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SM/89/226

November 3, 1989

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 October 11, 1989.

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Department Heads

INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observers 1/

November 3, 1989

The GATT Council of Representatives met on October 11, 1989 under the chairmanship of Ambassador J. Weekes of Canada. The agenda 2/ included: (i) the accession of Tunisia; (ii) dispute settlement cases; (iii) the report of GATT's Director-General on GATT/Fund/Bank collaboration ("Ways to achieve Greater Coherence in Global Policy Making"); and (iv) the trade policy review mechanism.

The Council yet again deferred deciding on all dispute settlement cases. Among these, two were of special interest as they addressed more general questions: the Korean beef case involved the relationship between dispute settlement cases and imports restricted under balance of payments cover and the Canadian ice cream case raised the question of treatment of production controls in the agricultural sector more generally.

On Mr. Dunkel's report on GATT/Fund/Bank collaboration discussion, as expected, was deferred to the upcoming meeting of the Negotiating Group on the Function of the GATT System, although a number of developing countries made points regarding the inability to pursue market opening policies while the international community appeared unable to ensure the diminution of the disequilibria among major industrialized countries.

I. Accession of Tunisia

The date for Tunisia's accession to the GATT was extended for the fifth time, from October 16, 1989 to March 30, 1990, in order to allow Tunisia more time to complete bilateral negotiations on its tariff schedule. 3/

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

2/ GATT document C/W/610.

3/ GATT document C/W/606. The report of the Working Party on the Accession of Morocco and the draft Protocol of Accession of Tunisia are contained in GATT document L/6277.

II. Dispute Settlement

a. The Council continued debate on the reports of three dispute panels which had found that Korean import restrictions on beef, justified on balance of payments grounds, were inconsistent with GATT rules on quantitative restrictions. 1/ 2/ Delegates were aware that GATT's Balance of Payments Committee would continue its examination of Korea's trade restrictions in the week of October 23, 1989 and could well come to the conclusion that Korea should disinvoke their protection under balance of payments need. Consequently, Korea argued that it could not yet adopt the reports as to do so would prejudice its case in front of the Committee. The basic point was that Korea wished disinvocation to be linked with undertakings by trading partners not to engage in dispute settlement actions on any of the restrictions earlier covered by balance of payments protection. Also, the 1984-85 level of beef imports had now been re-established and Korea would continue to seek a practical solution to arrive at higher levels of beef imports. Australia, Canada, the European Community (EC), New Zealand, and the United States disagreed: the panel's conclusion indicated that they saw the complaints as a distinct problem, whereas the BOP Committee's task was to deal with the wider question of Korea's overall need to safeguard its external account by trade restrictions. They urged immediate adoption of the reports. Australia added that its consultations with Korea in August 1989 had not led to meaningful results. Egypt, Mexico, Pakistan, and Yugoslavia made their agreement to the adoption of the reports contingent upon a clear understanding that adoption would in no way prejudice a country's right under GATT to invoke trade restrictions for balance of payments reasons.

b. The Council received a dispute panel report finding a U.S. complaint against Canadian quantitative restrictions on imports of ice cream and yoghurt justified. 3/ The United States urged immediate adoption of the report as this would reinforce the important GATT rule of keeping quantitative restrictions to an absolute minimum. Although other agricultural producers, New Zealand and Australia, in line with their stance in the Uruguay Round for the sharp reduction of all agricultural support mechanisms, favored the early adoption of the

1/ The Panel reports (GATT documents L/6504, L/6505, and L/6503) addressed separate complaints by Australia, New Zealand, and the United States. The Panels recommended that Korea: (i) eliminate or otherwise bring into GATT conformity a ban on beef imports introduced in 1984-85 and slightly relaxed in 1988; and (ii) hold consultations with interested parties to work out a timetable for the removal of import restrictions on beef justified by Korea since 1967 on balance of payments grounds.

2/ The matter had been discussed at the June 1989 and at the July 1989 Council meetings; see SM/89/156 (8/2/89) and SM/89/182 (8/21/89).

3/ GATT document L/6568.

report, and the EC agreed with it, others (Canada, Finland, Japan, and Norway) worried about the implications for any country that operated a system of production controls in the agricultural sector.

c. Canada sought authorization to proceed with a tariff increase of 2.5 percentage points on some of its imports from the United States in response to the failure of the United States to equalize taxes on domestic and imported petroleum products, as required by a panel report adopted by the Council in June 1987. 1/ Countries were generally sympathetic to the Canadian request. However, the Council agreed to revert to the issue at its next meeting after the United States explained that it was committed to complying with the report; appropriate legislation had passed the House of Representatives and now awaited Senate approval; since an early resolution of the matter was to be hoped for, Canadian action now could, in fact, be counterproductive.

d. The EC again brought the hormone beef dispute between it and the United States before the Council. This involves basically a stand-off: the U.S. asking, repeatedly, for a dispute panel to examine the scientific base of the EC's ban on hormone-treated beef and the EC, arguing that such evidence was ample, asking, also repeatedly, 2/ for a dispute panel to examine the retaliatory U.S. tariff increases. The EC held that failure to establish a panel, or at least for the Council Chairman and the Director-General to hold consultations on the matter implied inability of the GATT mechanism to resolve disputes. As the United States did not object to consultations, provided they also included the basis for the EC's ban, informal consultations were agreed to.

III. Other Matters

The Director-General reported that he had forwarded his paper on GATT/Fund/Bank Collaboration ("Ways to Achieve Greater Coherence in Global Economic Policy Making") for consideration in the Uruguay Round Negotiating Group on the Functioning of the GATT System (FOGS). 3/ In preparation for the report, he had held discussions with the heads of the IMF and the World Bank. Brazil noted the difficulty of developing countries to continue successful adjustment policies in the face of large existing disequilibria among industrialized countries, particularly the United States, Germany and Japan. The report seemed to indicate that the IMF, World Bank and the GATT disqualified themselves from addressing these disequilibria, which carried the implication that increased cooperation between the three institutions could impose

1/ GATT documents L/6559 and C/W/608.

2/ GATT document L/6338; see also SM/89/50 (3/6/89).

3/ GATT document L/6566 and Uruguay Round document MTN.GNG/NG14/W/35.

additional disciplines upon weaker countries. Brazil, joined by Colombia and Peru, further stressed the need to link debt and trade in the discussion on policy coherence, and argued that high debt service payments interfered with making trade liberalization measures permanent because one could not bind trade concessions as long as interest rates were not bound. Other countries largely refrained from substantive comment, which was to take place in the relevant Uruguay Round group.

The Council took note of communications from the Chairman on the conduct of reviews under the Trade Policy Review Mechanism. ^{1/} The Council will initiate the mechanism with reviews of the trade policies of Australia, Morocco, and the United States on December 11-14, 1989. Discussion will be draw on: (a) a report by the country under review, and (b) a report by the Secretariat. The discussion will be conducted among Council members with a couple of lead speakers and the Secretariat to answer orally factual questions. The documentation together with a report on the Council discussions will be published. However, the extent of the latter report was yet to be decided.

Under "Other Business," the United States informed the Council that it had requested dispute settlement consultations with the EC on the latter's recent directive on local-content requirements for television programs. This request raised the interesting question of what, under GATT, constituted a service as the EC argued that television programs constituted provision of a service, so that the dispute did not fall within the jurisdiction of the GATT.

^{1/} GATT documents C/W/607 and Corr.1.