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To: Members of the Executive Board  
From: The Secretary  
Subject: Meeting of the GATT Council of Representatives

Attached for the information of the Executive Directors is a report by the Fund observers on the meeting of the GATT Council of Representatives held in Geneva on June 16 and 17, 1987.

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Department Heads



INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

July 27, 1987

The GATT Council of Representatives met on June 16-17, 1987 under the chairmanship of Ambassador A. Oxley from Australia. The Council welcomed Morocco as the 94th member of the GATT. The Council met first in a special session to examine recent developments in the international trading system. 2/ There followed a regular meeting of the Council at which working parties were established to examine the applications of Algeria and Costa Rica for accession and that of Guatemala for provisional accession to the GATT. 3/ The Council also adopted a panel report on U.S. taxes on petroleum and certain imported substances, extended the time limit for Thailand to bring its business and excise taxes into conformity with GATT, and deferred consideration of Generalized System of Preferences (GSP) schemes and a report on measures affecting the world market for copper ores and concentrates. Under "other business" it heard requests for dispute-settlement consultations on U.S. tariffs on imports of certain electronic products from Japan and on the U.S. exclusion order on imports of aramid fibres from the Netherlands. The Fund observers were Carlos E. Sanson and C.F.J. Boonekamp.

I. Special Session of the Council

The Chairman recalled that the purpose of the semi-annual 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. He drew the Council's attention to the Secretariat's background paper, entitled, "Developments in the Trading System," October 1986-March 1987. 4/

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

2/ GATT/AIR/2430.

3/ GATT/AIR/2433 and GATT document C/W/519.

4/ GATT documents C/W/517 and Add.1 and Corr.1.

The background paper said that in the period since October 1986 there had been a clear contrast between the progression of work in GATT, particularly as it related to the Uruguay Round, and the difficulties and tensions that had marked the actual conduct of trade policies. Among the trends during the period under review were: (i) growing concern over the U.S. trade deficit and the protectionist pressures it generated in the U.S. Congress; (ii) the preoccupation of policy makers with the state of bilateral trade balances; (iii) increased sensitivity over conditions of competition leading to the use of selective safeguard measures; (iv) an escalation of trading disputes, particularly between the major trading partners; and (v) a growing interaction between trade policy actions and developments in financial and exchange markets. The paper went on to note that concern in the U.S. Congress over the U.S. trade deficit had concentrated particularly on the trade imbalance with Japan, which had found its expression in the omnibus trade bill currently under consideration in Congress. Similar concerns were evident in the European Communities; its Council of Ministers had approved a detailed analysis of the Communities' trade relations with Japan and had given the European Commission a wide brief to promote efforts to get Japan to reduce its trade surplus with the Communities. Japan, for its part, had expressed concern about proposals relating to the local content of Japan's overseas production and the proposed amendment of the European Communities' anti-dumping legislation.

In the area of nontariff measures the report said that an acute problem was the competitive export subsidization of temperate agricultural products, and of grains in particular. In the period October 1986-March 1987 both Australia and Canada had been squeezed in third markets by subsidized competition from the European Communities and the United States. Canada had taken steps to subsidize growers and Australia, because of adverse international price developments, would probably have to support producer returns for the first time. Further, with regard to nontariff actions, the resort to "grey-area" measures, such as voluntary export restraints, appeared to have increased. One such measure, the bilateral arrangement on trade in semi-conductors concluded between Japan and the United States in September 1986, had received close attention in GATT. The arrangement had been the subject of a complaint by the European Communities and as a result a GATT dispute panel had been established. Concurrently, the United States had taken trade action against Japan because it considered that Japan had not fully implemented the arrangement.

The report went on to state that the difficulties in pursuing appropriate macro-economic policies that would help to reduce the U.S. trade deficit had contributed to the growing protectionist pressures in the United States. Furthermore, trade frictions had had a destabilizing impact on financial and exchange markets during the period under review.

The representative of Australia said that faced with adverse economic conditions, including very low world prices for its exports of primary products and a substantial debt service burden, Australia as part of an economic adjustment program was reducing the protection of domestic industries against import competition. However, the success of the adjustment effort depended in large measure on the removal of distortions in the international trading system. In this context he expressed concern about the Common Agricultural Policy of the European Communities, the agricultural export enhancement program of the United States, the Communities' tax proposal on edible oils and the trade bills being considered by the U.S. Congress. With the support of the representatives of Hong Kong and Malaysia for the ASEAN countries, he urged the U.S. Administration to resist protectionist pressures.

The representative of Argentina agreed with the representative of Australia that trade tensions and protectionism endangered the domestic adjustment efforts being made by many countries. Supported by the representatives of India, Jamaica, Korea, Malaysia for the ASEAN countries, and Yugoslavia, he said that the increased use of "grey-area" measures and the agricultural policies of the major trading nations were of special concern. A number of these and other representatives also thought that the proposed trade actions by the European Communities and the United States were especially worrying as they would endanger the export prospects of the developing countries and could undermine confidence in the Uruguay Round.

