative of Japan called for a careful study of the recently concluded Canada-U.S. Free Trade Agreement in order to determine its consistency with GATT obligations. He also suggested that there was a need to examine the European Community's decision to extend antidumping duties to the components of products made or assembled in the European Community; in Japan's view, this practice might not be consistent with the European Community's GATT obligations. Finally, Japan commended Colombia, Indonesia, Korea, Morocco, and others for their market-opening measures.

The representative of the Nordic countries gave a mixed review of recent developments in the trading system. He commented that the Uruguay Round had made considerable progress in some areas and believed that the credibility of the negotiations remained good. He also noted with satisfaction that the Punta del Este commitments on standstill and rollback were being transformed from political undertakings to more operational concepts. There was also evidence that the Uruguay Round had promoted an awareness of the need to look for long-term solutions to existing trade problems and for economic problems having trade effects. However, there were a number of elements in the broader economic environment that gave rise to continued concern. These included poor growth in investment, output, and trade, debt problems, volatility of stock and exchange markets, and the continuation of large payments imbalances, particularly among the major trading partners. Inappropriate trade policies had aggravated some of these imbalances:

the proliferation of gray-area measures had not been brought under control; a number of trade disputes remained open; and proposals for protectionist trade measures remained very much alive in many quarters. In these circumstances, it was imperative that governmental authorities, particularly those of the major trading partners, cooperate effectively in order to reduce the existing high degree of economic, financial, and commercial uncertainty. The Nordic countries considered GATT to be an important forum for such cooperation and they expressed interest in exploring ways in which the special surveillance procedures of the GATT Council could be further developed and strengthened.

The representative of Canada stated that recent financial market disruptions could be traced in part to uncertainty over trade policies. He was heartened by the progress being made in the Uruguay Round negotiating groups and believed that the achievement of early concrete results would provide an important stabilizing signal to international financial markets. As regards other developments in the trading system, the representative of Canada noted with satisfaction that contracting parties were making greater use of GATT's dispute settlement procedures, but he expressed concern over the growing tendency of countries to establish trading arrangements outside the GATT system.

The representative of Australia said it was essential to prevent a proliferation of protectionist measures in the wake of recent financial market disruptions. He noted that the Depression had not been caused by the stock market crash of 1929; rather it was caused by the trade and financial policy responses to the financial collapse. However, in 1929 there was no multilateral forum where countries could discuss trade problems. The GATT was created out of the difficult lessons of that period. Rules for the multilateral trading system now existed but political will to abide by those rules had been lacking. The representative of Australia stated that, for the time being, countries must rely on existing GATT rules and he called on delegations to reaffirm their standstill and rollback commitments. In the future, the GATT, through the work of the Uruguay Round, should focus on the causes of trade problems, not merely their effects.

The representative of Brazil said that many developing countries had been obliged to restrict imports as a result of record declines in commodity prices and the withdrawal of external financing. The need for these countries to generate large trade surpluses had disoriented their domestic economies, depressed growth, and slowed global recovery.

Brazil considered the present situation to be unsustainable, and it called on developed countries to take due account of the need for developing countries to expand their export markets.

The representative of Jamaica said that there was a continued shortage of capital flows to debt-burdened developing countries, and he called for a fundamentally stronger debt strategy to supplant the case-by-case approach. He considered that policymakers in the developed countries had reacted asymmetrically to the debt and financial crises. Whereas central banks in developed countries had reacted to the recent collapse in securities markets by easing monetary policy to bring down interest rates and facilitate adjustment, they had not responded to the financing needs of debt-burdened developing countries in a similar manner. On other matters, the representative of Jamaica said that trade policy should be directed toward promoting structural adjustment at the microeconomic level; it was not an appropriate instrument of macroeconomic policy. The representative of Jamaica remained sceptical of calls for greater ministerial involvement in the GATT. He asked supporters of these proposals to explain more clearly what they believed the ministers' agenda should be.

The representative of the European Community spoke at some length about the difficulties of economic management in an era of financial market deregulation and floating exchange rates. He stated that the automatic adjustment mechanisms of the marketplace had not worked well since the introduction of generalized floating exchange rates in 1973. Exchange rate movements had been volatile, overshooting the adjustments dictated by changes in the economic fundamentals. Moreover, these exchange rate changes had produced asymmetrical effects in countries with appreciating and depreciating currencies. The representative of the European Community considered that a return to fixed exchange parities was not feasible in the present environment. However, international policy coordination was essential, and he believed that trade policy had a vital role to play in these coordinating efforts.