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GENERAL AGREEMENT ON TARIFFS AND TRADE

COUNCIL
5 November 1986

MINUTES OF MEETING
Held in the Centre William Rappard on 5 November 1986

Chairman: Mr. K. Chiba (Japan)[1]

Review of developments in the trading system
(Special meeting on Notification, Consultation, Dispute Settlement and Surveillance)

The Chairman, on behalf of the Council, welcomed Côte d'Ivoire as a member of the Council.

He recalled that the mandate and function of the biannual special Council meetings was to review developments in trade policy, on the basis of the 1979 Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210), and of paragraph 7(i) of the 1982 Ministerial Declaration (BISD 29S/9).

He drew attention to the Secretariat document "Developments in the Trading System, April-September 1986" (C/W/502 and Add.1), drawn on notifications by contracting parties and on other relevant information. The Secretariat had continued to rely partly on unofficial information, since official notifications had been inadequate to provide the basis for a well structured and informed review. The Secretariat had drawn up C/W/502 largely along the lines followed for the documents used at the past few special Council meetings. This had been done because it had been thought preferable not to introduce major changes at the present stage, but rather to await the outcome of discussions concerning the future organization of surveillance in GATT following the recent launching of the Uruguay Round.

The Chairman emphasized that the basic purpose of the special Council meetings was not to perfect the Secretariat's document, but to monitor implementation of paragraph 7(i) of the 1982 Ministerial Declaration, and to engage in a substantive review of recent developments in the trading system. Therefore, delegations should not feel limited to discussing the specific issues or facts mentioned in the document, which would be revised and issued subsequently in the L/ series for future reference after the present meeting. The document should therefore be considered mainly as a useful reference point on which to base real debate on concrete issues and policy measures affecting rights and obligations under the General Agreement.

[1] Mr. Chiba, Chairman of the CONTRACTING PARTIES, presided in place of the Chairman of the Council, Mr. K. Park (Korea).

He noted that even though the mandate of the special Council meetings remained unchanged, representatives might nevertheless want to express views at the present meeting about the relationship between these meetings and the decisions on surveillance set out in the Ministerial Declaration on the Uruguay Round (MIN.DEC), both on standstill and rollback and on the functioning of the GATT system.

Many representatives expressed appreciation for C/W/502, and said it represented another step in the consistent improvement of the Secretariat's documentation for these meetings over the past few years. Some representatives pointed to inaccuracies in C/W/502, even though they understood the difficulties faced by the Secretariat in gathering information. They said there was room for the documentation to be further improved, while recognizing the responsibility of contracting parties to make the appropriate notifications and to give the Secretariat other information useful for surveillance.

The representative of Brazil noted that in drawing up C/W/502 the Secretariat had made use of official sources and of the economic press, and that Brazil had not objected to inclusion of information not based on notifications to GATT. Nevertheless, his delegation had understood that the Secretariat would rely on official sources and would resort to the economic press only after seeking clarification from the delegations concerned. Such a procedure would prevent inclusion of loosely gathered information which, besides being inaccurate and misleading, could be irrelevant for reviewing developments in the trading system. His delegation regretted that these guidelines had not been observed in drawing up C/W/502. Brazil considered therefore that clear guidelines should be established for the Secretariat to observe when elaborating this type of note, thus helping to avoid shortcomings in future documentation for the special Council meetings. His delegation proposed the following criteria that the Council might adopt as guidelines for the Secretariat's future work in this area:

1. the Secretariat should rely primarily on notifications to GATT;

2. the Secretariat should rely on official sources, as a secondary source in cases where no notifications to GATT are made;

3. if the Secretariat feels the need to use the economic press as an additional source, the information thus collected should be subject to prior cross-checking with the delegation of the country concerned; and

4. information collected in accordance with the above procedures should refer to measures already adopted by governments, during the period under review, and would have to be strictly related to trade matters within GATT's jurisdiction.

A number of representatives said their delegations supported Brazil's proposed criteria. A number of other representatives said their delegations found Brazil's suggestions to be of interest, particularly points 1-3, which deserved serious reflection. Reservations were expressed about the fourth point, since it was felt useful to continue receiving background reference material on macro-economic developments which, while not being in GATT's field of competence, directly affected trade policy trends. Furthermore, some representatives said that their delegations would be concerned if too much constraint were placed on the Secretariat's information gathering, since a relative degree of independence was essential for the Secretariat's rôle in the surveillance process. The point was made that, for example, the Secretariat's use of non-official sources had provoked useful reactions and had shown that the notification system alone was not working well enough.