The representative of the United States said that his authorities would continue to oppose efforts to introduce new protectionist measures in the United States. Imbalances in the U.S. trade balance with a number of countries, however, created tensions which could lead to a "break-out into protectionism." In this respect he expressed concern about the openness of markets for U.S. exports.

The representative of the European Communities pointed to the interdependence of the world's economies; no nation was capable of solving its own economic problems alone. In this respect, the United States' budget deficit had to be reduced and the United States needed to adopt a more flexible monetary policy with a view to lowering interest rates. In addition, the economies of Europe and Japan had to stimulate growth, and the debt problem of the developing countries had to be dealt with as had the long-term structural trade imbalances. Also, it would be necessary to solve multilaterally the problem of trade in agriculture; stocks needed to be reduced, market access improved and production adapted to consumption requirements. He added that an evaluation, such as he had attempted, should be the purpose of the special sessions; they should not be used to point to the trade actions of individual countries but rather should be a vehicle for collective surveillance of the multilateral trading system.

He proposed that consultations be held to arrive at guidelines for drawing general conclusions from the sessions. The representatives of Argentina, Canada, Sweden for the Nordic countries, and the United States thought that this matter should be discussed in the context of the Uruguay Round. The Chairman suggested, and the meeting agreed, that he begin a process of consultations on this issue.

## II. Regular Council Meeting

### 1. Membership

#### a. Algeria 1/

The observer from Algeria presented his country's request for accession to GATT and asked that a working party be established to set the process in motion. The representatives of Canada, the European Communities, Hungary, India, Nicaragua, Turkey, the United States, Yugoslavia, and Zaire welcomed Algeria's request to accede to GATT and supported the establishment of a working party.

The Council took note of the statements and agreed to establish a working party to examine, in the light of the relevant provisions of GATT, the application of Algeria to accede to GATT and to submit recommendations, which may include a draft Protocol of Accession, to the Council. It also authorized the Chairman to nominate, after consultations with interested parties, the presiding officer of the Working Party.

#### b. Costa Rica 2/

The Chairman reminded the representatives that the July 1985 meeting of the Council had established a working party to examine Costa Rica's application for provisional application to GATT. 3/ The observer from Costa Rica said that his country now wished to become a full GATT member. He noted that his country had submitted a memorandum on its trade regime and that it was prepared to enter into negotiations on its schedule of concessions. The representatives of Argentina on behalf of the Latin American countries, the European Communities, and Nicaragua supported Costa Rica's request for full accession to GATT.

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1/ GATT document L/6182.

2/ GATT document L/6180.

3/ Countries acceding provisionally to GATT are not required to negotiate a schedule of concessions. Provisional accession is valid for a limited period of time only, after which the decision on provisional accession needs to be extended by the CONTRACTING PARTIES. Countries with provisional accession status agree to abide by GATT rules and disciplines and are permitted to partake in the work of the Council and other GATT bodies, subject to the rules of those bodies.

The Council took note of the statements and agreed to alter the terms of reference of the existing Working Party in order to allow it to examine, in the light of the relevant GATT provisions, the request of Costa Rica to accede to GATT and to submit recommendations, which may include a draft Protocol of Accession, to the Council.

c. Guatemala 1/

The Council had before it a written request from Guatemala to accede provisionally to the General Agreement and to be allowed to participate in the Uruguay Round. The observer from Guatemala said that his country's request for provisional accession had been delayed beyond the cut-off date for participation in the Uruguay Round by a strike of Guatemalan government employees. He added that the request for provisional accession was a prelude to full accession to GATT. He asked that a working party be established to examine Guatemala's request for provisional accession to GATT. The representatives of Argentina on behalf of the Latin American countries, Canada, Cote d'Ivoire, the European Communities, Nicaragua, and the United States welcomed Guatemala's intention to accede provisionally to GATT and supported the establishment of a working party. A number of these representatives noted that the Council could not decide on Guatemala's participation in the Uruguay Round; such a decision would need to be taken in an appropriate body of the Round.

The Council took note of the statements and agreed to establish a working party to examine, in the light of the relevant GATT provisions, the application of Guatemala to accede provisionally to GATT and to make recommendations to the Council. It also authorized the Chairman to hold consultation on the chairmanship of the Working Party.

2. United States--Taxes on petroleum and certain imported substances 2/

The Chairman recalled that at its February 1987 meeting the Council had established a dispute panel to investigate complaints by Canada, the European Communities, and Mexico that aspects of the U.S. Superfund legislation of 1986 to clean up toxic waste sites did not conform with the obligations of the United States under GATT. Mr. M. Cartland, Chairman of the Panel, introduced the Panel's report. He said that the Panel had found that the differential tax of 8.2 cents per barrel for "crude oil received at a United States refinery" and 11.7 cents a barrel for "petroleum products entered into the United States for consumption, use or warehousing" was inconsistent with the provisions of GATT Article III (on national treatment). The Panel therefore had suggested that the CONTRACTING PARTIES recommend that the United States bring the petroleum taxes into conformity with

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1/ GATT document L/6173.

