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GENERAL AGREEMENT ON TARIFFS AND TRADE

COUNCIL
15 July 1986

MINUTES OF MEETING

Held in the Centre William Rappard
on 15 July 1986

Chairman: Mr. K. Park (Korea)

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1. Dates for the forty-second session of the CONTRACTING PARTIES (C/140)

The Chairman recalled that at their forty-first session, the CONTRACTING PARTIES had agreed that the forty-second session should be held in the week beginning 24 November 1986, and that the Council should be authorized to fix the opening date and duration of the session in the course of 1986. He proposed that the Council adopt the Director-General's proposal (C/140) that the forty-second session should open on the afternoon of Monday, 24 November and that the duration should be fixed at three to four days.

The representative of the United States said that at the November 1985 session, his delegation had stated its preference that future CONTRACTING PARTIES' sessions not be held in the last week of November as this conflicted with the US Thanksgiving holiday. He urged reconsideration of the dates proposed for the November 1986 session or, should alternate dates not be possible, hoped that no future CONTRACTING PARTIES' sessions would be scheduled for the last week in November.

The Director-General noted the constraints imposed on the Secretariat by the availability of conference facilities in Geneva for CONTRACTING PARTIES' sessions, and said that due to these constraints, it would not be possible to re-schedule the November 1986 session to the preceding or following week. Consequently, he asked the Council to accept the proposed dates. However, he was prepared to make every effort to see that the 1987 session took place one week later, should suitable meeting space be available.

The representative of Canada said his country's Thanksgiving holiday fell on a different date than that of the United States, but his delegation would not ask that the Secretariat's timetable be built around Canada's date.

In reply to a question from India, the Chairman confirmed that the Council was not being asked to agree on the dates for the forty-third session to be held in 1987.

The Council took note of the statements and adopted the Director-General's proposal in C/140.

2. Accession of Mexico
- Working Party report (L/6010 and Corr.1 and L/6010/Add.1 and Corr.1))

The Chairman recalled that in February 1986, the Council had established a Working Party to examine Mexico's application to accede to the General Agreement. The Working Party's report was contained in L/6010 and Corr.1. The Schedule LXXVII - Mexico, resulting from the tariff negotiations, was contained in L/6010/Add.1 and Corr.1.

Mr. Reisch (Austria), Chairman of the Working Party, introduced the report. He said that in examining Mexico's foreign trade régime and its compatibility with the General Agreement, the Working Party had agreed on a calendar which had taken into account Mexico's desire to become a contracting party before the September 1986 Ministerial meeting. The main points discussed in the Working Party were set out in paragraphs 13 to 82 of L/6010. The Working Party had concluded that, subject to the satisfactory termination of the relevant tariff negotiations, Mexico should be invited to accede to the General Agreement under the provisions of Article XXXIII, and had included as an appendix to the report a draft Decision and Protocol of Accession. It was the Working Party's understanding that where paragraphs of the Protocol of Accession referred to the Working Party's report, those paragraphs could only be interpreted and applied in the light of, and in conjunction with, the relevant paragraphs of that report. As Mexico wanted to become a contracting party by the time of the Ministerial meeting, it was important that contracting parties cast their votes early enough to permit this.

The representatives of the United States, Canada, Romania, Peru, Switzerland, Norway on behalf of the Nordic countries, Yugoslavia, Nicaragua, New Zealand, Spain, Argentina, Austria, Hungary, Japan, Cuba, Czechoslovakia, Thailand on behalf of the ASEAN contracting parties, Colombia, Egypt, Sri Lanka, Brazil, Uruguay, Israel, Bangladesh, Turkey, Hong Kong, Trinidad and Tobago, Korea, India, Zaire, Jamaica, Australia, Gabon, Pakistan, Kuwait, and Kenya speaking as a contracting party observer, commended the Working Party for its speedy and efficient work, and the effort and cooperative spirit shown by Mexico throughout that work. They supported adoption of the Working Party's report and approval of the draft Decision and draft Protocol of Accession, and many expressed their intention to vote in favour of the Decision on Mexico's accession. It was hoped that this process could be completed in time to allow Mexico to participate as a contracting party in the Ministerial meeting. Mexico's decision to bring its trade policy into conformity with the General Agreement and to assume obligations commensurate with its level of development showed confidence in GATT at a crucial point in the organization's history and augured well for GATT's future work. Representatives looked forward to working with Mexico as a contracting party in GATT.

The representative of the United States said that this occasion had special importance for the United States based on the size of the US-Mexican bilateral trade relationship and the many other special ties that bound the two countries. Mexico's accession to GATT would begin a new page in US-Mexican trade relations and would form a solid basis on which to continue to develop mutually beneficial economic and trade relations. His delegation firmly believed that membership in GATT would benefit Mexico as it carried out its plans for trade liberalization.