The representative of Japan said that the most important trade policy event during the six months under review had been the launching of the Uruguay Round. Ministers had expressed their determination to halt and reverse protectionism and to remove distortions to trade. There was now an urgent need to elaborate and implement detailed trade negotiating plans, as envisaged in the 1986 Ministerial Declaration, so that substantive negotiations could start as soon as possible. The Uruguay Round had been launched against a background of world trade besieged by many problems. As the Secretariat's "Prospects for International Trade" (GATT/1392) had pointed out, the growth of world trade during the first half of 1986 had been less than anticipated, despite the decline in interest rates, the sharp fall in the price of petroleum and the reduced rate of inflation. The long-standing problems of unemployment and heavily-indebted countries persisted. The danger of protectionism was still strong, and the pressure to resort to trade restrictive measures, or to bilateralism and regionalism, had not shown any sign of abating. If unchecked, such pressures would soon undermine the spirit of Punta del Este and make slim the chance of successfully concluding the Uruguay Round. He noted that the Declaration included major decisions on surveillance of the Ministerial commitments on standstill and rollback, as well as on enhancing surveillance in GATT to enable regular monitoring of contracting parties' trade policies and practices. The appropriate surveillance mechanism for standstill and rollback was under consideration elsewhere, and a decision on that mechanism would undoubtedly affect the future rôle of the special Council meetings. The important rôle of these meetings in monitoring paragraph 7(i) of the 1982 Ministerial Declaration as part of GATT's surveillance system would have to be re-examined. As for surveillance of the contracting parties' trade policies and practices, Japan considered that quite some time would be needed to develop, during the course of the Uruguay Round, understandings and arrangements to enhance such surveillance. New and specific ideas and proposals should be brought forward. Until such understandings and arrangements had been formulated in the negotiations, Japan believed that the special Council meetings could continue to play an important rôle in monitoring trade policies and

practices of contracting parties, as they had done so far. One of the most significant contributions which the Uruguay Round could make to the world trading system was to preserve and strengthen basic GATT principles. It was regrettable, therefore, to see that some developed countries were tending to neglect GATT procedures and to rely on their own domestic legal instruments. For example, the increasing recourse by the United States to Section 301 of the Trade Act of 1974, which permitted the US Administration to take counter-measures based on its own criteria independently of the relevant GATT provisions and procedures, had caused Japan great misgivings. His delegation wanted to register its concern about the danger which such measures could entail for the GATT system. He concluded by encouraging the Secretariat to draw on valuable information contained in newspapers from outside Western Europe and North America, for example from Japan.

The representative of Bangladesh noted that as pointed out in paragraph 101 of C/W/502, the 1986 Protocol extending the MFA[1] contained liberalizing as well as restrictive provisions. The extension of the range of fibres was the most significant among the changes to have been made, while a new provision to allow a 12-month extension of unilateral measures was a disconcerting development. Among the positive features of the new MFA IV were the reaffirmation of the objective to apply GATT rules, the undertaking for improvements in bilateral agreements, specific reference to the least-developed countries, elimination of the so-called "goodwill" clause and better treatment for the wool producing countries. Bangladesh hoped that MFA IV would be applied in a more liberal manner than its predecessor, particularly in view of the Ministerial commitments undertaken in Punta del Este to liberalize world trade, and that the commitments to special treatment for least-developed countries and other countries mentioned in Article 6 of MFA IV would be strictly implemented. As for the operation of the Generalised System of Preferences (paragraphs 157-162 of C/W/502), it was disconcerting to note that while there had been some marginal improvements in the GSP schemes of developed counries, there were also provisions which effectively reduced the benefits of developing countries. Notwithstanding commitments undertaken in GATT and in other bodies, many of the schemes did not yet refer specifically to the trade of least-developed countries. Provisions in the 1982 Ministerial Declaration concerning those countries, which had been reaffirmed in the 1986 Ministerial Declaration, would accord maximum possible duty- and quota-free access for their products through improvements in GSP schemes. He expressed his delegation's appreciation to the countries which had already started to include such provisions in their GSP schemes. Despite continuing and serious balance-of-payments problems, Bangladesh had maintained its policy of progressive import liberalization. In its import policy for 1986-87, his country had

[1] Arrangement Regarding International Trade in Textiles (BISD 21S/3), as extended by the 1977 Protocol (BISD 24S/5), the 1981 Protocol (BISD 28S/3), and the 1986 Protocol (L/6030).

reduced by 140 items the list of products which had previously been prohibited. Bangladesh had also proposed to increase its imports by 19.8 per cent over the previous year (paragraph 184). His country proposed to continue this policy of import liberalization, but this would be possible only with assistance from its trading partners in the form of improved access for Bangladesh's products in the international market. Regarding the mechanism to be established for surveillance of the 1986 Ministerial Declaration commitments on standstill and rollback, Bangladesh hoped that a solution satisfactory to all participants would be found in the near future.

