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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 observer on the meeting of the GATT council of representatives, held in Geneva on October 19 and 20, 1988.

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INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observer 1/

November 21, 1988

Introduction and Summary

The GATT Council of Representatives met on October 19-20, 1988 under the chairmanship of Ambassador A. Jamal of Tanzania. 2/ The Council first held a special meeting to examine recent developments in the trading system and to discuss a report by the Director-General on the status of work in dispute settlement panels and the implementation of panel reports.

During the regular meeting, which followed the special meeting, the Council established a panel, at the request of Japan, to examine a European Community regulation that allowed for the imposition of antidumping duties, under certain conditions, on products assembled or produced in the European Community. The Council discussed a request by the European Community to establish a panel to examine U.S. import restrictions on certain agricultural products. It also reverted to the European Community's request to withdraw concessions to the United States due to the failure of the United States to implement the recommendations of a dispute settlement panel that had examined U.S. taxation of petroleum and certain imported substances.

The Council adopted the report of the Working Party on the Accession of Portugal and Spain to the European Community and the reports of the Committee on Balance-of-Payments Restrictions on its full consultation with Turkey and its consultations under simplified procedures with Argentina, Nigeria, the Philippines, Tunisia, and Yugoslavia. It also adopted reports from the Committee on Tariff Concessions and the Technical Group on Quantitative Restrictions and Other Non-Tariff Barriers, as well as the Council's own report to the Forty-Fourth Session of the CONTRACTING PARTIES.

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

2/ GATT/AIR/2689 (special meeting) and GATT/AIR/2691 (regular meeting).

The Council recommended that the CONTRACTING PARTIES adopt a draft decision granting a temporary waiver to Sri Lanka in respect of GATT Article II to enable that country to implement the Harmonized System. The delegation of the United States made a statement concerning its request for the establishment of a working party to examine certain economic integration agreements concluded among Argentina, Brazil, and Uruguay. The Council established a working party to conduct the seventh biennial review of Hungary's Protocol of Accession to the GATT. Under the agenda item of "Other Business," matters were raised by the delegations of the United States, the European Community, Hungary, and Pakistan, by the observer from Bulgaria, and by the Chairman. The Fund observer at the meeting was Roger P. Kronenberg.

I. Special Council Meeting

The special meeting of the Council had two items on its agenda. The first was the semiannual review of developments in the trading system, including the monitoring of Paragraph 7 (I) of the 1982 Ministerial Declaration in which the CONTRACTING PARTIES undertook to resist protectionist pressures. The second item referred to a report from the GATT Director-General on the status of work in dispute settlement panels.

1. Review of developments in the trading system

The Chairman drew the Council's attention to the Secretariat's background paper, "Developments in the Trading System, April 1988-August 1988." ^{1/} The paper noted that during the period under review three developments had been widely regarded as having particular importance for the future of the trading environment: (i) the passage of the U.S. Trade and Competitiveness Act of 1988 and the vetoing of the U.S. Textile and Apparel Act; (ii) the move toward unification of the EC internal market by 1992; and (iii) the progress of the Uruguay Round negotiations, including preparations for the mid-term Ministerial meeting of the Trade Negotiations Committee (TNC) to be held in Montreal in December 1988.

With respect to the U.S. Trade and Competitiveness Act the Secretariat report noted that, while many governments had welcomed the authority it granted to the U.S. President to negotiate trade agreements, some governments had expressed concerns that various provisions of the Act could contravene, or lead to actions that could contravene, certain international obligations of the United States.

^{1/} The report, in draft form, is contained in GATT document C/W/566.

The U.S. authorities had taken the view that, in the main, the Act codified existing practices, and they called on other parties to see how the law would be implemented in practice before drawing any firm conclusions.

As regards the EC single market, the report noted that its development was reportedly being guided by three major principles. First, the single market should not lead the European Community to take actions inconsistent with its GATT obligations. Second, the economic advantages of the single market should not be extended unilaterally to third countries--reciprocity should be required. Third, there would be a small number of areas--such as motor vehicles, imports from certain East European and developing countries, and textiles--where import restraints would have to continue following the establishment of the single market. Such restraints would have to be implemented on a Community-wide basis after 1992.

Among other important trade policy developments, the Secretariat report cited: controversial modifications in the antidumping procedures of both the European Community and the United States; retaliatory measures or threats of such measures to secure improved patent and copyright protection by trading partners; and persistent difficulties in the area of informatics, where the industrial policies of some countries had been concerned with the protection of the domestic market and the conditions of international competition. The period was also notable for the adoption of a number of measures of trade liberalization, particularly Japan's decision to take steps to open its market to imports of beef and citrus and to phase out import quotas on seven categories of processed foods. However, the difficulties remaining in the agricultural sector were illustrated by the important number of agricultural disputes which the GATT had been asked to resolve.