The representative of the European Communities said that Mexico's accession was an important development both for GATT and for Mexico. He congratulated Mexico for having undertaken this initiative for the second time and for having succeeded in mustering the necessary domestic support; this should be symbolic for all contracting parties. The formal steps remaining to be taken for Mexico's accession should be completed speedily. As the Chairman of the Working Party had said, any interpretation of the Protocol of Accession would have to refer to the Working Party's report. The Community noted that Mexico would belong to a new category of contracting parties: it was now a "virtual" member of the GATT.

The representative of Switzerland said that his authorities gave special importance to the step taken by Mexico, due to that country's economic importance, to the traditional rôle it played in international economic relations, and also to the fact that this was occurring at an important time in GATT's history.

The representative of Norway, on behalf of the Nordic countries, said that in accepting the terms of the Protocol, they had noted in particular Mexico's declared intention to notify and justify all residual quantitative restrictions in accordance with relevant provisions of the General Agreement, to ensure that they were applied in a manner consistent with Article XIII and to apply all restrictions in accordance with the principles of non-discrimination (paragraph 29, L/6010). The Nordic countries had further noted that the Schedule of concessions annexed to the Protocol incorporated specified global quotas for a number of products, including those for which the Nordic countries had requested and received concessions. Those countries wanted to make it clear that acceptance of the Protocol and the annexed Schedule did not prejudice their position in relation to Mexico's maintenance of those global quotas. He said that Finland, Norway and Sweden had concluded bilateral negotiations with Mexico and expected within a few days to be able to formalize bilateral agreements with that country.

The representative of Yugoslavia expressed his authorities' appreciation for Mexico's efforts to bring its trade régime into conformity with GATT provisions, particularly since, like many other developing countries, it faced serious economic and financial difficulties.

The representative of New Zealand recalled the Working Party's understanding that where paragraphs of the Protocol referred to paragraphs of the Working Party's report, these could only be interpreted and applied in light of the relevant paragraphs of the report. That had been New Zealand's understanding regarding, for example, paragraph 3 of the Protocol in relation to paragraph 29 of the report.

The representative of Japan said that Mexico's accession would breathe new life into GATT.

The representatives of India and Zaïre noted the important rôle that Mexico, as a developing country, played in furthering the economic development of developing countries, and looked forward to Mexico's active participation in GATT.

The representative of Jamaica drew attention to the commitments undertaken by Mexico to apply domestic regulations in a manner consistent with the obligations assumed under the General Agreement. He referred specifically to paragraph 60 of the Working Party's report, which indicated that detailed regulations implementing Mexico's Foreign Trade Law would comply with international rules. The significance of Mexico's commitment in this respect would be measured in large part by the strict reciprocity of its major trading partners in respecting GATT rules.

The representative of Australia said that GATT's value clearly rested on members abiding firmly by their rights and obligations. Each departure from those obligations, whether by waiver or other derogation, resulted in an imbalance of obligations among contracting parties; this lessening of reciprocity reduced the Agreement's overall value and effectiveness in regulating world trade. One of GATT's current problems was the number of derogations already allowed. Unless a halt and rollback to those exceptions was effected, the General Agreement would ultimately be only a symbol, without any substance, of an effort towards free trade. Australia's longstanding commitment to maintaining and improving the conditions affecting developing-country participation in international trade was well known; its revised system of tariff preferences was a practical example of that commitment. However, Australia considered that GATT provisions, specifically Article XVIII and Part IV, provided adequately for the needs of developing countries. There was no need or value, from the point of view of GATT's viability, in granting special rights in the form of permanent or open-ended waivers. In the Working Party, Australia had expressed concern that paragraph 3 of the draft Protocol could be interpreted as a waiver for Mexico in respect of the agricultural sector of its economy, not normally available to GATT members. Such an interpretation was not shared by other members of the Working Party or by the Secretariat. Accordingly, Australia accepted the interpretation of other members of the Working Party that Mexico would not enjoy, by virtue of its Protocol, any special rights with respect to its agricultural sector over and above those enjoyed by other developing contracting parties. Specifically, this meant that the Protocol did not entitle Mexico to intensify existing import measures covering agriculture without recourse to relevant GATT provisions. Australia made this statement in the interest of transparency and with the aim of ensuring that future relations between Mexico and GATT would be on the most harmonious terms.

The Council approved the terms of the draft Protocol of Accession, approved the text of the draft Decision and agreed that the Decision should be submitted to a vote by postal ballot. The Council also adopted the Working Party's report and took note of the statements.