The representative of Norway, on behalf of the Nordic countries, said they were pleased to note that on the whole there had been no significant increase in the number of trade-restrictive measures in the period under review. He recalled that at the Council meeting on 27 October, many delegations had commented on some US and Japanese restrictive measures which had been reflected in C/W/502/Add.1. The Nordic countries wanted to recall those statements at the present meeting. The comprehensive reviews carried out by the special Council meetings in recent years had clearly reflected the need for better disciplines and more precise rules in a number of areas. The adoption of the 1986 Ministerial Declaration had been the outstanding trade policy event during the period under review and represented a satisfactory point of departure for responding to the challenges now facing the trading system. The time had now come for the special Council to review its own surveillance activities in the light of that Declaration, notably Chapter C on standstill and rollback. A pragmatic approach would be to let the Uruguay Round surveillance mechanisms take over the main overall surveillance activities which had so far had been conducted by the special Council. The work of the Council in special meetings would then have to be suspended for the duration of the Uruguay Round. For practical reasons, and to avoid duplication of work, the Nordic countries could favour such a simple solution. At the same time, they agreed with the concept in paragraph 4 of C/W/502 that surveillance must continue to encompass all measures that affect the operation of the General Agreement. The Nordic countries considered it essential that the broader review of developments in the trading system continue to be carried out. If such a review was not to be undertaken in the Uruguay Round machinery, the Nordic countries saw a rôle in this process for the CONTRACTING PARTIES as the supreme body of GATT and guardian of the General Agreement. Irrespective of how the overall surveillance function was organized in the years ahead, the Secretariat should be mandated to provide basic information. The Nordic countries emphasized that for overseeing developments both in the Uruguay Round and in GATT as a whole, the detailed listing of trade measures and the assessment of trends in the trade policy field were vitally important for surveillance purposes.

The representative of Argentina supported the statement by Brazil. He added that although the Secretariat documentation for the special Council meetings was useful, it had had no effect in correcting the major distortions in world trade. The surveillance mechanisms resulting from the 1986 Ministerial Declaration would have to be efficient and effective, so that protectionist measures could not only be surveyed but could also be corrected. Argentina believed that the special Council meetings had lost much of their validity and efficiency; his delegation considered that it was not necessary to maintain them. Future reports on overall surveillance could be considered by the CONTRACTING PARTIES. Argentina was particularly concerned by the distortion of international trade in agriculture. Paragraph 29 of C/W/502 indicated that the United States and the European Community had jointly spent about US$50 billion a year in support of their farm production and exports, compared with the total 1985 value of world food exports of around of US$200 billion. Argentina, despite its efforts to improve its technology and increase farm production, had, as a result of this distortion, lost around US$4,500 million in 1986 compared to 1980, and the losses for 1987 would be even greater. This figure was equivalent to the amount which Argentina spent on servicing its foreign debt. Referring to paragraph 7, he said his delegation was particularly concerned about the interim agreement between the European Economic Community and the United States regarding access for certain agricultural products to the Portuguese and Spanish markets. Argentina continued to consider that this agreement violated Article XXIV:6 to the detriment of its trade interest as the main supplier of sorghum to Spain and also of corn; the agreement would cost Argentina about US$200 million a year. Finally, he referred to a communication from his delegation (L/6022/Add.1) in response to a communication from the European Communities (L/6052) concerning the accession of Portugal and Spain to the Communities.

The representative of the European Communities said that the first three suggestions by Brazil deserved serious and favourable reflection, so long as they were situated in a context which would be appropriate to enable this type of meeting to do its work efficiently. Since 1982, the Community had noted with ever-increasing interest the excellent work by the Secretariat in preparing reference documents which enabled the Council to obtain an overview of international trade policy developments. The special Council meetings were not the place for contracting parties to make recriminations against each other, but to enable the Council collectively to evaluate the situation of world trade in the spirit and letter of paragraph 7(i) of the 1982 Ministerial Declaration. It was clear, following the launching of the Uruguay Round, that participants were going to need more and more operational information about trade policy developments and that such information would have to be efficiently and correctly organized. Brazil's suggestions, which could lead to clearer distinctions between official and non-official information, could help considerably in such organization. At the same time, care would have to be taken not to discourage the Secretariat from what it had been doing so well. It was in the context of paragraph 3 of