Commenting on the evolution of the macroeconomic environment, the Secretariat pointed out that trade growth had accelerated to a rate of 5 percent in 1988 and the global economy as a whole was expected to grow at a rate of 3.5 percent. While many developing countries continued to face balance of payments and debt servicing difficulties, there had been some progress in the reduction of payments imbalances in two of the major industrialized countries. The recent period had also seen generally greater exchange rate stability and a resumption of export growth in a number of heavily indebted countries. The Secretariat concluded that, if these trends were supported by appropriate monetary and financial policies, including those relating to a reduction of the debt burden, a particularly favorable climate would exist for progress in the trade policy field.

The representative of the United States commended the Secretariat for its latest report on developments in the trading system which, in his view, was much better organized and better focused than the previous one. With respect to the U.S. Trade and Competitiveness Act, the U.S.

representative emphasized that the legislation focused on trade liberalization and market opening. It did not contain measures to protect U.S. industry, as had been the case in earlier drafts. While some countries had expressed concerns that certain features of the law, such as tighter time limits on actions under Section 301, would lead the United States into conflict with its GATT obligations, this had not been the case in practice. The aim of Section 301, in the view of the U.S. authorities, was to open markets and eliminate unfair trade practices. Among other points, the U.S. representative stated that import licensing measures and quantitative restrictions should be fully notified to the GATT and that contracting parties should consult in the Committee on Balance-of-Payments Restrictions if such measures were taken for balance of payments purposes.

The U.S. representative further said that this was the last special Council meeting of the present U.S. Administration. He recalled that in 1985 the United States had embarked on a new strategy to open world markets and promote free trade, and he believed that his authorities could take justifiable pride in the results. In this connection he stressed that the efforts made to improve economic fundamentals and strengthen economic coordination among the major industrial nations had resulted in a sizable reduction in the U.S. trade deficit, and that further improvements in this regard could be expected.

The representative of the European Community noted that the project to create the EC single market had given rise to fears both outside and within the European Community. Within the European Community, the question was whether the single market would not primarily benefit third countries; outside the EC there was the fear that some new kind of protectionism could offset the benefits of the internal liberalization for third countries. Both of these fears were groundless. The completion of the internal market would induce a growth rate of 5-7 percent in the European Community, creating opportunities for all parties; it was up to businesses both within and outside the EC to take advantage of those opportunities. The EC representative went on to emphasize that the formation of the single market would be carried out in full compliance with the EC's international obligations. In areas where no international obligations existed, however, the EC's market opening to third countries would proceed in parallel with the market-opening efforts of these countries. Referring to the sections in the Secretariat's report dealing with the EC's anticircumvention antidumping regulation, the EC representative advised the Secretariat to be cautious so as not to interfere with the ongoing dispute settlement process.

The representative of Brazil stated that recent appraisals of the world economic situation had been overly complacent. While it was true that growth in output among the developed countries had stabilized at about 3 percent, certain other negative factors continued to affect the world economy. One such factor was the slowness of the adjustment

process in the three largest economies which was a major cause of financial disequilibrium and exchange rate volatility. A second factor was a lack of progress on the debt crisis which was now entering its seventh year. In this connection, the Brazilian representative cited IMF statistics on the sharply declining trend in concerted bank lending during the period 1983-87. Against this background, he considered that the Annual Meetings of the International Monetary Fund and World Bank in Berlin had failed to make an effective contribution to resolving the debt crisis. A third source of concern, in his view, was an increased resort to unilateralism and bilateralism by major trading countries.

The representative of Japan stated that, although the world economic situation had generally been evolving in a positive way, he was concerned by certain developments including the enactment of the U.S. Trade and Competitiveness Act, the proliferation of regional integration agreements, and the continued problems associated with indebtedness. As regards the U.S. Trade and Competitiveness Act, he reiterated his authorities' hope that implementation of the legislation would be fully GATT-consistent. He also noted, with satisfaction, that the presidential veto of the U.S. Textile and Apparel Act had been sustained by Congress. On regional integration, the Japanese representative argued that arrangements such as the European Community and the Canada-U.S. Free Trade Agreement contained vast exceptions to the most-favored-nation principle that had not been foreseen by the drafters of the General Agreement. His authorities intended to follow the implementation of these arrangements very closely. Turning to the problem of indebtedness, he said that heavily indebted countries would need to rationalize their domestic industries while developed countries would need to maintain their pace of economic growth and provide increased market access to the exports of developing countries. The Uruguay Round provided important opportunities in these respects, especially because rules in the "new areas" would provide developing countries with new trade opportunities and contribute to their long-term structural adjustment.