The representative of Mexico, speaking as an observer, expressed his Government's satisfaction with the decision taken by the Council. From the time of Mexico's decision in November 1985 to apply for accession and at every stage of the discussions, Mexico had been considered a developing country, thus giving it the right to benefit from the special and more favourable treatment afforded developing contracting parties. In presenting its request for accession, Mexico had indicated its intention to participate in GATT's work so as to help expand international trade and to improve the rules governing it. Consequently, Mexico wanted to participate from the outset and with full rights as a contracting party in the new round of trade negotiations. He expressed thanks for the goodwill and understanding which had been shown by all concerned which had made possible the negotiation of Mexico's accession to GATT.

The Council took note of the statement.

3. Japan - Measures affecting the world market for copper ores and concentrates
- Request by the European Economic Community for a working party (C/W/439, L/5627, L/5654, L/5992)

The Chairman recalled that at its meeting on 17 June, the Council had agreed to revert to this item at the present meeting. He said that following further informal consultations with interested parties, he proposed that the Council agree to establish a group of governmental experts, open to all interested contracting parties, with the following terms of reference:

> "To examine problems falling under the competence of the General Agreement relating to current trends in world trade in copper, including the supply and demand situation for copper concentrates and refined copper, and to report to the Council."

The Council so agreed.

He then proposed that the Council authorize him to designate the Chairman of the Group in consultation with interested delegations.

The Council so agreed.

The representative of the United States cautioned against having the Group examine purely private commercial matters.

The representative of Canada said his delegation wanted to participate in the Group.

The representative of Jamaica recalled that his delegation had repeatedly expressed the view that the Council's work should be conducted in a transparent manner, especially in an area which suggested the breaking of new ground.

The Council took note of the statements.

4. Committee on Budget, Finance and Administration

(a) Interim report of the Committee (L/6014)

Mr. Hill (Jamaica), Chairman of the Committee on Budget, Finance and Administration, introduced the report (L/6014).[1] As foreseen in the Committee's report on its 1985 meetings (L/5881), it had taken up a number of issues which, in its view, needed to be examined in greater detail; however, further study was required on a number of subjects before the Committee could make recommendations to the Council in November along with the budget recommendations for 1987. The present interim report covered, in particular, two specific matters on which the Committee recommended that the Council take action at the present meeting: the appointment of external auditors, and the approval of a Supplementary Budget for 1986. Due to the increasing cost of the external audit over the past few years, the Committee had asked the Director-General to call for competitive tenders, and had recommended that the external audit, with effect from the 1986 accounts, be entrusted to the Austrian Court of Audit. The Committee recommended that the Council approve the Supplementary Budget estimates for 1986 set out in paragraphs 10-16 of the interim report. He drew attention to three points: (1) there were budgetary implications for 1987 regarding some items, in particular the rental of additional offices for which a five-year contract was envisaged; (2) the expenditure proposed under the Supplementary Budget would require no additional appropriation; and (3) the expenditure would be financed through the transfer of savings achieved elsewhere in the 1986 Budget.

The Council approved the recommendations in paragraphs 9, 17-20, and 22 of L/6014, took note of the statement and adopted the interim report (L/6014).

The Chairman of the Committee then commented on GATT's financial situation. He noted that GATT's expenditure budget was reasonably well under control, in terms of both planned expenditure and actual disbursement, even if postage costs had risen alarmingly in 1986, and

[1] The text of his statement was subsequently circulated informally in the meeting room.

that important areas of expenditure, such as salaries and allowances of GATT staff, could not be controlled at the level of the Budget Committee. On the income side, however, matters were much more serious. Contributions of many contracting parties were received late and several others had not paid their contributions for periods extending up to 10 years and longer. Accumulated arrears outstanding at the end of financial year 1985 amounted to almost one-fifth of the total 1986 Budget. Regarding 1986 contributions, over 30 per cent of the total due remained outstanding. Were it not for exceptionally large projected savings in budgeted expenditure, this situation might force the Director-General to request the Council's authority to undertake short-term borrowing to meet inescapable liabilities, including staff salaries and allowances. The Committee had been considering a number of possible steps to remedy the situation. One might be enlargement of the Working Capital Fund, which provided a cushion against cash flow difficulties. But the real problem lay in the failure of contracting parties to pay their contributions in time. As regards contributions due for 1984 and earlier, agreements for the payment of those arrears had been reached with some contracting parties, and it was hoped that the Secretariat would reach similar agreements with others. A distinction between long-overdue and overdue arrears would allow a clearer and more realistic presentation of the accounts. Regarding current or recently-due contributions, the Director-General had written, at the Committee's request, to all contracting parties whose contributions were in arrears, appealing for early payment. The Committee was also considering a scheme which would reward prompt payment of contributions by paying interest on them. While such a scheme had a cost, its effect appeared to be on balance worthwhile for the organizations which had tried it.