C/W/502 that Brazil's suggestions assumed their full value, and these and other suggestions, including those by the Community, should be thought over fairly rapidly in order to make sure that the present mechanism of the special Council meetings could be maintained in one way or another until the end of the Uruguay Round. The Community did not want to see duplication in GATT's surveillance activities; nevertheless, it could not agree to eliminating the special Council meetings for monitoring implementation of paragraph 7(i) of the 1982 Ministerial Declaration. Turning to paragraph 9 of C/W/502, he wondered whether one should not speak of the high-technology "field", rather than "sector", since high-technology could be found anywhere, even in the agro-alimentary area. Pointing to the end of the same paragraph, he congratulated contracting parties such as Sweden and Switzerland which had refused to negotiate "voluntary" restraint agreements on steel and machine tools, respectively. It would be interesting for other contracting parties to know how those countries had resisted such arrangements, since this might enable a collective effort to resist the protectionist pressures which endangered the multilateral system. In paragraph 10, the United States and Japan were commended for having resisted protectionist pressures. However, perhaps the same paragraph should have noted that other contracting parties had resisted such pressures in a less spectacular fashion and had tried, often with success, to stem protectionist pressures at the very source as part of a more discreet but unremitting day-to-day effort. His delegation had been surprised to see no reference in paragraph 11 to the fundamental and varied effects on the world economy and international trade of the fluctuations and recent fall in the value of the US dollar. Fluctuations in exchange rates affected trade, and this basic element should not be forgotten. In this context, he noted that the linkage of certain currencies to the US dollar had led to a phenomenon of replacement of trade flows. The Community fully supported the view put forward so succinctly and clearly in paragraph 13. Finally, he suggested that two events should have been included in the section on agriculture, beginning at paragraph 29, namely the OECD Ministerial meeting in May 1986 and the Tokyo Summit in June 1986 which had dealt with agricultural trade problems.

The representative of Australia said that while the Uruguay Round would be an important instrument for liberalizing and expanding world trade, it should not be allowed to get out of perspective. While improved and new rules were expected to reduce protectionism and accelerate trade liberalization, many rules already existed which were adequate to achieve those goals, if fully applied and if there was the necessary political will. The GATT continued to exist, and its mechanisms of management should continue to work independently of arrangements set up to pursue the objectives of the new round, which related essentially to the conduct of trade five years and more ahead. The GATT would remain the instrument to handle contemporary problems of which there was no shortage, as the Council meeting on 27 October had shown. All contracting parties should avoid any assumption that the GATT

was somehow in suspense and that solutions to those problems could only be by negotiation and would not be sought through consultation and adjudication under existing rules. There was a risk that the need for a proper disposition on the part of all contracting parties to remedy the general protectionist trends in international trade would be underestimated or even forgotten. If this disposition were not evident or effective, the Uruguay Round could hold no hope for improving the world trading system; on the contrary, even the present system of rules would be enfeebled. It was encouraging to note that the Secretariat had recalled (in paragraph 4 of C/W/502) the importance that Ministers at Punta del Este had placed on surveillance not only of measures subject to standstill and rollback, but also of trade policies which could adversely affect the functioning of the GATT system. Australia welcomed the emphasis in paragraph 6 on the importance of finding solutions to textile, agriculture and safeguards issues for further trade liberalization and for the success of the new round. However, it was disappointing that the qualitative and quantitative assessments of developments in agriculture and "voluntary" restraint arrangements were not more precise. For example, to speak (in paragraph 7) of the climate brightening in respect of the EC/US pasta-citrus dispute was hardly an evaluation of that dispute's effect on the GATT system. Similarly, in paragraph 9, given the reaction to the bilateral agreement between the United States and Japan on semi-conductors, his delegation would have expected some quantification of that agreement's likely trade effects beyond saying that the use of such restrictive measures had become "more pronounced" in the high-technology area. Given the interest of the United States in liberalizing trade in high-technology goods, an evaluation of that agreement would have enlightened other contracting parties as to the principles employed in reaching such a settlement and as to its impact on trade liberalization. This would be a useful guide as to how Japan and the United States might want to negotiate in this field during the new round. Such an evaluation might also have shed some light on the flow-on effects for third-country service industries which were dependent on high-technology inputs and on the consequences, in due course, for negotiations on services. The Secretariat had described (in paragraph 10) the resistance by some governments against protectionism as an "important element" in developments over the past six months. While there might be a tendency to underestimate the effect of such resistance on the preservation and improvement of the GATT system, this left the impression that the resistance had been less than totally effective. For instance, in the US/Japan semi-conductor arrangement, the US oil import tax (Superfund Reauthorization and Amendments Act) and the US customs user fee (Omnibus Budget Reconciliation Act), one could detect little effective resistance but rather encouragement and defence of such arrangements or measures by administrations. While things could have been worse, the fact that such deals -- which were at best of doubtful legitimacy -- had been struck, signalled for Australia something less than commitment to the ideals and objectives of the Ministerial Declaration on the Uruguay Round. The purpose of surveillance was to encourage contracting parties to improve the operation of the GATT

system. Without surveillance, contracting parties would be less inclined to evaluate the impact of their policies and measures on their own economies and on the system as a whole. Irrespective of where or how surveillance was undertaken during the Uruguay Round, it should have as its aim the improvement of the system by all contracting parties both individually and collectively.