The representative of Australia welcomed the assurances of the EC representative that GATT rules would be respected in the process of establishing the EC single market. However, he expressed concern with indications that some national trade barriers would be consolidated at the Community-wide level and that benefits from the integration process would not be automatically extended to third countries in areas not currently covered by the GATT. For their part, his authorities emphasized the importance of trade liberalization at large, not merely in terms of the more narrow focus of existing GATT rights and obligations. Turning to the subject of agriculture, he noted with satisfaction the recent market-opening measures undertaken by Japan. However, certain other developments in agricultural trade--such as the United States' negotiation of export restraint arrangements on beef with Australia and New Zealand, and the European Community's proposal to combine export restitutions with concessional credits to encourage food exports to

developing countries--gave rise to serious concerns at a time when Australia was lowering barriers to its own market. As regards the Secretariat's background papers, he commented that, while the problems of protection in specific sectors was now well known, more attention should be paid to the practice of across-the-board domestic subsidization.

The representatives of Canada and the Nordic countries stated that only in an environment of growth and confidence could governments pursue needed structural reforms. The representative of the Nordic countries went on to say that most of the world's structural problems remained to be resolved. In particular, the budget deficit of the world's largest economy would, one way or another, have to be reduced. He considered that the single most important recent development in the trading system was the enactment of the U.S. Trade and Competitiveness Act. Although the legislation contained elements that gave rise to great concerns in the Nordic capitals, his authorities also recognized that these dangers were, at this point, potential. He called on the U.S. authorities to implement the trade legislation in conformity with the United States' international obligations. He also pointed to the veto of the U.S. textile bill as a welcome sign of the intention of the U.S. authorities to resist protectionism.

The representative of Bangladesh said that there were two Asias, one with robust growth--the newly industrializing countries--and another that was still grappling with the problems of indebtedness, stagnant levels of official development assistance, population pressures, natural disasters, and low commodity prices. Future Secretariat reports should take account of these elements.

The representative of Hong Kong welcomed the negotiating authority contained in the U.S. Trade and Competitiveness Act but stated that certain provisions in the legislation, particularly those relating to antidumping and countervailing duties, continued to give rise to concern. He recognized that the real impact of the Act would depend on how it was implemented by the U.S. authorities, and he recalled the assurances given in this regard by the U.S. representative at the September 1988 meeting of the Council. ^{1/} While voicing relief that the U.S. Administration's veto of the Textile and Apparel Act had been sustained by Congress, he feared that further protectionist legislation would be tabled by Congress in the coming year and said that his authorities would be monitoring these developments closely. Turning to the subject of the EC single market, the Hong Kong representative stated that this was likely to have far-reaching implications for Hong Kong and probably all other exporters to the European Community. While he could appreciate the potential benefits of the integration for third

^{1/} SM/88/236 (October 20, 1988).

parties, the question remained whether the European Community would become more inward-looking. In particular, he drew attention to his authorities' concern that national restrictions might be consolidated at the Community-wide level. Separately, he noted that aspects of the European Community's antidumping regulations were also a matter of concern. Finally, as regards the Uruguay Round, the representative of Hong Kong stated that, while it was important to secure as much progress as possible by the time of the mid-term ministerial review, some issues might not be ripe for early results.

The representative of Korea said that his authorities viewed with grave concern the enactment of the U.S. Trade and Competitiveness Act and the revisions to the European Community's antidumping regulations. Until these laws and regulations had been examined in the relevant GATT bodies, he urged the European Community and the United States to exercise the maximum possible caution in their implementation. The Korean representative went on to summarize important aspects of Korea's trade liberalization program and expressed the hope that these efforts would be regarded by other parties as a valuable contribution to the world trading environment.

The Council took note of the statements.

