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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 February 4, 1987.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

February 24, 1987

The GATT Council of Representatives met on February 4, 1987 under the chairmanship of Ambassador A. Oxley from Australia. 2/ The Council agreed to allow Morocco additional time to sign its Protocol of Accession to the GATT. It established dispute panels on Japanese practices relating to the importation of alcoholic beverages and on a U.S. tax on imported petroleum and petroleum products. The Council further briefly discussed the composition of a dispute panel on Japanese quantitative restrictions on certain agricultural products, considered a U.S. complaint on Japanese restrictions on the importation of certain kinds of fish, deferred additional debate on a panel report on U.S. trade measures affecting Nicaragua, adopted a report from the Committee on Balance-of-Payments Restrictions and took note of biennial reports regarding customs unions and free-trade areas. The Fund observers at the meeting were Carlos E. Sanson and C.F.J. Boonekamp.

1. Accession of Morocco 3/

The Chairman noted that the October 1986 meeting of the Council had extended the time-limit for Morocco's signing of the Protocol of Accession to the GATT from October 15, 1986 to December 31, 1986 in order to allow Morocco sufficient time to complete its negotiations with other contracting parties on Morocco's schedule of concessions. The observer from Morocco reported that the negotiations had been completed. He also indicated that Morocco would gradually incorporate its special import tax into its applied tariff rates and that Morocco would agree to a review by the CONTRACTING PARTIES in 1990 of the progress made in this inclusion process. He requested that the time-limit for Morocco's signing of its Protocol of Accession to the GATT be extended until June 1, 1987 so as to allow sufficient time for the ballot procedures on Morocco's accession to be completed.

The Council, without debate, agreed both to Morocco's request and to a review in 1990 of Morocco's progress in including its special import tax in its applied tariff rates.

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

2/ GATT/AIR/2363 and GATT document C/W/512.

3/ GATT documents L/5967 and Add.1, L/6105 and L/6124.

2. Dispute settlement

a. Japan--Practices relating to the importation of alcoholic beverages 1/

The Chairman recalled that the complaint of the European Communities regarding tariff, taxation, and labelling obstacles to the importation of wines and alcoholic beverages into the Japanese market had been discussed at the November 21, 1986 meeting of the Council and again at the November 1986 session of the GATT CONTRACTING PARTIES. As a result of his informal consultations he was now able to propose that a dispute panel be established, with terms of reference to examine, in the light of the relevant GATT provisions, the complaint of the Communities and to make such findings as will assist the CONTRACTING PARTIES in making recommendations or in giving rulings provided for under the GATT dispute settlement procedures.

The representative of Japan said that his authorities were ready to accept the establishment of a panel with the above terms of reference. He noted that his government intended to reduce unilaterally its tariff rates on alcoholic beverages by 30 percent. Further, recently it had announced liquor tax and labelling reform measures which had taken the concerns of the European Communities into account. The Communities had not yet indicated if it found these measures satisfactory and which matters still remained unresolved. The representative of the European Communities said that he welcomed the Japanese acceptance of a panel, that certain Japanese practices, especially with respect to the importation of whisky, still remained unsatisfactory and that his authorities would comment in full on the recent Japanese measures to the panel. The representatives of Canada, Chile, Finland, the United States, and Yugoslavia supported the establishment of a panel and reserved their rights to present their views to it.

The Council agreed to establish a dispute panel, with terms of reference as proposed by the Chairman.

b. United States--Tax on imported petroleum and petroleum products 1/

The Council had before it two separate written requests, from Canada and the European Communities, that it establish dispute panels to examine recent U.S. legislation which had imposed taxes of U.S. 8.2 cents per barrel on domestic oil and U.S. 11.7 cents per barrel on imported oil and petroleum products. Both communications complained that the differential in favor of domestically produced oil was

1/ GATT documents L/6031 and Add.1 and L/6078.

2/ GATT documents L/6080, L/6085, L/6114, L/6121, and L/6123.

discriminatory and contrary to the rules of the GATT. Consultations with the United States had not resulted in a resolution of the matter. The Chairman noted that, in addition, Mexico had requested the Director-General of the GATT to use his good offices to settle its complaint against the differential in the oil taxes.

The Director-General reported that he had consulted with Mexico and the United States and that both parties had agreed that the matter should be pursued in the context of a dispute panel. The representatives of Canada and the European Communities suggested the establishment of a single dispute panel, rather than three panels to examine each complaint separately, provided that the rights of each party would be protected. The representative of the United States said that although his authorities were of the opinion that the tax differential was not sufficiently large to influence trade they had no objection to the establishment of a panel to investigate the issue. The representatives of Argentina, Australia, Chile, Colombia, Indonesia, Kuwait, Malaysia, and Nigeria supported the establishment of a panel and reserved their rights to make a submission to it.