The representative of Egypt informed the Council that his country had introduced new trade-liberalizing import regulations in August 1986, including: (1) abolishment of surcharges on imports, including the "Consolidation of Economic Development Tax" which had at one time represented 10 per cent ad valorem of import value, and for which CONTRACTING PARTIES had extended the authorization until 31 December 1990 (BISD 32S/15); (2) abolishment of Egypt's import rationalization committees; and (3) a 50 per cent across-the-board reduction of Egypt's import tariff. His country had introduced these measures so as to liberalize its trading régime and contribute towards improving the multilateral system. Referring to paragraph 290 of L/6025 concerning prohibition of imports of optical materials, he said his delegation had received no confirmation from his authorities of such information, which his delegation felt did not represent the actual situation in that field.

The representative of Canada said that the dominating event during the period under review had been the adoption of the Ministerial Declaration on the Uruguay Round. His authorities considered the results of the Ministerial meeting most satisfying and congratulated the Uruguayan authorities, particularly Foreign Minister Enrique Iglesias, for having steered the conference to a successful outcome. However, in contrast to that positive development, a number of backward steps had undermined the Ministerial commitment to resist protectionism. Canada had already raised in the Council its concern about the US initiation of a countervailing duty investigation on Canadian timber-pricing practices.[1] Canada had pointed out that as governments had a sovereign right to set conditions for exploiting their natural resources, timber pricing could not properly be considered to constitute a subsidy, and the use of the countervailing duty remedy was therefore inappropriate. It was on this issue of principle that Canada had requested a panel in the Committee on Subsidies and Countervailing Measures; the Panel had since been convened.[2] One further event had taken place on 16 October 1986, when the US authorities had made a preliminary affirmative determination against Canadian softwood lumber exports. The timber-pricing policies of four Canadian provinces accounted for almost all of the 15 per cent net subsidy calculation. Canada had examined the relevant documentation and had serious difficulties in at least two areas with the arguments set out in the preliminary determination. These difficulties had been conveyed to the US authorities, and Canada believed that other contracting parties

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[1] See C/M/198, 200, 201.

[2] See C/141, page 3.

would share its concerns. His delegation agreed with the observation by the Secretariat in paragraph 13 of C/W/502, and therefore expressed serious concern that the US measures referred to above were retrograde steps at a time when contracting parties were seeking to liberalize trade and improve the trading environment. Canada called on the United States to withdraw the measures or, as appropriate, suitably amend its legislation to make it consistent with US obligations under GATT.

The representative of India said that the launching of the Uruguay Round should be seen as the start of a long process of renewed commitment to the General Agreement and the multilateral system, and of strengthened commitment to the undertakings on standstill and rollback as well as the further liberalization of world trade. It was disappointing to see in C/W/502 the catalogue of protectionist and trade-distorting measures taken during the period under review. The lack of improvement in the world trade climate was placing an increasingly heavy burden on developing countries such as India, which were continuing to make unilateral efforts to maintain liberal trade policies. His country was particularly concerned over the negotiation, shortly before the Punta del Este meeting, of the new and far more restrictive MFA IV. India shared the concerns over the frequent recourse to Section 301 actions by the US authorities. Section C of C/W/502 pointed to the concern felt by many delegations over continuing recourse to export restraint arrangements by the major trading partners, which affected many sectors of interest to developing countries. Section B(iv) pointed to the frequent use of anti-dumping and countervailing duty actions; India regretted that in paragraph 209 the Secretariat had not found it possible to interpret these trends. Concerns had been expressed in the relevant MTN Code Committees over the frequent recourse to such actions, particularly by one major trading partner using doubtful criteria and disregarding provisions in the relevant Codes to seek constructive remedies which would respect the trade interests of developing countries, and paying scant regard to the de minimis nature of such imports in the first place. This departure from the understandings and provisions in the Codes had led to the view that such actions had become a form of virtual trade harassment. There was a need for increased, improved and more effective surveillance in GATT. His delegation considered that it would be better to wait to see the functioning of the mechanism which would be set up in the Uruguay Round framework to survey commitments on standstill and rollback before taking any decision on the future of the special Council meetings.

The representative of Chile said that C/W/502 provided a good X-ray of the high level of protectionism exercised by many countries. The Secretariat's documentation was excellent; the reality which it described was not. Chile had been particularly struck by the large number of export restraint agreements concluded during the period under review, and believed that this was a new way of pushing protectionism forward. His country would have liked to have been included in the list of those nations which had refused to negotiate "voluntary" restraint

arrangements (paragraph 9). Chile tended to share the views expressed by Brazil on criteria for future preparation of such documents, but nevertheless considered it desirable that the Secretariat should be independent vis-à-vis governments in presenting the information required.