2. The Director-General's report on the status of work in panels

The Council had before it a report by the Director-General concerning the status of work in dispute settlement panels and the implementation of panel reports. ^{1/} In introducing the report the Director-General drew the Council's attention to three basic trends. First, the number of panels had continued to increase; at present there were 10 active panels, more than at any other time in GATT's history. Secondly, there had been a sudden rise in the number of concurrent complaints by more than one contracting party on a similar matter. The first such case had arisen in 1987 when Canada, the European Community, and Mexico had each brought complaints concerning U.S. taxes on petroleum and certain imported products. In that case the Council had established a single panel to examine the matter. In more recent cases, however, separate panels had been set up to examine the complaints of different contracting parties on related matters. The Director-General stated that it remained to be seen which procedure was the more efficient. The third trend of note was the fact that in almost all recent cases standard terms of reference had been agreed by parties to the disputes. The Director-General welcomed this trend. He also informed the Council that in April 1988 Canada and the European Community had asked him--pursuant to Paragraph 8 of the 1979 Understanding on Dispute Settlement--to render an advisory opinion on a

^{1/} GATT document C/160.

question that had arisen in Article XXIV tariff negotiations between the two parties. The Director-General had agreed to this request and in July 1988 had made his opinion available to the parties.

The Council took note of the statement and agreed that the review of developments in the trading system had been conducted.

II. Regular Council Meeting

1. Dispute settlement

a. European Community--Regulations on imports of parts and components 1/

The representative of Japan requested the Council to establish a dispute settlement panel to examine an EC regulation that allowed the European Community to levy, under certain conditions, antidumping duties on products assembled or produced in the European Community. 2/ Pursuant to this Regulation, on April 18, 1988 the European Community imposed antidumping duties on electric typewriters and electronic scales assembled or produced by Japanese-related companies in the European Community. Japan had requested the repeal of these duties, but the European Community had not offered a satisfactory reply.

In the view of the Japanese authorities the European Community's anticircumvention regulation was nothing more than a protectionist device aimed at obliging foreign-related companies to use parts and components of EC origin. They considered that this regulation and its application contravened the EC's GATT obligations, including those under Articles I, II, III, and VI, and that the benefits accruing to Japan under the General Agreement were being nullified and impaired. In this connection, the Japanese representative stated that Article VI (on antidumping and countervailing duties) required proof of both dumping and injury in respect of the products subject to antidumping duties.

The representative of the European Community said that the regulation in question had been adopted after experience had shown that the opening of an antidumping investigation was frequently followed by the establishment of an assembly operation in the European Community, using parts imported from the country originally exporting the final product. This was a typical example of circumvention, against which

1/ GATT document L/6410.

2/ Council Regulation (EEC) No. 1761/87 (June 22, 1987). This Regulation was subsequently incorporated in Council Regulation (EEC) No. 2423/88 (July 11, 1988).

contracting parties were entitled to take action. In drafting the regulation, the EC authorities had taken great care to define precisely the conditions under which the evasion of antidumping duties was most obvious, and in their view, the measures were fully justified under GATT Article XX:d. 1/ Having said this, the EC representative informed the Council that his authorities would not oppose the establishment of a panel to examine the matter, and he expressed confidence that the panel would uphold the European Community's views.

The representatives of Brazil, Canada, Hong Kong, Singapore, and Thailand supported Japan's request for establishment of a panel. The representative of Brazil said that he would not seek to deny a country the right to protect its markets, provided that the measures employed were consistent with the GATT; in his view, however, the EC measures were not justified by GATT Article XX:d. The representatives of Australia, Canada, Hong Kong, Korea, Mexico, Singapore, Thailand, and the United States reserved their rights to make submissions to a panel. The representative of the United States said that his country had an interest in the matter and reserved its GATT rights.

The Council took note of the statements and agreed to establish a panel to examine the Japanese complaint. The Council authorized the Chairman to draw up the panel's terms of reference and to designate the panel's members and chairman, in consultation with the parties concerned.

Following the Council's decision, the representative of Japan said that establishment of this panel did not preclude Japan's right to pursue the matter in the Committee on Anti-Dumping Practices, and he reserved Japan's rights in this regard. The representative of the European Community said that his authorities considered procedures under the Agreement on Anti-Dumping Practices to be terminated for the time being.

The Council took note of the further statements.

b. United States--Restrictions on
imports of certain agricultural products 2/

It was recalled that, at the Council's September 1988 meeting, the European Community had requested the establishment of a dispute settlement panel to examine U.S. import restrictions on certain agricultural products. 3/ The EC representative had stated that, as a first step,

1/ Article XX:d provides that contracting parties may adopt measures to secure compliance with laws or regulations that are not inconsistent with the General Agreement.

2/ GATT document L/6393.

3/ SM/88/236 (October 20, 1988).

the panel should examine U.S. import restrictions on sugar and sugar-containing products. However, the European Community had also reserved its right to have the proposed panel examine, at a later stage, import restrictions on other products or the U.S. Agricultural Waiver as a whole. 1/ The Council had agreed to revert to the matter.

The representative of the European Community expressed the hope that the Council would take a decision to establish the panel at the present meeting.

