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SM/88/177

August 11, 1988

To: Members of the Executive Board
From: The Acting 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 July 20, 1988.

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INTERNATIONAL MONETARY FUND

Meeting of the GATT Council of Representatives

Report by the Fund Observer 1/

August 10, 1988

Introduction and Summary

The GATT Council of Representatives met on July 20, 1988 under the chairmanship of Ambassador A. Jamal of Tanzania. 2/

The Council took up once again two pending questions in the dispute settlement field, namely: New Zealand's request for the establishment of a dispute settlement panel to examine Korean import restrictions on beef and follow-up on a panel report concerning taxes maintained by the United States on certain petroleum products. Discussions on both questions remained inconclusive and the Council agreed to revert to them at its next session.

The Council heard a report from the Chairman of the Committee on Balance-of-Payments Restrictions and adopted the Committee's reports on its simplified consultation with Bangladesh and its full consultation with Egypt. The Council also took note of a report of its Chairman regarding ongoing consultations on the administrative procedures for the Working Party on the Accession of Bulgaria and, at the request of the United States, deferred discussions of European Community import restrictions on apples.

Several matters were raised under the agenda item of "Other Business." The United States: (i) requested further information about the trade agreements signed under the Latin American Integration Association; (ii) expressed continued interest in examining multi-laterally the relationship between internationally recognized labor standards and international trade; and (iii) made a statement expressing concerns about the lack of sufficient progress in organizing the two dispute settlement panels that had been established to examine Korean import restrictions on beef. Australia requested the establishment of a dispute settlement panel to examine the U.S. sugar import regime. The United States said that it would be inappropriate for the Council to take a decision on the request under "Other Business," and the

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

2/ The agenda is contained in GATT document C/W/561.

Council agreed to revert to the matter. Bolivia informed the Council that it had submitted a memorandum on its economic situation and policies, and expressed its wish to accede expeditiously to the GATT. The Chairman informed the Council that Australia and the United States had withdrawn their complaints concerning, respectively, Japanese import restrictions on beef and on beef and citrus, and Japan described its market-opening measures in respect of these products. Finally, the Chairman reported that the GATT Director-General had appointed a personal representative to assist the European Community and Japan in resolving a dispute on copper ores and concentrates. The Fund observer at the meeting was Roger P. Kronenberg.

I. Dispute Settlement

1. Korea--Import restrictions on beef

The Chairman recalled that the Council, at its previous meeting, had considered a request by New Zealand to establish a dispute settlement panel to examine Korean import restrictions on beef. 1/ New Zealand had stated that Korea had not responded to its requests to convene formal consultations on the matter. Korea had argued that formal bilateral consultations should be held before a request for a panel was put to the Council, and it had expressed willingness to participate in such consultations in due course. 2/ The Council had agreed to revert to the matter.

The representative of New Zealand reiterated his authorities' request for the establishment of a dispute settlement panel to examine Korean import restrictions on beef. He recalled that the Council had already established two dispute settlement panels to examine similar complaints by Australia and the United States, and he regretted that New Zealand had, so far, been denied similar treatment. 3/ In New Zealand's view, Korea had been engaged in delaying tactics. Despite assurances by Korea at the last Council meeting to hold Article XXIII:1 consultations "in due course," New Zealand had, to date, been unable to convene such consultations. Recently, Korea had informed New Zealand that consultations could be held on July 25, 1988, or thereafter. If required to await the outcome of such consultations, New Zealand would be unable to seek the establishment of a panel until the next Council meeting, in September 1988. In New Zealand's view, the time for consultations had passed. The holding of formal consultations was not

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

2/ The term "formal consultations" is used in this report to refer to consultations pursuant to GATT Article XXII (on consultation) or XXIII:1 (on dispute settlement).

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

a prerequisite for the establishment of a panel; the only requirement was that no satisfactory solution had been found within a reasonable period of time.

The representative of Korea said that his authorities would not seek to deny any contracting party the right to Article XXIII:1 consultations or to the establishment of a dispute settlement panel. He explained that it had not proven possible for the National Assembly to hold a debate on New Zealand's complaint, as had been scheduled. However, the National Assembly was now scheduled to meet in special session during the course of the week to take up its discussion of the matter. Following this parliamentary debate, the Korean Government would stand ready to hold formal consultations with New Zealand during the week of July 25. Until such time, Korea believed that the establishment of a panel would be premature.

