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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 6, 1991.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

March 4, 1991

The Council, at its meeting on February 6, 1991, welcomed Macao as GATT's 101st member; approved the membership documentation for Guatemala; agreed to the program of balance of payments consultations for 1991; considered a number of dispute settlement cases, including a complaint that certain U.S. environmental legislation was contrary to the GATT; but was unable to agree that a working group examine the links between the environment and trade.

On GATT accessions, Macao became a contracting party on February 11, 1991. Although the People's Republic of China will resume the exercise of sovereignty over Macao in December 1999, it has stated that Macao will remain a free port and a separate customs territory and may decide on its own economic and trade policies. 2/ This autonomy in trade relations allows Macao, as it does Hong Kong, to have separate status as a GATT member. The Council also approved the text of a draft Protocol of Accession for Guatemala, which--in line with most of the recent GATT accessions--will bind the entirety of its tariffs; in addition, Guatemala has undertaken to eliminate, or bring into GATT-conformity, its remaining quantitative import restrictions by July 1994. 3/

In the case of countries using trade restrictions for balance of payments reasons, the Council agreed that full consultations be held with: Yugoslavia in March 1991; Brazil and the Czech and Slovak Federal Republic in July 1991; and with Israel in November 1991. It also agreed to consultations under simplified procedures with: Nigeria, the Philippines, Tunisia and Turkey in March 1991; and Colombia, Pakistan and Sri Lanka in

1/ Mrs. H.B. Junz and C.F.J. Boonekamp. Documents referred to in this report are on file in the Secretary's Department.

2/ GATT document L/6807.

3/ GATT documents L/6770, L/6770/Corr.1 and L/6770/Add.1.

November 1991. 1/ In addition, consultations have been scheduled with India for November 1991, but it is still to be decided whether these are to be conducted under full or simplified procedures. Australia, Canada and the United States have asked for a full consultation on the grounds that India has tightened its trade restrictions. India, with the support of the European Community (EC), argues that such consultations had been held in 1987 and 1989; in 1989 it had been found that its balance of payments situation, which has since worsened, justified the use of restrictions. The issue remains under discussion, with a decision expected in March 1991.

Previously planned consultations with Argentina and Peru have been cancelled, as both countries have disinvoked their use of trade measures for balance of payments needs. Following similar recent moves by Ghana and Korea, the number of countries that still use the GATT's balance of payments provisions is reduced to 14. The only recent invocation of the provisions was by the Czech and Slovak Federal Republic for its temporary 20 percent import surcharge on consumer goods and foodstuffs. 2/

On dispute settlement:

(a) The Council established a panel to investigate a U.S. complaint that the practices of provincial Canadian liquor boards serve to limit imports of U.S. beer. 3/ At issue are both the obligation to grant national treatment to imported goods, and the requirement that each contracting party ensure that its subgovernments comply with the GATT. 4/

(b) A panel was also established to investigate a U.S. prohibition on imports of certain fish products from Mexico under the terms of the U.S. Marine Mammal Protection Act. 5/ The Mexican request for a panel drew wide support, as a test case of possible use of trade measures for environmental reasons. However, in a related matter, the Council was not able to agree to an Austrian request, on behalf of the European Free Trade Association (EFTA), that a working group examine the links between environment and trade, with a view to a better understanding of the

1/ Such consultations require a decision whether an in-depth (full) examination of the concerned party's use of trade measures for balance of payments needs is warranted. For both full and simplified consultations, the Fund makes the latest Recent Economic Developments report on the consulting country available to the CONTRACTING PARTIES. In addition, a Fund statement is required for full consultations.

2/ GATT document L/6812.

3/ GATT document DS17/2.

4/ It is to be noted that the latter issue is being addressed in the Uruguay Round; participants seem close to agreement on a text that would require central governments to take all reasonable measures to effect required changes in the practices of provinces, states and local governments.

5/ GATT document DS21/1.

relevance of the GATT framework to such links. 1/ Some, including Egypt and India, doubted the GATT's competence in the area. Others, including the United States, were supportive of the EFTA position, but suggested that informal discussions be held to set appropriate terms of reference for a working group, to permit a full investigation of the topic while not prejudging the right of members to control environmental hazards. The Chairman of the Contracting Parties, Ambassador Ricupero (Brazil), is to conduct the informal discussions.

(c) The Council again failed to adopt a panel finding that the countervailing duties imposed by the United States on imports of Canadian pork had not been properly established, in that the United States had not first shown that Canadian subsidies on swine were passed in toto onto pork products. 2/ The United States noted that the matter was under consideration by the dispute settlement mechanism of the Canadian/United States Free Trade Agreement; if this found that U.S. law had not been correctly applied, the duties would be removed, making moot the panel's findings. Canada, with support from the EC and the Nordic countries, argued that it was not a matter of whether the duties were consistent with U.S. law, but rather that they had been found in contravention of U.S. obligations under the GATT; as such, the report should be adopted. The matter was referred to the next meeting of the Council, on March 12, 1991.

(d) The United States asked Japan to explain its intentions regarding the removal of its import restrictions on dairy products and starch; Japan, rather than withdraw the measures, had granted its trading partners minimal market access, through March 1991, but this did not obviate the obligation to eliminate the restrictions, as required by panel findings adopted in February 1988. 3/ Japan linked action on the measures to the outcome of the Uruguay Round negotiations on agriculture which are to decide, inter alia, on the use of border measures in support of production control systems in the agricultural sector. Japan and the United States agreed to hold bilateral consultations on the matter and to revert to the Council if necessary.

In other matters, the Council agreed to a request from Bangladesh that, in the light of the current developments in the country, the review of its trade policies under GATT's Trade Policy Review Mechanism be postponed from July 1991 to December 1991. 4/

1/ GATT document L/6809.

2/ GATT document DS7/R and SM/90/222 (12/3/90).

3/ GATT documents L/6253, L/6389 and L/6810.

4/ GATT document C/W/664.