He believed that one element in the problem of outstanding contributions was the present system of assessment of contributions. Nearly half of GATT's contracting parties were assessed not on their respective share of world trade but by means of a flat minimum figure of 0.12 per cent of GATT's budget. Over 40 contracting parties would pay less - in some cases, much less - were the contributions based on their shares in world trade. He noted that the contributions outstanding over a very long period were largely those due from contracting parties assessed the flat minimum figure. He emphasized, however, that GATT's recurrent cash-flow problems were due primarily to slow payment by certain large contributors. It was hoped that when the Committee resumed its work in the autumn and took up the 1987 Budget estimates in the knowledge of the outcome of the Punta del Este meeting, it would be able to form a reasonably long-term view of GATT's tasks and of the resources needed to carry them out.

The representative of Ghana asked what action had been taken regarding the Committee's agenda item 4, "Floor Rate for Salary and Allowance Payments to Staff in the Professional and Higher Categories".

The Director-General noted that some two-thirds of GATT's expenditure budget related to personnel costs. He recalled that at the May Council meeting, he had drawn attention to the serious problems affecting professional staff salaries and pensions. On salaries, he had expressed his concern regarding the substantial decreases in take-home pay resulting from the depreciation of the US dollar against the Swiss franc; these had amounted, on average, to about 10 per cent over twelve months. He had also indicated that this was a problem shared by other institutions, two of which, the Universal Postal Union and the World Intellectual Property Organization, had taken steps to counter the erosion of take-home pay. The basic thrust of his proposal before the Committee was to apply a minimum exchange rate for the US dollar when establishing the Swiss franc amount of staff salaries. Since the May Council meeting, this issue had been pursued through two channels: consultations had taken place between the Chairman of the CONTRACTING PARTIES and representatives of the staff; simultaneously, the Committee had also examined the matter. The fact that both normal and exceptional channels had been used reflected the very serious and pressing nature of this problem. The erosion of take-home pay was only one of many pending problems regarding the conditions of service in the Secretariat, but there was a real risk that this particular problem might prove to be the straw that broke the camel's back. It was because of this urgency that he had proposed to the Committee an interim solution to provide at least immediate relief until the end of 1986. He recognized that there was a case, in the longer run, for setting a ceiling as well as a floor exchange rate for the US dollar. He also recognized the legitimate preoccupation of contracting parties to protect the integrity of the so-called Common System, but pointed out that this "common" system had to deal with widely differing problems. For example, the problem of take-home pay did not affect staff based in New York, staff receiving their salaries in dollars, or staff of the two agencies which had already adopted mechanisms to insulate take-home pay from the effects of exchange rate fluctuations. He emphasized that GATT representatives had been working hard to solve this problem within, and not outside, the Common System. It was hoped that a solution would be found before the present session of the International Civil Service Commission ended on 25 July. Clearly, an acceptable solution applicable to all the agencies of the Common System faced with this problem would be preferable, but if such a solution were not found, he would have to revert to the problem in the Council in the near future, in the hope that remedies along the lines of those adopted by other agencies in the Common System would be urgently found in GATT. He informed representatives that the Chairman of the Staff Council had not thought it necessary to intervene at this stage of the process, feeling that the dialogue between the CONTRACTING PARTIES and the Director-General on this issue should be given more time. The Staff Council Chairman had, however, asked him to underline to the Council the seriousness of this situation as seen by the staff.

The representative of Bangladesh said that the minimum fixed amount assessed on some smaller contracting parties was not equitable for the reasons explained by the Committee Chairman. He noted with satisfaction and interest that the Committee was reviewing this problem and hoped that a solution could be found.

The Chairman of the Budget Committee, in response to the query by Ghana concerning the floor rate for professional salaries and allowances, said that the Committee had been looking into this matter with some sense of urgency and had asked for more information. While there was as yet no consensus in the Committee on a proposal, the Committee considered this matter to be important and requiring priority attention.

The Council took note of the statements by the Director-General and by representatives.

The Council recognized the importance of the problem concerning the floor rate for professional salary and allowance payments and its effect on staff morale and working conditions, and took note that discussions were taking place on this matter. The Council agreed to revert to this matter at a future meeting in the light of developments.

(b) Membership

- Netherlands - Request to rejoin the Committee (L/6013)
- Hong Kong - Request to join the Committee (L/6015)
- Greece - Withdrawal from the Committee (L/6016)

The Council agreed to the request by the Netherlands in L/6013, agreed to the request by Hong Kong in L/6015, and took note that Greece had withdrawn from the Committee (L/6016).

5. Procedures for future appointment of the Director-General - Communication from Brazil (C/W/499)

The Chairman drew attention to the communication from Brazil (C/W/499).

The representative of Brazil said that his delegation had nothing to add to its statement at the Council meeting on 17 June when presenting the proposals subsequently circulated in C/W/499.