The representatives of Australia, Canada, the European Community, Hungary, the United States, and Uruguay expressed concern with Korea's delay in agreeing to consultations and supported New Zealand's request for a panel. The representative of the European Community further expressed concern that Korea had treated New Zealand's complaint differently than the complaints of some other contracting parties. Canada, the European Community, and the United States reserved their rights to make submissions to a panel, if one was established.

The representative of Korea said that his authorities did not regard Article XXIII:1 consultations as a pro forma exercise. Korea intended to make concrete proposals, and it therefore hoped that the Council would allow these consultations to go forward, in accordance with established GATT practice.

The Chairman noted that New Zealand and six other contracting parties had spoken clearly on the subject, and he expressed the hope that the Council would be able to note significant progress in the matter at its next meeting.

The Council took note of the statements and agreed to revert to the matter.

2. United States--Follow-up on Panel report concerning taxes on certain petroleum products

The Chairman recalled that, in March 1988, the European Community had requested the Council's authorization to suspend the application of equivalent concessions to the United States in response to the United States' failure to implement the recommendations of a dispute settlement panel. The Panel had examined U.S. taxation of certain imported

petroleum products. 1/ In June 1988, the Council had authorized the GATT secretariat to provide technical advice to the European Community in respect of the calculation of injury. 2/ The Chairman reported that the Secretariat had initiated its work on this matter, but several technical questions still remained. He therefore suggested that the Council revert to the matter.

The representative of the European Community expressed disappointment that the Secretariat should require so much time to complete its work. The European Community expected that the work could be completed well in advance of the next Council meeting so that the matter could be resolved. However, this did nothing to diminish the need for the United States to implement the Panel's recommendations or to offer compensation.

The representative of Canada took note of the continued lack of progress by the United States in implementing the Panel's recommendations. The representative of Mexico also expressed concern in this regard.

The Chairman said that it was his understanding that the Secretariat expected to complete its work well in advance of the next Council meeting.

The Council took note of the statements and agreed to revert to the matter.

II. Committee on Balance-of-Payments Restrictions

The Chairman of the GATT Committee on Balance-of-Payments Restrictions, Mr. Boittin of France, reported that the Committee had met on June 7, 1988 to conduct a consultation under simplified procedures with Bangladesh and a consultation under full procedures with Egypt. 3/ He also reported that, with respect to the Committee's future work program, it had been agreed that a full consultation with Turkey and simplified consultations with Argentina, Nigeria, the Philippines, Tunisia, and Yugoslavia would be held during the week of October 3, 1988.

1/ SM/88/92 (April 26, 1988) and SM/87/183 (July 28, 1987).

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

3/ The Committee's reports on the consultations with Bangladesh and Egypt, and its summary report on the meeting of June 7, are contained in GATT documents BOP/R/175, BOP/R/176, and BOP/R/177, respectively.

The representative of the European Community said that he was prepared to adopt the Committee's report on Egypt on the understanding that the abolition of Egypt's 35 percent prior import deposit requirement had been put into practical effect. In this connection, he stated that the Committee's surveillance function was not a mere formality.

The Council took note of the reports and the statements and adopted the reports on the consultations with Bangladesh and Egypt.

III. Other Matters

1. Other items on the agenda

The Chairman reported that he had initiated consultations concerning procedural aspects of the Working Party on the Accession of Bulgaria. ^{1/} Although some progress had been made, further time was still needed. The Chairman hoped that he would have further information available for the Council at its next meeting. The observer from Bulgaria thanked the Chairman for his efforts and expressed the hope that the Working Party would be able to get under way by the next Council meeting. The Council took note of the statements.

The Chairman noted that the matter of the European Community's import restrictions on apples had been placed on the Council's agenda at the request of the United States. He reported that bilateral consultations were now under way and that the United States had requested that consideration of the matter be deferred. The Council took note of the statement.

2. Matters raised under "Other Business"

Under the agenda item of "Other Business," matters were raised by the delegations of the United States, Australia, and Bolivia. The Chairman also reported on certain dispute settlement matters.

a. Latin American Integration Association

The representative of the United States said that his authorities had an interest in obtaining further information about the trade agreements signed under the Latin American Integration Association (LAIA). The original agreements had been signed by Argentina and Brazil. However, the U.S. representative understood that some of the subsequent agreements had also been signed by Uruguay and possibly by some other countries. The United States had repeatedly asked for information on these agreements, both in the Council and in the GATT

^{1/} SM/88/157 (July 22, 1988).

Committee on Trade and Development, and the U.S. authorities were concerned by the inadequate response. If sufficient information was not forthcoming, the United States would have to consider the best means to ensure that these agreements conformed to the General Agreement and did not infringe on the United States' rights and trade interests.