The representative of the United States recalled that, at the Council's previous discussion of this matter, his delegation and several others had expressed the view that the European Community's written communication had not been sufficiently specific in identifying the products subject to the complaint. Consequently, the U.S. delegation had stated that it would need to see an amended written complaint before it could give further consideration to the EC request. This, however, had not been done. Rather, the EC delegation had simply sent a letter to the U.S. delegation stating that the EC's oral statement at the last Council meeting should have clarified the complaint. The U.S. representative maintained that this reply was not sufficient. He went on to say that there was also a political dimension to the dispute: the United States could not agree to give further consideration to this matter until the European Community had demonstrated a willingness to move forward with the work of the Panel that had been established by the Council in June 1988 to examine EC oilseed subsidies. 2/ Once the Panel on oilseeds was allowed to begin its deliberations, the United States would be prepared to work expeditiously on both matters.

The representative of the European Community expressed disappointment with the United States' reply and stated that the linking of two panels, as suggested by the United States, was without precedent in the GATT.

The Council took note of the statements.

- c. United States--Follow-up on Panel report concerning
taxes on petroleum and certain imported products

The Chairman recalled that in March 1988 the European Community had requested the Council's authorization to suspend the application of concessions to the United States. This request had been made in response to the United States' failure to implement the recommendations of a dispute settlement panel concerning U.S. taxation of petroleum and

1/ The Decision of the CONTRACTING PARTIES of March 5, 1955 (the Waiver).

2/ SM/88/157 (July 22, 1988).

certain imported products. 1/ The Council, at a subsequent meeting in September 1988, had discussed a technical note by the GATT secretariat which addressed the calculation of injury in this matter. 2/

The representative of the United States informed the Council that his authorities had made a request to enter into negotiations with the European Community on the matter of compensation. It was his understanding that arrangements were now being made to initiate these negotiations.

The representative of the European Community acknowledged that his authorities in Brussels had received a message on this matter from the United States. The EC authorities remained disappointed by the length of time that had elapsed since the Council's adoption of the Panel report, and their request to suspend concessions remained on the table.

The representative of Canada reiterated his authorities' strong preference for the repeal of the offending measure. He noted that more than one year had passed since the Council's adoption of the Panel report and stated that the time had come for the Council to take a decision in the matter. For its part, Canada supported the European Community's decision to seek a balancing of concessions through the GATT rather than through unilateral actions.

The Council took note of the statements and agreed to revert to the matter at its next meeting.

2. Reports

a. Accession of Portugal and Spain to the European Community--Report of the Working Party 3/

The Council had before it the report of the Working Party which had been established on February 12, 1986 to examine, in light of relevant GATT provisions, the Treaty of Accession of Portugal and Spain to the European Community. The Chairman of the Working Party informed the Council that, although the group had held eight meetings during which it had conducted a detailed examination of the matter, participants had been unable to reach agreed conclusions concerning the GATT conformity of the Treaty. Whereas the European Community had taken the view that the Treaty was fully consistent with the General Agreement, many other members of the Working Party had considered that the European Community had failed to demonstrate that it had fulfilled

1/ SM/88/92 (April 26, 1988).

2/ SM/88/236 (October 20, 1988) and GATT document Spec(88)48.

3/ GATT document L/6405.

its obligations under GATT Article XXIV (on customs unions and free-trade areas). The report reflected these differences of views and noted that many members of the Working Party had reserved their rights in the matter.

The Working Party recommended that, consistent with normal GATT practices, the CONTRACTING PARTIES invite the European Community to furnish biennial reports on the progress toward completion of the customs union, including a discussion of the trade effects on third parties, until such time as the provisions of the Treaty of Accession had been fully implemented. Such reports would be placed on the Council's agenda, providing delegations with the opportunity to raise any questions about the consistency of the Treaty with the GATT.

The representatives of Japan, Hungary, New Zealand, Poland, Romania, and the United States considered that the Treaty of Accession was not consistent with the European Community's obligations under GATT Article XXIV, but they did not oppose the Council's adoption of the Working Party's report. Japan, Hungary, Poland, and Romania also considered that the EC enlargement had resulted in the introduction of discriminatory quantitative restrictions that were inconsistent with GATT Article XIII. The representative of Japan called on the European Community to eliminate these restrictions immediately and unconditionally. He went on to note a sharp difference of view between Japan and the European Community with respect to the concept of "counter-compensation." For its part, Japan rejected as totally without foundation suggestions that a customs union might, under certain circumstances, claim counter-compensation from third parties. Japan also considered that the formation of a customs union could not be presumed to have fulfilled the conditions of Article XXIV simply because some conditions of market access had improved.