The representative of Israel emphasized that the Council had taken no decision to change the existing rules and procedures for appointing the Director-General, which should first be examined to see whether there was a need to change them. Israel had doubts about a number of Brazil's proposals in C/W/499. First, limiting the Director-General's term of office would be detrimental to the work of such an important

organization. Second, Israel knew of no international secretariat whose executive head was subject to the principles of rotation and equitable geographic distribution. Finally, the main criterion for appointing Directors-General of GATT had always been the necessity to secure the highest standards of efficiency and technical competence, but this had been watered down in the Brazilian proposals, which mentioned only the need to give due regard to securing "high" standards of efficiency and technical competence; this dilution seemed to be directly connected with the desire for rotation.

Mr. Chiba (Japan), Chairman of the CONTRACTING PARTIES, recalled that the Council had decided on 15 May 1986 that detailed rules and procedures be examined for the appointment to the office of Director-General in the future and for the renewal of such appointment, and that consultations be initiated for this purpose forthwith with the aim of reaching a decision by the November 1986 session of the CONTRACTING PARTIES. The Council had invited him, as Chairman of the CONTRACTING PARTIES, to discuss with contracting parties how those consultations could be organized. Following the 15 May meeting, he had begun informal, preliminary contacts with some contracting parties and had asked the Secretariat to collect relevant information on the rules and procedures adopted by other international organizations for appointing their executive heads. He had invited representatives of about 20 delegations which had shown a particular interest in this matter to a joint discussion on how to proceed in the substantive consultations. Most of these delegations had felt that the consultations on the substantive issues should not begin until after the Ministerial meeting in September, considering that the weeks between that time and the last Council meeting before the November session of the CONTRACTING PARTIES would allow enough time to carry out the consultations. He intended, however, to have some further informal contacts with delegations in the period between the present meeting and the end of September, and he would also ask the Secretariat to study some further background information.

The Chairman suggested that views on this matter should be addressed in the consultations conducted by the Chairman of the CONTRACTING PARTIES.

The representative of Canada said his delegation agreed that new procedures on this matter should be examined. His delegation had full confidence in the Chairman of the CONTRACTING PARTIES and was satisfied with the way in which the consultations had been conducted. His delegation did not want to see unnecessary rigidity introduced in the appointment process, and regarded some of Brazil's proposals as perhaps having that effect.

The representative of Israel noted that this was the first time that Brazil's proposals had been before the Council in writing and on the Agenda. His delegation had therefore felt it appropriate to make a statement on them. Israel had been unaware that the Chairman of the CONTRACTING PARTIES had been carrying out consultations; he hoped that the Chairman of the CONTRACTING PARTIES would note his delegation's interest in this question.

The Council took note of the communication from Brazil (C/W/499) and of the statements.

6. United States - Imports of lumber from Canada

The representative of Canada, speaking under "Other Business", recalled that at the Council meetings on 22 May and 17 June his delegation had raised the countervailing duty investigation by the US Department of Commerce concering imports of softwood lumber from Canada. He noted that this investigation had been the subject of a special meeting of the Committee on Subsidies and Countervailing Measures on 14 July, following the conciliation procedures in Article 17 of the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement (BISD 26S/56).

The Council took note of the statement.

7. Enlargement of the European Economic Community

The representative of Brazil, speaking under "Other Business", referred to an interim agreement reached by the European Communities with the United States on the import régime for certain agricultural products in Spain following enlargement of the European Communities. Brazil had learnt with concern that two major trading partners had tried to settle a dispute bilaterally, regardless of the consequences of such a settlement on the export interests of other contracting parties equally affected by the Community's recent measures following its enlargement. Such bilateral agreements were not consistent with GATT rules, which allowed for all other affected contracting parties to examine the consequences of the Community's enlargement and the compensatory adjustments which might derive from it. Such an agreement was even more regrettable on the eve of a possible decision to launch a new round of multilateral trade negotiations, i.e., at a time when all contracting parties should be trying to strengthen GATT rules and preserve the multilateral trading system. Brazil intended to play an active rôle in the Working Party examining the accession of Spain and Portugal to the European Communities, and would, if necessary, request negotiations on this matter under Article XXIV:6.

The Council took note of the statement.

8. Japan - Quantitative restrictions on certain agricultural products - Recourse to Article XXIII:2 by the United Sates

The representative of the United States, speaking under "Other Business", said that at the next Council meeting his delegation would ask for a panel to be established on quantitative restrictions which had been maintained by Japan since 1963 on 12 categories of agricultural products and which were clearly inconsistent with the General Agreement. Bilateral consultations with Japan under Article XXIII:1, and many other bilateral discussions, had failed to resolve the problem. Consequently, the United States was invoking Article XXIII:2 and would circulate a written communication on this issue in the near future. Given the period of several weeks before the next Council meeting, his delegation saw no reason why a panel could not then be established without delay and begin its work immediately thereafter.