The representatives of Argentina, Brazil, and Uruguay took note of the U.S. concerns and pledged to transmit them to their respective authorities. However, these representatives considered that their countries had complied with their GATT obligations in respect of the agreements concluded under the LAIA. 1/ Moreover, they noted that the U.S. request was currently being examined in the GATT Committee on Trade and Development, which, in their view, was the appropriate forum for consideration of the matter. The Council took note of the statements.

b. Internationally recognized labor standards and international trade

The representative of the United States informed the Council that his authorities continued to believe that it would be useful to examine multilaterally the relationship between internationally recognized labor standards and international trade. 2/ Therefore, the United States would continue to consult with interested contracting parties with a view to reaching a mutually satisfactory solution. The representative of Jamaica said that his delegation would be interested to participate in such consultations. The Council took note of the statements.

c. Korean import restrictions on beef

The representative of the United States informed the Council that, more than two months after the Council had agreed to establish two dispute settlement panels to examine Korean import restrictions on beef, very little progress had been made in organizing the work of these panels. 3/ The U.S. authorities wondered whether this was a calculated strategy on the part of the Korean authorities, particularly in light of their refusal to hold formal consultations with New Zealand on a related complaint. The U.S. representative warned that if the effectiveness of GATT's dispute settlement process was placed in doubt, the U.S. authorities would be deprived of their strongest arguments to maintain domestic support for the multilateral trading system.

1/ Recent reports on the LAIA agreements are contained in GATT documents L/6158 (May 4, 1987) and Add.1 (December 22, 1987).

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

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

The representative of Korea stated that the U.S. accusation was groundless. Some progress had already been made in setting up the panels, and consultations were continuing. If some problems remained to be resolved, it was inappropriate to blame just one of the parties involved. The Korean representative noted that two separate panels had been established to examine the complaints of Australia and the United States. However, Korea had accepted that the two panels would have the same members, and it had agreed to the participation of third country observers. The Korean representative assured the Council that Korea would continue to make its best efforts in the matter.

The representative of Australia shared the concerns expressed by the U.S. representative. His authorities recognized the sensitivity of the issue of Korean beef imports, and it had been prepared to tolerate reasonable delays. However, delays were no longer reasonable, and recent meetings with the Korean side appeared to have actually resulted in a step backwards.

The Council took note of the statements.

d. U.S. sugar import regime

The representative of Australia requested the establishment of a dispute settlement panel to examine the United States' sugar import regime. He stated that U.S. sugar production had been expanding behind an increasingly restrictive quota regime, with the result that U.S. sugar imports were now at their lowest level since the founding of the GATT. Australia believed that the restrictions nullified or impaired its GATT benefits, and that the situation was in need of an international examination. The Australian representative recalled that formal consultations with the United States had been held pursuant to GATT Article XXII. ^{1/} In these discussions, the United States had maintained that its sugar quotas were legal under the GATT, while Australia had disagreed. Under the circumstances, Australia did not believe that further consultations could lead to a resolution of their differences.

The representative of the United States said that it was highly unusual to request the establishment of a panel under the agenda item of "Other Business" and for good reason: contracting parties should have the benefit of an established agenda to prepare for discussions of matters requiring decisions of the Council. The U.S. representative suggested that Australia request that the issue be placed on the agenda for the next scheduled Council meeting.

^{1/} SM/88/157 (July 22, 1988).

The representative of the European Community expressed support for Australia's concerns and said that the European Community was, itself, in the process of conducting Article XXIII:1 consultations with the United States on the matter of the U.S. agricultural waiver. However, the European Community believed that the United States was correct in its procedural objections to Australia's request. Therefore, the European Community suggested that the Council take up the matter at an appropriate time.

The representatives of Argentina, Brazil, and Nicaragua supported the establishment of a panel as requested by Australia. The representative of Argentina said that the U.S. sugar import regime was incompatible with the GATT and had serious consequences for the international sugar market. The representative of Colombia supported establishment of a panel in due course. The representative of Canada recognized that some contracting parties might require further time to consider the request. The representative of Thailand registered his concern with the U.S. sugar regime. The representatives of Brazil, Canada, Colombia, and Thailand reserved their rights to make submissions to a panel if one was established.

The representative of Australia agreed to place the matter on the agenda for the next Council meeting.