The representative of of the United States said that the surveillance function of the special Council meetings should be maintained at least until the mechanism for surveillance of standstill and rollback was established. The future of the special Council meetings could then be decided upon. A number of delegations had referred at the present meeting to various US trade measures, but since all of these had already been discussed in the Council or in relevant GATT bodies, his delegation did not intend to repeat its views at the present meeting. The United States agreed that problems in major trading sectors were proliferating and threatening to overwhelm the system. Just as a low level of growth would damage trade development, his delegation believed that the growth of subsidies, non-tariff barriers and derogations from the m.f.n principle had had a significant negative effect on the general health of the international trading environment. The US Administration had made great efforts during the preceding two years to resist protectionism and to defend open trade policies in the face of an historically massive trade deficit. The latest data showed that the US deficit might level off or even decline in 1987, but the size of the trade deficit would remain a major short-term problem in addressing protectionist pressures in the United States. The huge US trade imbalance was, for the most part, the result of increased imports, particularly in the manufactured goods sector and from developing countries. The Administration was continuing to take a hard line against protectionist pressures that would deny the United States and the international trading system the legitimate benefits of free trade. The United States recognized that there were macro-economic factors underlying the merchandise trade imbalance that was fuelling much of the protectionist momentum in Congress. However, his delegation wanted to draw attention to the parallel fact that, at a time when US imports were surging, US exporters were being denied access to markets in which they would clearly have a competitive opportunity. The United States wanted to preserve access to its market for imports from all its trading partners, recognizing the important rôle that the US market played in the international trading system. It was therefore important to maintain the credibility of multilateral trade commitments by demonstrating to the US electorate that US exporters had access to other markets. The US Administration would not be able to defend to its own people its commitment to free trade unless import-restrictive trade practices in the markets of its trading partners were also addressed. This had been the basis of US initiatives over the past year to achieve enhanced access for US products and services on a bilateral basis, as well as on a multilateral basis through efforts to launch a new round of multilateral trade negotiations. It was clear that contracting parties would not always agree on the justice or correctness of each other's trade

policies, even within the context of GATT rules. It was also clear that the Uruguay Round would have to face a great diversity of opinion as to which trade barriers needed to be reduced. However, all contracting parties should be able to agree that the crisis was upon them and that it was now their task to determine the nature and scope of the workings of the basic GATT compact into the 21st century. Turning to the section on electronics in C/W/502 (pages 17 and 18), he said that the paragraphs concerning the bilateral agreement between Japan and United States regarding trade in semi-conductors were incorrect and would require substantial redrafting before they accurately portrayed the environment for trade in semi-conductors and the benefits that this agreement would offer. As the United States had said at the 27 October Council meeting, it was prepared to discuss the merits of this agreement with interested contracting parties and, to that end, had agreed to the European Community's request for consultations under Article XXII:1 and under Article 15 of the Anti-Dumping Code. The United States believed that the agreement was a major step forward in the conduct of high-technology trade, and that other countries would benefit rather than lose from its provisions. While this was a very difficult and complex issue, his authorities believed that they had succeeded in making a significant contribution to addressing trade problems in the high-technology area. Japan, on its own, had committed itself to take steps to open its market to these products and to prevent dumping in semi-conductors. The United States believed that this was a significant step forward in its efforts to promote free trade and prevent protectionism, especially in the high-technology area. The US objective was to ensure that competition in these products was fair. The United States believed that this aim required a commitment by governments to keep their markets open, to condemn dumping, and to take active steps to prevent such dumping. The United States considered that the agreement was a major step forward by Japan in redefining its rôle and responsibilities in the global world economy.

The representative of New Zealand recalled that at the special Council meeting in June 1986, his delegation had given details of New Zealand's decisions to extend the scope of a comprehensive program of trade liberalization, involving changes in both frontier protection and a variety of deregulatory changes. Subsequently, in October 1986, his Government had taken a further step in this respect and had announced that, except for certain product areas covered by a series of industry plans, New Zealand's import licensing system would cease on 1 July 1988. Most of those indutry plans contained a firm date by which import licensing would be eliminated for the goods in question, leaving only tariff protection in place. For example, the plans affecting tyres, plastics, starch, canned fruit, glassware and tobacco, provided that import licensing would cease in 1989. Referring to other meetings on the organization of the Uruguay Round, he suggested that if a few contracting parties of more importance to world trade flows than New Zealand were to give serious consideration to an early down-payment on rollback measures, they might find that this had a salutary effect on the Uruguay Round consultations presently underway.