The representative of Japan said that his country had taken a series of measures to improve access to its market for farm products. In so doing, Japan, as the largest importer of agricultural products in the world, had borne in mind its responsibility to contribute towards the stability of international trade in agriculture. The products to which the United States had referred were extremely sensitive for Japan's agriculture and regional economies, which was why the import restrictions could not easily be lifted; his Government was prepared to explain the GATT legal implications of those measures whenever appropriate. He pointed out that following the recommendations adopted by the CONTRACTING PARTIES in November 1984 (L/5753), the Committee on Trade in Agriculture had been working to bring all aspects of agricultural trade under strengthened and operationally more effective rules and disciplines, taking into account the specific characteristics of agriculture. Japan believed that the Committee's work could form a basis for negotiations on agriculture in the new round. His Government had already demonstrated its willingness to participate actively in a new round of negotiations on agriculture despite Japan's domestic difficulties in this field. The United States, for its part, still maintained import restrictions, based on the Agricultural Adjustment Act of 1955, which were similar in nature to Japan's measures. It was, therefore, lacking in balance for the United States to try to target other partners' similar trade measures. He emphasized that since December 1985, his Government had been making every effort to reach a mutually satisfactory solution to bilateral disputes in the spirit of the provisions of the General Agreement and of the Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210). His Government believed that the two countries should continue negotiations upon receiving specific requests on each product under consideration. For these reasons, Japan would not concur with establishment of a panel to examine this matter.

The representative of Australia noted that Japan was an important market for farm exports from his country, which therefore had a longstanding and continuing interest in liberalization of Japanese agricultural import restrictions. Australia was interested in negotiating on multilateral agricultural trade issues with Japan both in the upcoming new round and in any other fora.

The Council took note of the statements.

9. United States - Manufacturing Clause
- Follow-up on the Panel report (L/5609, L/5968)

The representative of the United States, speaking under "Other Business", informed the Council that the Manufacturing Clause (US copyright legislation) had expired as of 1 July 1986 and had not been extended by Congress. Thus the United States was currently in conformity with the recommendation of the Panel which had examined that measure.

The representative of the European Communities said his delegation was pleased to take note of the US statement. He recalled the number of times that the Community had asked for this matter to be placed on the Council's agenda. His delegation considered that it was probably as a result of the Community's cooperation that the US Administration had been able to convince Congress not to extend the Manufacturing Clause. The Community hoped that this would be the last time that the Council had to discuss this matter.

The Council took note of the statements.

10. Committee on Tariff Concessions

Mr. Satuli (Finland), Chairman of the Committee on Tariff Concessions, speaking under "Other Business"[1], recalled that after the end of the Kennedy Round in 1967, a number of contracting parties had agreed to establish the Tariff Study. This currently covered 12 import markets (Australia, Austria, Canada, the European Communities, Finland, Hungary, Japan, New Zealand, Norway, Sweden, Switzerland and the United States). The information was available to participants on computer tapes on a reciprocal basis. The Tariff Study had demonstrated its considerable usefulness during the tariff negotiations of the Tokyo Round by enabling countries participating in the Study to conduct their tariff negotiations more efficiently and quickly. Since then, a new data base had been developed to facilitate the Article XXVIII

[1]The text of his statement was subsequently circulated in TAR/129.

negotiations before introduction of the Harmonized System. Discussions were taking place in the Committee on the future development of this data base which would replace the Tariff Study when the Harmonized System was implemented. In the context of consultations that he had held recently with members of the Committee, he had been asked by a number of delegations to make a plea in the Council to both developed and developing contracting parties, that they give serious consideration to joining this work on collecting tariff and trade data in computerized form. It was felt that wider participation would greatly help the negotiations expected to take place in the upcoming new round, especially those on tariffs, and would be in the interest of those countries which expected to take part actively in the negotiations. He understood that the Secretariat was prepared to provide any clarification that might be requested by delegations.

The representative of the European Communities welcomed the appeal by the Chairman of the Committee on Tariff Concessions. This supported many statements by the Community in the Preparatory Committee in favour of establishing a data-processing instrument in GATT so as to organize the massive amount of data which contracting parties would have to deal with in the new round and, above all, so as to have recent, complete and comparable statistics. The efforts towards this aim so far were encouraging but would remain empty as long as so few contracting parties joined in. If the negotiations in the new round were to lead to a balanced result for all contracting parties, there was first the need to ensure a balance in the exchange of information. The Community was no longer prepared to accept the present imbalance in this area, which included a frequent, and wrong, assumption that communication of information in a negotiation was a concession in itself. The Community would not accept that the relevant information could be communicated on paper as in the past, nor would it accept that many contracting parties were not equipped for computerization. Many contracting parties not participating in the Tariff Study undoubtedly had the technological capacity to do so; if necessary, the Community was prepared to help them. A contracting party would also be mistaken to consider that it could not participate in the Study until it had converted its statistical and tariff data to the Harmonized System. The objective remained to create a data base in terms of the Harmonized System, and all contracting parties should be encouraged to work towards that aim. However, that objective could only be attained in the medium term (three or four years, in view of the time required to assemble the statistics), and this inescapably argued for adoption of an interim solution based on the Tariff Study and the existing nomenclatures. Thus there was nothing to prevent widespread participation by a maximum number of partners in this exercise.