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

e. Accession of Bolivia

The observer from Bolivia stated that her authorities had submitted to the GATT a memorandum describing Bolivia's economic situation and the main lines of its economic policies. ^{1/} She said that Bolivia's performance since 1985 had been regarded as a model of structural adjustment by some other international organizations. The implementation of an austere fiscal policy along with other stabilization measures had succeeded in reducing inflation from hyperinflation levels in 1985 to an annual rate of about 10 percent at present. Moreover, the economy was once again beginning to grow after five years of decline, despite the continued pressures of a very heavy debt service burden. Bolivia was pursuing a trade policy based on the principles of free trade and transparency. All quantitative restrictions had been abolished, with the exception of those maintained for the purpose of national security, health, or safety; the tariff regime had undergone a reform and tariff rates were now at low levels. Against this background, the Bolivian observer conveyed her authorities' wish to accede expeditiously to the GATT. She also expressed her authorities'

^{1/} GATT document L/6369.

willingness to enter into tariff negotiations and invited interested contracting parties to notify Bolivia of their interest. The Council took note of the statement.

f. Japanese market-opening measures

At its May 1988 meeting, the Council had established two dispute settlement panels to examine complaints by Australia and the United States concerning, respectively, Japanese import restrictions on beef and on beef and citrus. 1/ The Chairman informed the Council that Australia and the United States had since withdrawn their complaints. In its written notification, Australia had indicated that it no longer wished to continue with the panel investigation; the United States, in its notification, had reserved its rights under the GATT should the measures announced by Japan not be put into practice to the satisfaction of both governments. 2/

The representative of Japan informed the Council that on July 5, 1988 the Cabinet had taken a decision to implement market-opening measures for beef, citrus, and other products. These measures, which had been notified to the GATT, 3/ were to be implemented unilaterally and on a most-favored-nation (MFN) basis. Japan considered that these measures represented a positive contribution to the Uruguay Round negotiations. The Japanese representative went on to describe the main features of the market-opening initiative. 4/ With respect to fresh oranges, market access would be increased by 22,000 metric tons annually during FY 1989-90, and on April 1, 1991, the import allocation system would be abolished. 5/ With respect to concentrated orange juice, market access would be greatly expanded during FY 1988-91, and the import allocation system would be abolished on April 1, 1992. In addition, the share of imported orange juice which had to be blended with domestic orange juice would be reduced in stages, and the blending requirement would be abolished on April 1, 1990. As regards beef, market access would be increased by 60,000 metric tons annually during FY 1989-90, and the import allocation system would be abolished on April 1, 1991. During the transition period, the share of imported beef transacted under the simultaneous buying and selling (SBS) system would be increased from 30 percent in FY 1988 to 60 percent in FY 1990, and the absolute amount of beef handled through general tender purchases

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

2/ The communications from Australia and the United States are contained in GATT documents L/6333/Add.1 and L/6322/Add.1, respectively.

3/ GATT document L/6370.

4/ The following account further summarizes the points mentioned by the Japanese representative. A complete description of the measures is contained in GATT document L/6370.

5/ The Japanese fiscal year (FY) begins April 1.

of the Livestock Industry Promotion Corporation (LIPC) would decline. As from April 1, 1991, the LIPC would no longer be involved in the pricing, purchase, or sale of imported beef. Liberalization measures were also announced for prepared and preserved meats. 1/

The representative of Australia extended his authorities' congratulations to the Government of Japan for one of the most dramatic market-opening initiatives taken in the history of the GATT. The representative of the United States seconded these remarks and added that the measures were particularly important in the context of the Uruguay Round. Other statements of support and appreciation were made by the representatives of Canada, Hungary, Israel, Malaysia, and New Zealand. The representatives of Canada and Hungary welcomed Japan's confirmation that the measures would be applied on an MFN basis. The representative of New Zealand considered that the shift to tariff-based protection was highly significant. The representatives of Jamaica and Malaysia noted that the market-opening measures would also apply to some tropical products. The representative of Malaysia expressed the hope that Japan would extend market-opening measures to the full range of these products, while the representative of Jamaica asked whether these tariff reductions would be bound by Japan in its Schedule of Concessions.

The Council took note of the statements.

g. European Community and Japan--Dispute on copper ores and concentrates

The Chairman recalled that the European Community and Japan had requested the good offices of the GATT Director-General to assist them in resolving a dispute on copper ores and concentrates. 2/ The Chairman reported that the Director-General had appointed Mr. Gardner Patterson to act as his personal representative in the matter. The Council took note of the statement.

1/ Prepared and preserved meats were among the products addressed by the GATT Panel which had examined Japanese import restrictions on 12 agricultural products. SM/88/57 (March 9, 1988) and GATT document L/6253.

2/ SM/87/214 (August 18, 1987).