The representative of the United States said that his delegation accepted the adoption of the Working Party's report with great reluctance and disappointment. He considered that the inconsistency of the latest EC enlargement with the obligations of Article XXIV:5 had been clearly demonstrated in the Working Party. ^{1/} Moreover, he believed that the existence of a temporary bilateral settlement between the United States and the European Community concerning compensation for broken tariff bindings (under Article XXIV:6) did nothing to diminish the broader, global requirements of Article XXIV:5. The U.S. representative went on to say that many of the points raised

^{1/} Article XXIV:5 requires, inter alia, that the overall incidence of trade restrictions facing third parties must not be higher or more restrictive following the formation of a customs union.

by delegations in the Working Party had been supported in a recent Secretariat note prepared for the Uruguay Round Negotiating Group on GATT Articles.

The representative of Australia stated that there were essentially two bodies of opinion in the Working Party: while the European Community had asserted that the Treaty of Accession was consistent with the General Agreement, other active members of the Working Party held a very different view. Australia believed that the Council should adopt the Working Party's report, which contained an important recommendation that the European Community submit biennial reports on the implementation of the Treaty.

The representative of Uruguay endorsed Paragraph 47 of the Working Party's report, which noted that some members of the Working Party had considered that the European Community had failed to demonstrate that it had fulfilled its obligations under Article XXIV.

The representative of the Nordic countries said that the accession of Portugal and Spain to the European Community represented a significant step forward in the process of European integration. This had already resulted in an opening of the markets of Portugal and Spain and could be expected to benefit the multilateral trading system as a whole, consistent with the free-trade principles of the GATT. The representative of Austria considered that the enlargement was in conformity with the European Community's GATT obligations, and he endorsed the adoption of the Working Party's report. The representative of Turkey stated that the trade regimes of Portugal and Spain had become more liberal as a result of the EC enlargement. While he understood the concerns of some other delegations, he believed that these could best be addressed in the context of the Council's examination of the European Community's biennial reports on implementation of the Treaty.

The representative of the European Community said that he was dismayed by the hostile, unjustified, and politically naive statements that had been made by some delegations. These criticisms would not be forgotten. Many other delegations had prudently chosen to remain silent. The matter before the Council was an extremely sensitive one which deserved to be treated with respect. He stated that the Working Party had failed to take proper account of the significant reductions in tariff rates and the increases in tariff bindings implemented by Portugal and Spain in the context of their EC accessions. He also called on participants to recognize the European Community's contribution to the integration of developing countries in the world market. This process would continue. Portugal and Spain were now irreversibly part of the European Community.

The Council took note of the statements and adopted the Working Party's report.

b. Committee on Balance-of-Payments Restrictions

The Chairman of the Committee on Balance-of-Payments Restrictions reported on the Committee's full consultations with Turkey; on the consultations under simplified procedures with Argentina, Nigeria, the Philippines, Tunisia, and Yugoslavia; and on other matters raised at the Committee's meeting of October 4, 5, and 7, 1988. 1/

With respect to the consultation with Turkey, the representative of the United States said that, very shortly after its conclusion, the Turkish authorities had raised the stamp duty to a rate of 10 percent. Recalling that in late 1987 the CONTRACTING PARTIES had granted Turkey a further two-year waiver to maintain the stamp duty at a rate of not more than 6 percent, he asked why Turkey had apparently violated the terms of this waiver and why the duty had been raised so shortly after the consultation. 2/ The representative of Turkey said that he did not have full details at this time and could only say that the increase in the stamp duty was a temporary measure that had been implemented out of fiscal necessity. It was not intended to be trade-restrictive. He stressed that his authorities' report to the Council concerning the operation of the waiver would address the matter raised by the United States.

As regards the report on the simplified consultations, the Committee Chairman noted that the Committee had recommended to the Council that Argentina, Nigeria, the Philippines, and Tunisia be deemed to have fulfilled their obligations under Article XVIII:12(B) for 1988. In the cases of Nigeria and Tunisia, the Committee had concluded that full consultations were not desirable. In the case of Argentina, some Committee members had considered that the next regular consultation should be a full consultation, while several other members and Argentina had felt this request was premature. The Committee had agreed to keep the situation under review and to decide, at a future time, whether there was need for a full consultation with Argentina. In the case of the Philippines, the Committee agreed to recommend a simplified consultation in 1990 but noted that the opportunity to request a full consultation would be available in the event of changes in trade policy. The Committee had also decided to recommend that, in light of the time that had elapsed since the last full consultation with Yugoslavia, the economic reforms being introduced there, and other considerations, a full consultation should be held in 1990.