The Council took note of the statements.

11. China's status as a contracting party (L/6017)

The representative of China, speaking as an observer under "Other Business", recalled that at the special Council meeting on 17 June he had reiterated his Government's intention to resume its membership in GATT, and had indicated that the necessary steps would be taken in due course. The communication in L/6017 was the first such step. He recalled that China had been one of the original contracting parties and was also a member of the Executive Committee of the Interim Commission of the International Trade Organization (ICITO). Only for historical reasons had the formal relationship between China and GATT later been suspended, as had also been the case for China's relationship with other international organizations. Great changes had taken place since then. In 1971, the seat of the People's Republic of China had been restored in the United Nations and thereafter in many other international organizations. His Government considered it was now the time for China to seek resumption of its status as a contracting party to GATT. China was currently engaged in an arduous task of reconstruction and modernization. Great efforts were being made to reform the country's economic structure. Opening to the outside world and invigorating the domestic economy were basic national policies. China wanted to see expansion of its economic and trade relations with other countries. The resumption of his country's membership and its participation in GATT's work as a contracting party would not only promote such relations, particularly with the contracting parties, but would also be conducive to furthering GATT objectives. As a developing country, China expected, on resumption of its membership, to receive the same treatment accorded to other developing contracting parties. China hoped to complete by the end of 1986 or the beginning of 1987 a memorandum to provide the necessary information on its economic system and foreign trade régime. His Government was prepared to enter into substantive negotiations with the contracting parties at any convenient time. China believed that the resumption of its status as a contracting party would benefit both itself and all the contracting parties. His Government hoped that its request would be met favourably by the CONTRACTING PARTIES.

The representatives of the European Communities, United States, Canada, Japan, Bangladesh, Australia, New Zealand, Egypt, Romania, Chile, Hungary, Sri Lanka, Norway on behalf of the Nordic countries, Peru, Korea, Hong Kong, Poland, Senegal, Austria, Pakistan, Czechoslovakia, Zaïre, Yugoslavia, Jamaica, and Mexico (as an observer) made welcoming statements and comments on the statement by the representative of China.

The representatives of Canada, Japan, Australia, Romania, Norway on behalf of the Nordic countries, and Zaire supported the establishment of a working party to examine China's request, and said their delegations would participate actively in it.

The representative of the European Communities said his delegation had noted China's belief that resumption of its status as a contracting party would benefit both itself and all the contracting parties. The Community and its member States welcomed China's decision as a major political event and were ready to start negotiations immediately to permit China to resume its status as a contracting party. The Community recognized that China had been one of the original contracting parties. As for China's developing country status, the Community considered it essential to identify all the specific characteristics concerning such a large country as China, as well as the developing-country aspect. The Community had noted that China, in its request, had stressed the interdependence between the reform of its economy and its evolution towards the outside world. This, and China's act of faith in seeking to resume its membership of GATT, would be key factors to bear in mind when the Community and its member States entered negotiations to enable China to resume its status as a contracting party.

The representative of the United States welcomed China's commitment, implicit in its request, to begin orienting its economic system and trade policy towards the principles of the General Agreement. The United States viewed the request as a fundamental step for China in encouraging economic development based on real economic forces, and in basing its relations with its trading partners on GATT's underlying structure of reciprocal rights, obligations and opportunities for market access. The United States looked forward to reviewing the memorandum China would submit on its foreign trade régime. As for China's statement that it wanted to resume its status as a contracting party, the United States reserved its position on China's current status vis-à-vis the General Agreement.

The representative of Canada said that this was an important decision by China which would contribute to the expansion of trade between that country and contracting parties.

The representative of Japan expressed his delegation's hope that China's participation in the General Agreement would contribute to strengthening the free trading system based on GATT and to further expanding world trade.

The representative of Bangladesh said that China's policy of opening to the outside world and its ongoing process of economic reforms were fully consistent with GATT objectives. China's decision to rejoin GATT could be seen as a redeeming feature at a difficult phase in the system's operation. This should be an inspiration to all contracting parties to redouble efforts to re-establish GATT disciplines in all sectors and to liberalize world trade.

The representative of Australia said that China's decision should contribute to the effectiveness and vitality of the multilateral trading system and should provide significant scope for further development of trade with that country. China was an important trading partner for Australia and played a vital and growing rôle in the economy of the Asian-Pacific region.