The representative of Uruguay said that his delegation would reflect carefully on the proposals made by Brazil. Uruguay shared Argentina's views on the future of surveillance activities in GATT. His delegation had also taken note of Canada's remarks concerning certain measures adopted by some contracting parties which might be inconsistent with the Ministerial commitments undertaken at Punta del Este.

The representative of Austria said his delegation was concerned that the Secretariat should not be too constrained in its gathering of information for the background documents on surveillance. For example, the Secretariat's use of non-official sources such as newspapers had provoked useful reactions and had shown that the notification system alone was not working well enough. As for the future of surveillance activities following the 1986 Ministerial Declaration, his delegation considered that so long as there was no contrary decision by the CONTRACTING PARTIES, the special Council meetings should continue their surveillance work.

The representative of the United States noted that paragraph 36 of C/W/502 referred to proposals presented by the European Community to the United States relating to agricultural matters arising out of the Community's enlargement. The wording of that paragraph might suggest that those proposals had been innocuous or even constructive; however, nothing could be further from the truth. The proposals, made at the end of July 1986, involved the replacement of existing bindings by the Community on over US$6 billion of average annual US agricultural exports to the Community, with tariff quotas where bindings above a certain level of trade were withdrawn. This would significantly worsen the current treatment of sensitive US farm products such as soybeans and corn gluten feed. The United States believed that the Community intended to make similar proposals to other trading partners. His authorities had told the Community that such action would be totally unwarranted under Article XXIV and would be unacceptable to the United States. The creation or enlargement of customs unions should not be used to raise new barriers to trade between contracting parties. The United States was pleased, however, that the Community had agreed to an immediate compensatory gesture in the area of impaired bindings on US exports of corn and sorghum to Spain, as described in paragraph 39. Turning to the section on regional developments (paragraphs 14-27), he noted that this contained a long list of proposals and actions related to the construction, implementation or expansion of free-trade areas and other preferential trade arrangements. Some of these actions had not been notified to GATT, nor had the CONTRACTING PARTIES been given an opportunity to examine their possible trade effects and consistency with GATT obligations. Referring to the agreements between Argentina and Brazil (paragraph 15), the United States was interested in seeing the trade aspects of the agreements, the Protocols and all aspects of their implementation, as well as any other bilateral agreements with other countries intended to incorporate them into the objectives of the "Economic Integration Act".

He recalled that the United States had raised this issue at the Council meeting on 27 October, but still did not know whether Argentina or Brazil intended to notify the agreements under Article XXIV or under any other GATT provision. The United States believed that the CONTRACTING PARTIES should have an opportunity to examine the agreements in the light of their impact on the participants' GATT obligations and of their effect on other contracting parties' trade. To this end, it would be appropriate for the participants in this or any such agreement to notify them and describe their provisions to the GATT.

The representative of Cuba recalled the statement by his delegation at the Council meeting on 22 May concerning US measures affecting Cuban sugar exports. Cuba reserved the right to revert to this subject in the Council at a later stage.

The representative of Nicaragua said his delegation was concerned that the benefits of international trade were not being spread sufficiently to developing countries, and was concerned also by the proliferation of unilateral restrictive measures. He wanted to give the Council some information not contained in C/W/502, namely that in May 1986, the Presidents of the five Central American Common Market member countries had met at Esquipulas, Guatemala, where they had agreed to revitalize Central American trade. Subsequently, in September 1986, there had been a meeting in Managua of the five Presidents of the central banks of those countries, together with the Ministers responsible for economics and integration, where they had adopted the first arrangements for implementing the agreements concluded at Esquipulas. One of the most important agreements would increase the fluidity of trade among the Central American countries, which had declined over the past few years. Further meetings were scheduled, including a meeting of the Tariff and Customs Council, and of the Tariff Commission for Central America which had been invited to apply the new customs régime of Central America that had entered into force on 1 January 1986.

The representative of Japan referred to the statement by the United States concerning the bilateral agreement between their two countries on semi-conductors. He noted that the US representative had spoken of steps to open the Japanese market, which might have given the impression that this market had previously been closed. He said that under the agreement, his Government would impress upon Japanese producers and users of semi-conductors the need to aggressively take advantage of increased market access opportunities in Japan for foreign-based firms which wanted to improve their sales performance and position.

The representative of Argentina, referring to an earlier statement by the United States concerning the agreements between Brazil and Argentina, recalled his delegation's statement at the Council meeting on 27 October that the agreements had been concluded within the context of the Latin-American Integration Association (ALADI). The agreements

conformed with Article XXIV, Part IV of the General Agreement and the "Enabling Clause" (BISD 26S/203). ALADI regularly informed GATT of all new developments concerning this Association which were of particular importance for the work of the Committee on Trade and Development.