1/ SM/88/237 (October 28, 1988) and GATT documents BOP/R/178, BOP/R/179, and BOP/R/180.

2/ SM/87/255 (November 3, 1987).

The Council: (i) took note of the statements and of the reports; (ii) adopted the reports on the full consultation with Turkey and the simplified consultations with Argentina, Nigeria, the Philippines, Tunisia, and Yugoslavia; (iii) agreed that Argentina, Nigeria, the Philippines, and Tunisia should be deemed to have fulfilled their obligations under Article XVIII:12(B) for 1988; and (iv) took note that it would be desirable to schedule full consultations with Yugoslavia in 1990.

c. Committee on Tariff Concessions 1/

The Chairman of the Committee on Tariff Concessions reported that the activities of the Committee during the past year had related mainly to technical and legal problems arising from the introduction of the Harmonized Commodity Description and Coding System (Harmonized System). He noted that by early 1989, when further countries were expected to introduce the Harmonized System, more than 90 percent of the trade of all contracting parties would be covered by this nomenclature. The representative of Jamaica commented that greater transparency in the operation of the Tariff Committee would be desirable.

The Council took note of the statements and adopted the report of the Committee on Tariff Concessions.

d. Technical Group on Quantitative Restrictions and Other Non-Tariff Measures 2/

The Council had before it the report of the Technical Group on Quantitative Restrictions and Other Non-Tariff Measures. The Chairman of the Technical Group noted that the Group had met on September 14, 1988 to carry out the biennial review of the accuracy and adequacy of the documentation, the grounds on which measures were maintained, and their conformity with the General Agreement. The Group had agreed that more time was necessary to complete these tasks, and it invited contracting parties that had not yet done so to submit complete notifications of their quantitative restrictions by October 31, 1988. Provided that an adequate number of notifications was received by that date, the Secretariat would consolidate the notifications by January 31, 1989, and update its analysis by February 28, 1989.

The Council took note of the statement and adopted the Technical Group's report.

1/ GATT document TAR/171.

2/ GATT document L/6397.

e. Report of the Council 1/

The Council examined the draft report on its activities since the Forty-Third Session (December 1987) of the CONTRACTING PARTIES. The Chairman noted that the report would be updated to reflect the work of the present Council meeting as well as any corrections. The representative of Chile recalled that his delegation had reserved its rights with respect to the report of the Working Party on the Accession of Portugal and Spain to the European Community. It had also reserved its rights in the Committee on Tariff Concessions with respect to Chile's tariff negotiations with the European Community, Japan, and the United States.

The Council took note of the statements, approved the report, and agreed to submit it to the Forty-Fourth Session of the CONTRACTING PARTIES.

3. Sri Lanka--Request for a waiver under Article XXV:5 2/

The representative of Sri Lanka requested the CONTRACTING PARTIES to grant Sri Lanka a temporary waiver from its obligations under GATT Article II (on schedules of concessions) until June 30, 1989, to enable Sri Lanka to implement the Harmonized System on January 1, 1989. He reported that the Government of Sri Lanka was in the final stages of transposing its customs tariff from the Customs Co-operation Council nomenclature (CCCN) to the Harmonized System. Once this had been completed, the Harmonized System documentation required under the procedures of GATT Article XXVIII (on tariff renegotiations) would be prepared on a priority basis for circulation to the CONTRACTING PARTIES. He emphasized that, in the process of the conversion, his authorities would ensure that no changes would take place in the tariff rates of bound items, in Initial Negotiating Rights, or in product descriptions. While his authorities remained ready to enter into Article XXVIII consultations with interested contracting parties, it would not be possible to do so before the scheduled date of Sri Lanka's implementation of the Harmonized System.

The Council had before it a draft decision in respect of Sri Lanka's request. 3/ The Council took note of the statement, approved the text of the draft decision, and recommended its adoption by the CONTRACTING PARTIES at their Forty-Fourth Session.

1/ GATT document C/W/564.

2/ GATT document L/6409.

3/ GATT document C/W/567.

4. Agreements among Argentina, Brazil, and Uruguay

The representative of the United States recalled that, at the Council's meeting in September 1988, his delegation had requested the establishment of a working party to examine certain economic integration agreements concluded among Argentina, Brazil, and Uruguay under the auspices of the Latin American Integration Association. ^{1/} He noted that answers to some specific questions raised by the U.S. delegation had been provided by parties to the agreement at a meeting of the GATT Committee of Trade and Development (CTD) earlier in the week. While expressing the hope that this information would help to clarify the matter, the U.S. representative said that his delegation still sought information on the GATT justification for these agreements and could not, at the present time, withdraw its request for the establishment of a working party.