The representative of New Zealand said that his country had noted with admiration and respect the measures which China had taken in recent years to open up its economy. The continuing transition from a centrally-planned economy to one incorporating a greater number of market mechanisms was impressive. New Zealand shared the belief of the Government of China that this ongoing process of economic reform would contribute to expanding economic and trade relations with the contracting parties, and that China's participation as a contracting party in GATT's work would further the objectives of the General Agreement. Furthermore, China's decision should facilitate its participation in the new round.

The representatives of Chile, Sri Lanka and Senegal said that the importance of China in world affairs and its share of international trade led them to believe that developing countries would feel reinforced by China's presence in GATT.

The representative of Hungary said that China's decision was a major event for GATT. China's participation as a contracting party would considerably further the objectives of the General Agreement and would increase GATT's authority.

The representative of Hong Kong expressed best wishes to the delegation of China for the success of the process on which it was now embarking.

The representative of India said his delegation had noted with interest the important statement by China and looked forward to receiving the further information mentioned in that statement, including China's memorandum on its economic system and trade régime.

The representative of China, speaking as an observer, expressed his Government's appreciation for the many positive reactions to his country's request in L/6017 and to his statement.

The Chairman said he believed that he spoke on behalf of members of the Council in welcoming China's initiative towards GATT membership. In due course the Council would set in motion the formal procedures for examining China's request when the memorandum on its economic system and trade régime had been circulated.

The Council took note of the statements and agreed to revert to this matter at the appropriate time.

12. Quantitative Restrictions and Other Non-tariff Measures

Mr. Huslid (Norway), speaking under "Other Business" as Chairman of the Group on Quantitative Restrictions and Other Non-tariff Measures, recalled that when the CONTRACTING PARTIES had adopted the Group's report at their November 1985 session, they had requested the Group to keep the Council informed of progress made (L/5888 and L/5929). As agreed by the Group, he was making the following report on his own responsibility. The Group had met in March and July 1986. In accordance with the decision of the CONTRACTING PARTIES at their 1985 session, contracting parties had been requested to make complete notifications of quantitative restrictions which they maintained and to make proposals directed towards achieving progress in the objectives set by Ministers in 1982 (BISD 29S/17). The Group had taken stock of the notifications and written proposals received so far and had urged contracting parties to send in such notifications and proposals if they had not already done so. He stressed that the data compiled by the Group formed an essential basis for any future work in this area and were of obvious relevance to the decisions taken on standstill and rollback, for example. The Group had made preparations to review the accuracy and adequacy of the documentation, including the grounds and GATT-conformity of the measures, and to review progress made in fulfilling the mandate set by Ministers in 1982. During the first of these reviews, the Group would be going through a new unified analysis drawn up by the Secretariat of the documentation. He added that the Group had begun to draw up bilateral request-and-offer procedures, subject to multilateral surveillance, that could be used to eliminate or liberalize non-tariff measures; it had also started to examine the Inventory of Non-tariff Measures (Industrial Products) so as to identify areas that might warrant multilateral action and, if so, what action might be taken. The Group would meet in October 1986 to carry out the reviews and to prepare its report to the CONTRACTING PARTIES at their November 1986 session.

The Council took note of this information.

13. United States - Agricultural Adjustment Act
- Working Party terms of reference

The Chairman, speaking under "Other Business", recalled that on 22 May the Council had taken note that the Chairman would continue consultations on the Working Party's terms of reference.

Following further consultations, he could now inform the Council that the terms of reference would be the following:

"To examine the twenty-eighth annual report submitted by the Government of the United States under the Decision of 5 March 1955 (BISD 3S/32), and to report to the Council."

He said that he had taken note of the comments of representatives and understood that the traditional terms of reference would permit the Working Party to make appropriate recommendations.

The Council took note of the terms of reference and of the Chairman's statement.

14. Observer status in GATT

The Chairman, speaking under "Other Business", said he would make a progress report on the informal consultations on observer status in GATT at the next Council meeting.

The Council took note of this information.

15. Accession of Morocco (L/5967)

The Chairman, speaking under "Other Business", recalled that on 22 May the Council had adopted the report of the Working Party on the Accession of Morocco (L/5967). The Council had also approved the terms of the Protocol of Accession and the text of the draft Decision on the Accession of Morocco, and had agreed that the latter should be submitted to a vote by postal ballot once the relevant Schedules had been circulated. The Protocol was open for signature until 1 August 1986.

The representative of Morocco, speaking as an observer, asked whether the Council would agree to modify the date for the signature of the Protocol until 15 October 1986, in order to enable his country to fulfil all the conditions needed for full accession to the General Agreement. This request did not mean any modification in Morocco's position concerning its accession. His Government remained determined to complete the procedures for accession as soon as possible.

The Chairman proposed that in order to allow enough time for the Government of Morocco to sign the Protocol, the date in paragraph 5 of that instrument be amended so that it would be open for signature until 15 October 1986.

The Council so agreed and took note of the statement by the observer from Morocco.