The Council agreed to the establishment of a dispute panel, with terms of reference to examine, in the light of the relevant GATT provisions, the above issues raised by Canada, the European Communities, and Mexico and to make such findings as will assist the CONTRACTING PARTIES in making recommendations or in giving rulings provided for under the GATT dispute settlement procedures. The Chairman noted that the Panel would organize its examination and present its findings in such a way that the rights of all parties to the dispute would be protected.

c. Japan--Quantitative restrictions
on certain agricultural products

The Chairman recalled that the October 27, 1986 meeting of the Council had established a dispute panel to examine a U.S. complaint that Japanese quantitative restrictions on certain agricultural products were contrary to the rules and disciplines of the GATT. Since then the parties to the dispute had been unable in informal consultations to fix the terms of reference and the composition of the Panel. The representatives of Japan and the United States said that although there had been some initial difficulty on the terms of reference the main problem was the unavailability of members for the Panel. Consultations would continue with a view to an early settlement of the matter. The representatives of Canada and the European Communities said that further undue delays in finalizing the composition and terms of reference of the Panel would begin to erode confidence in the GATT dispute settlement mechanism. The Director-General encouraged representatives of contracting parties to be more responsive to calls to serve on panels.

The Council took note of the statements and agreed to revert to the matter at its next meeting, in March 1987, unless agreement had been reached in the interim.

d. Japan--Restrictions on imports of herring, pollock and surimi 1/

The representative of the United States said that his authorities were of the view that Japanese restrictions on the importation of herring, pollock and surimi contravened, inter alia, the prohibition in GATT Article XI against quantitative restrictions. When he had raised the establishment of a dispute panel at the November 1986 meetings of the Council a decision had not been taken, mainly because the Japanese authorities were considering possible solutions to the problem. He was now able to report that in bilateral consultations in January 1987 some progress had been made toward settling the matter. Consultations would continue but if the matter was not resolved soon he would request the March 1987 meeting of the Council to establish a dispute panel to examine the issue. The representative of Japan said that his authorities hoped to settle the matter soon in bilateral consultations.

The Council took note of the statements and agreed to revert to the issue at its next meeting if either party requested it to do so.

2. United States--Trade measures affecting Nicaragua 2/

The Chairman noted that the November 1986 session of the CONTRACTING PARTIES had referred further consideration of the panel report on U.S. trade measures affecting Nicaragua to the Council. In informal consultations the parties to the dispute had decided that they did not wish to discuss the issue at the present meeting of the Council.

The Council agreed to defer consideration of the matter to a future meeting.

3. Committee on Balance-of-Payments Restrictions 3/

The Chairman of the Committee on Balance-of-Payments Restrictions reported on the full consultations with the Philippines, on the consultations under simplified procedures with Nigeria and on the program of consultations for 1987. 4/

1/ GATT document L/6070.
2/ GATT documents C/W/506 and L/6053.
3/ GATT documents BOP/R/164 and 165 and C/W/511.
4/ A report by the Fund representative on these consultations is contained in SM/87/10 (1/8/87).

Without discussion, the Council adopted the report of the Committee on the consultations with the Philippines, deemed Nigeria to have met its obligations under GATT Article XVIII:12(b) for 1986 and agreed that full consultations should be held in 1987 with Egypt, Greece, India, Israel, Korea, and Peru and consultations under simplified procedures with Brazil, Colombia, Ghana, Pakistan, Sri Lanka, Tunisia, and Turkey.

4. Customs union and free-trade areas--Biennial reports 1/

The Council had before it biennial reports, covering the period from October 1, 1983 to December 31, 1985, for the free-trade agreements between the European Communities and Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland. The representatives of Argentina, Australia, Canada, Chile, New Zealand, and Nicaragua noted that each of the reports, with the exception of that for Portugal, which had joined the Communities, stated that the main objective of the agreements to liberalize trade between the parties had been achieved and that therefore there was no further need for biennial reports. They reserved their rights in these matters, saying that the CONTRACTING PARTIES rather than the parties to the free-trade agreements should be the judge of the need for further reports.

The Council took note of the statements and the biennial reports.

5. Other matters

Under "other business" the representative of the European Communities reported that his authorities had held consultations with representatives of the United States on the matter of the U.S. customs user-fee of 0.22 percent ad valorem on imports into the United States. These consultations had not served to allay the Communities' fear that the fee would have a negative impact on trade and it therefore intended to ask the next meeting of the Council to establish a dispute panel to examine the matter. The representatives of Australia, Canada, Chile, India, Indonesia, Japan, Malaysia, Mexico, Peru, Singapore, Switzerland, and Thailand expressed their interest in the matter and asked to be included in any consultations that might be held on it. The representative of the United States said that the fee was fully consistent with the GATT obligations of the United States, particularly as it was not restrictive of trade, would only serve to cover the costs of the U.S. customs service and would not be part of the general fiscal revenues of his government. The Council took note of the statements.

1/ GATT documents L/6110 and L/6115-6120.