The representative of Yugoslavia said that whatever mechanism was set up for surveillance of the 1986 Ministerial commitments on standstill and rollback, her delegation believed that the special Council meetings should continue to review developments in world trade as they related to GATT. As for the Secretariat drawing also on information from newspapers and official gazettes, she was concerned that the documentation remained somewhat imbalanced because not all the languages of contracting party countries, including her own, were spoken by the Secretariat staff. Yugoslavia would like to see greater attention given to surveillance of grey-area measures as well as of measures related to the provisions of the MTN Codes, such as subsidies and anti-dumping actions. Particular attention should be given to the effects that such measures had on provisions for special treatment of developing countries. It would be interesting, for example, if a group of experts could provide information as to whether the bilateral agreement between Japan and the United States on semi-conductors really contained potential benefits for the multilateral trading system as a whole.

The Chairman, in summing up, said that representatives had raised a number of interesting points related to the documentation prepared by the Secretariat and to future surveillance activities in GATT, including the possible future relationship between any special Council meetings and the surveillance mechanisms called for in the Ministerial Declaration on the Uruguay Round. In addition, specific criteria had been suggested for preparing future documentation, and there had been useful comments on these interesting suggestions. Representatives would want to reflect further on these points.

The Director-General said that the Secretariat would continue to make every effort to verify with delegations all information gleaned from non-official sources. Having said this, he urged delegations to bear in mind that this type of documentation inevitably implied certain risks and the assumption of certain responsibilities by the Secretariat; in any case, documents such as the one under discussion would never satisfy everyone. He encouraged delegations to continue making constructive criticism. There was an important issue at stake in the fourth criterion suggested by Brazil, namely the differentiation between trade measures already adopted and those which were envisaged. He fully understood Brazil's concerns, but wanted to remind contracting parties of the major impact which proposed trade measures had on GATT's activities. For example, in the summer of 1986, contracting parties had been deeply concerned by the proposed Jenkins Bill which was being considered by the US Congress at the very time that negotiations were being carried out over the future of the MFA. He noted that the mandate of the special Council meetings was vast; this was why the documentation contained a

general section of macro-economic analysis as well as more specific elements. The Secretariat was considering the complementarity, and possible duplication, of this documentation and the annual reports on International Trade prepared by the Secretariat. As representatives and the Chairman had indicated, another issue for active consideration would be the relationship between the wider surveillance so far carried out by the special Council meetings, and the decisions in the 1986 Ministerial Declaration on surveillance of commitments on standstill and rollback and on the functioning of the GATT system.

He then introduced his periodic report on the Status of Work in Panels and Implementation of Panel Reports (C/141).[1]

The representative of Hong Kong said that of the two cases mentioned in Section C of C/141, his delegation was pleased to note that the US Manufacturing Clause had lapsed on 1 July 1986. The success of the US Administration in resisting attempts to extend this legislation should be a cause of congratulation, and in the light of the gloomy trade policy events which had been mentioned at the present meeting, he wished the US authorities equal success in resisting such measures in future. However, it was with regret and disappointment that he noted that the only outstanding case in this section concerned the quantitative restrictions maintained by the European Economic Community against imports of certain products from Hong Kong. His delegation had already voiced its concerns about this issue on many previous occasions. He wanted to ask the Community the following specific questions: (a) would the phasing out of the quantitative restrictions on toys be completed by the end of 1986, as announced by the Community at the Fortieth Session of the CONTRACTING PARTIES? (b) when would further steps be taken to remove the current restriction on radios, and what time-table was envisaged for their total elimination? (c) could it be confirmed that the present Article XIX action on digital quartz watches would be terminated on its expiration at the end of 1986 and that it would not be prolonged thereafter?

The representative of the European Communities said that he was to some extent in a position to answer the questions put by Hong Kong. Imports of toys had been liberalized and there had already been a substantial increase in the quota for imports of radios; further moves were being examined. The Article XIX action on digital quartz watches watches was no longer a matter of implementing the Panel's report. The recommendation by the CONTRACTNG PARTIES resulting from that report had already been implemented as far as quartz watches were concerned by the removal of the offending quantitative restriction. The present Article XIX action was due to expire at the end of 1986, and so far no request had been received to extend that action. Referring to C/141 as a

[1]The full text of the Director-General's introduction was subsequently circulated as C/141/Add.1.

whole, the Community considered it unfortunate that a number of panel reports had not been adopted. In some cases this reflected substantive problems which one or several parties had with the findings of the relevant panel. However, it was even more regrettable when adoption of a panel report was blocked not for reasons of substance, but because of cross-linkages which were established between unrelated panel reports. Such action was certainly not in line with the 1979 Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210).

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