The representative of Brazil, speaking also on behalf of Argentina, recalled the comprehensive statement on this subject made by their delegations at the recent meeting of the CTD. While it was their hope that they had answered the questions to the satisfaction of all participants, they remained ready to respond to other questions and to cooperate fully with interested delegations. It was their belief that the CTD was the appropriate forum to address the matter.

The representatives of Canada and the European Community said that they would welcome more information on the agreements.

The Council took note of the statements.

5. Trade with Hungary

The Chairman recalled that, under the terms of Hungary's Protocol of Accession to the GATT, biennial consultations should be held between Hungary and the CONTRACTING PARTIES to review the operation of the Protocol and the evolution of reciprocal trade between Hungary and other contracting parties. ^{2/} The Protocol specified that a working party should be established for this purpose. The Chairman proposed that the Council establish a working party with membership open to all contracting parties to conduct the seventh such review and report back to the Council. The Council so decided.

^{1/} SM/88/236 (October 20, 1988).

^{2/} GATT, Basic Instruments and Selected Documents (20S/3).

6. Matters raised under "Other Business"

a. Sweden--Restrictions on imports of apples and pears

The representative of the United States stated that consultations concerning Swedish imports of apples and pears had broken down, and he informed the Council that the United States intended to renew its request, at the upcoming meeting of the CONTRACTING PARTIES, for the establishment of a dispute settlement panel to examine the matter. ^{1/} The representative of Sweden said that he was surprised by the U.S. statement. He assured the Council that the Swedish authorities were doing their utmost to find a mutually acceptable solution to the dispute, and he considered that further time was needed for the consultations to yield results. The Council took note of the statements.

b. Internationally recognized labor standards

The representative of the United States noted his authorities' continued interest in exploring the relationship between internationally recognized labor standards and international trade. The U.S. delegation would continue its efforts to find a consensus for discussion of this issue in the GATT. The Council took note of the statement.

c. European Community-Hungary trade agreement

The representatives of the European Community and Hungary informed the Council that, on September 26, 1988, their authorities had concluded a trade, commercial, and economic cooperation agreement. Among its provisions, the agreement required the European Community to phase out by end-1995 quantitative import restrictions on more than 2000 tariff positions that had been maintained pursuant to Hungary's Protocol of Accession to the GATT. The text of the agreement would be made available to the Secretariat in due course, for the information of contracting parties. The representative of the European Community stated that the agreement would increase the possibilities of two-way trade, joint ventures, licensing agreements, and other bilateral economic activities. The representative of Hungary stated that the agreement was nonpreferential and reaffirmed the two parties' GATT obligation to accord most-favored-nation treatment to each other. It also provided, on a reciprocal basis and under specified circumstances, the possibility of recourse to selective safeguard measures. The Council took note of the statements.

^{1/} SM/88/57 (March 9, 1988).

d. Japan--Trade in semi-conductors

The representative of the European Community asked Japan to report on its implementation of the recommendations of the Panel report, adopted by the Council in May 1988, concerning Japanese trade in semi-conductors. 1/ The representative of Japan said he would convey this request to his authorities. The Council took note of the statements.

e. Pakistan--Waiver

The representative of Pakistan recalled that in December 1987 the CONTRACTING PARTIES had granted Pakistan a further extension until December 31, 1988 of a waiver allowing Pakistan to suspend the application of GATT Article II (on schedules of concessions). 2/ He reported that his authorities hoped to submit a draft schedule of concessions shortly. If, however, it proved necessary to request a further extension of the waiver, Pakistan would circulate such a request with the hope that it could be acted upon before the end of 1988. The Council took note of the statement.

f. Working Party on the Accession of Bulgaria

The observer from Bulgaria stated that there had been widespread support in informal consultations for the adoption of standard terms of reference for the Working Party on the Accession of Bulgaria. He hoped that further consultations on this matter could be held prior to the Council's first meeting after the Forty-Fourth Session of the CONTRACTING PARTIES. The Council took note of the statements.

g. Exports of domestically prohibited goods

The Chairman reported that Nigeria had prepared a technical note on the subject of exports of domestically prohibited goods. The GATT secretariat had arranged to hold informal consultations on this subject with interested delegations and would report on their results at the Forty-Fourth Session of the CONTRACTING PARTIES (November 1988).

1/ SM/88/129 (June 9, 1988).

2/ SM/87/296 (December 21, 1987).