2/ GATT document L/6175.

its obligations under the General Agreement. He added that the Panel had also concluded that a Superfund tax, and its penalty rate provisions, on "certain imported substances", which were scheduled to be introduced on January 1, 1989, constituted an adjustment that was in principle consistent with GATT Article III. The Panel had recommended that the CONTRACTING PARTIES take note of the statement made by the United States during the course of the Panel's proceedings that the penalty rate would in all probability never be applied.

The representatives of Canada, the European Communities, and Mexico indicated that they could adopt the report although they were not altogether satisfied with the finding of the Panel on the tax on "certain imported substances." The representative of the European Communities reserved his country's rights should the penalty rate provision of the tax be used. The representative of the United States said that his authorities were carefully examining the report in the light of its implications for the United States, but this should not prevent the adoption of the report and its recommendations. The representatives of Australia, Malaysia, and Nicaragua and the observer from Venezuela agreed to the adoption of the report but noted that the dispute settlement process in this instance would not be completed until the United States had acted on the recommendations of the Panel.

The Council took note of the statements, including that of the United States to the Panel that the penalty rate would in all probability never be applied, and adopted the report.

3. Thailand--Business and excise taxes 1/

The Council had before it a draft decision to extend until June 30, 1990 the time limit established in the Thailand Protocol of Accession to enable Thailand to take the necessary steps to bring into line with GATT Article III those business and excise taxes on items where the incidence of the taxes varied according to whether the items were locally produced or imported. The representative of Thailand explained that most excise taxes had been brought into conformity with GATT and that her authorities were studying measures to bring the rest into line with Article III. Further, a new value added tax was to be introduced which would replace the present business taxes and bring about uniform rates for locally produced and imported items. As the process would take some time to be completed and given Thailand's current development, financial, and trade needs her authorities requested that the time limit for completion of the conversion be extended from June 30, 1987 to June 30, 1990. The representatives of Canada, the European Communities, Malaysia on behalf of the ASEAN countries, and the United States supported the extension of the time limit.

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1/ GATT document L/6166.

The Council took note of the statement and agreed to extend the time limit to June 30, 1990.

4. Implementation of GSP schemes 1/

The Chairman recalled that at its May 1987 meeting the Council had agreed to revert to a consideration of the implementation of GSP schemes at its present meeting. He reported that he had held informal consultations on the matter during which it had been agreed that the Council was an appropriate forum for the discussion of GSP schemes but that such discussion would not prejudice debate on the matter in other fora, such as GATT's Committee on Trade and Development. During the consultations it had also been suggested that further reflection of the issue should be delayed until a future meeting of the Council in order to allow further reflection on the matter.

The Council, without debate, agreed to revert to the matter at a future meeting.

5. Measures affecting the world market for copper ores and concentrates 2/

The report of the Group of Governmental Experts on Measures Affecting the World Market for Copper Ores and Concentrates was introduced by Mr. M. Cartland, Chairman of the Group. He noted that the Group had agreed that world trade in copper had been negatively affected by various factors relating to production policies, structural changes, changing patterns of consumption, and trade policy measures maintained by some countries. It considered that a strengthened trading system and improved market access were the basic foundations for the development of world copper trade. The members of the Group had expressed the hope that further liberalization of copper trade would be achieved through the Uruguay Round trade negotiations. After the representative of Japan had indicated that his authorities supported the adoption of the report, the Chairman of the Council reported that he had received a request from a delegation that further consideration of the report be reverted to the next meeting of the Council in order to allow that delegation time to study the report.

The Council, without further debate, took note of the statements and agreed to revert to the report of the Group at its next meeting, in July 1987.

6. Other matters

The Council had before it the report of the Joint Advisory Group of the GATT/UNCTAD International Trade Centre. 3/ The representatives

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1/ GATT document L/6166.

2/ GATT document L/6167.

3/ International Trade Centre document ITC/AG(XX)/108.

of Chile, Cuba, India, Indonesia for the ASEAN countries, Israel, Nicaragua, Norway for the Nordic countries, Peru, and Uruguay supported the work of the International Trade Centre as being important for the enhancement of trade opportunities for developing countries. The Council took note of the statements and adopted the report.

The Council, without debate, agreed to the Chairman's request that consideration of the biennial report on the Australia/New Zealand Closer Economic Relations Trade Agreement be reverted to the next meeting of the Council in order to allow members of the Council time to study the report. 1/

Under "other business" the representative of Japan said that the recent imposition by the United States of tariffs of 100 percent on the importation of certain Japanese electronic products was contrary to the obligations of the United States under GATT. He requested consultations with the United States under GATT's dispute settlement procedures with a view to finding a satisfactory solution to the matter. The representative of the United States said that his authorities were willing to consult on the issue. The Council took note of the statements.

Also under "other business" the representative of the European Communities reported that in late April 1987 his authorities had requested consultations with the United States on the exclusion order that the United States had issued on the importation of certain aramid fibres from the Netherlands. A date for these consultations had not yet been agreed to and he asked the United States to act promptly in this regard. He also reserved the rights of the Communities to request the establishment of a dispute panel on the exclusion order if the matter was not settled soon in consultations. The representative of the United States said that his authorities had suggested a date for the consultations which the Communities had not been able to accept. He proposed that the matter be discussed bilaterally. The Council took note of the statements.

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1/ GATT document L/6188.