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MINUTES OF MEETING

Held in the Centre William Rappard on 19 October 1988

Chairman: Mr. A.H. Jamal (Tanzania)

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

The Chairman 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, October 1987-March 1988" (C/W/566 and Add.1), drawn on notifications made 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 document was produced on the Secretariat's own responsibility and did not commit any delegation; nevertheless, delegations were given the opportunity, and were encouraged, to send in corrections on points of fact and of appreciation.

He also drew attention to the Director-General's report on the status of work in panels and implementation of panel reports (C/160), and to a third document (Spec(88)51), which contained an advance copy of Section 3 of the Secretariat's Annual Report "International Trade 1987/88" which had still to be released to the public. This third document had been issued with a view to providing closer synchronization in the timing of the Secretariat's usual background documentation for special Council meetings and of GATT's Annual Report.

He emphasized that the basic purpose of the special Council meetings was to monitor implementation of the 1979 Understanding and of paragraph 7(i) of the 1982 Ministerial Declaration, and to engage in a substantive review of recent developments in the trading system. Representatives should thus not feel inhibited or limited to discussing the specific issues or facts mentioned in the documentation. The review should enable the Council to focus on those aspects of current developments in the trade policy environment that were of particular relevance to GATT's ongoing activities, and the cooperative action or lack thereof by contracting parties in the trade field.

He suggested that in commenting on the documentation, representatives might wish to give particular attention to the trade policy developments referred to in paragraphs 8, 9 and 10 of C/W/566.

The Director-General referred to his report on the status of work in panels (C/160), and drew attention to several trends which could be discerned in it. The first was a further increase in the number of panels; at present there were ten active panels, the highest figure in the nearly 41 years of GATT's history. The second trend was a sudden rise in concurrent complaints by several contracting parties relating to the same subject-matter. The first such instance had arisen in 1987 when Canada, the European Economic Community and Mexico had each brought complaints related to the United States' "Superfund" legislation. In that earlier case a single panel had been established to examine all three complaints. He noted that his present report currently listed three multi-party complaints which had not been assigned to single panels; a separate panel had been set up to examine each individual complaint. It had been ultimately agreed, however, that the panels dealing with the same particular subject matters should have the same composition. It remained to be seen whether this new approach or the single-panel approach used in the "Superfund" case was more efficient. There was a third trend: in almost all recent cases, standard terms of reference had been agreed. He said that if the terms of reference were narrowed, there was the risk of curtailing the complaining party's right to a full examination of its case. If the terms of reference were expanded, the risk was that panels would be drawn into issues that fell outside the scope of Article XXIII. He therefore welcomed the trend towards using standard terms of reference.

He further informed the Council that in April 1988, Canada and the European Communities had asked him -- with reference to paragraph 8 of the 1979 Understanding on Dispute Settlement -- to render an advisory opinion on whether a tariff concession granted by Portugal to Canada in 1961 was applicable to wet salted cod. This issue had arisen in the tariff negotiations between Canada and the Community under Article XXIV:6, and they had not been able to find a mutually satisfactory solution. He had agreed on 15 April to render such an opinion and on 15 July, had made it available to the two parties concerned.

The representatives of the United States commended the Secretariat on its latest edition of the background document. Despite a shortened period for production and review of the material, it was a much better organized and more focused document than the previous volume produced for the June 1988 Special Council meeting. He said that the "overview" section accurately identified the main issues of particular importance to trade developments, not just those in the most recent five month period but within the previous year. The US Omnibus Trade Bill and the Textile Bill vetoes, Community efforts to complete the internal market by the end of 1992, and progress in the Uruguay Round were issues that had clearly dominated broad trade policy discussions during 1988.

Concerning the recently-signed US Omnibus Trade and Competitiveness Act, the US Administration had constantly said that this legislation was no longer the protectionist vehicle that had originally been faced. The final

document ran to over 1000 pages -- which had been found to be more easily criticised than read. Its major provisions, however, including the amendments to Section 301 of the 1974 Trade Act, were focused on trade liberalization, not restriction. The major achievement of the Act was its focus on opening markets rather than on protectionist measures for US industries. Its most important provision was the confirmation of negotiating authority for trade agreements and effective implementing procedures. The legislation also implemented conversion of the US tariff nomenclature to the Harmonized System, and streamlined export control regulations. It made several changes in trade administration regulations in the areas of safeguards, anti-dumping and countervailing duty actions, but all within GATT norms. In the area that had sparked the most interest, the new legislation required tighter time limits and more extensive progress reporting on Section 301 actions. While some observers assumed that the use of this Section would inevitably lead the United States into conflict with its GATT obligations, this had not heretofore been experienced. Indeed, the Secretariat's background documentation in C/W/566 listed a number of trade liberalizing measures taken within the period under examination, such as those listed in Paragraph 12, which had occurred as a direct result of the efforts to expand market opportunities for US exports under Section 301.

Document C/W/566 also noted the proliferation of trade agreements, such as those between Australia and New Zealand, the United States and Canada, the European Community 1992 exercise and the integration and economic cooperation program initiated by Argentina and Brazil in 1986. Of these four, it was clear that the first three would be rapidly notified and would receive close scrutiny by the CONTRACTING PARTIES. This was less certain for the fourth agreement, despite continued US efforts to encourage more transparency. He hoped that the participants to that agreement would soon consent to its notification and examination in the GATT. He thanked the Secretariat for the information included in the report on the ongoing implementation of that agreement, but regretted that this information had not been provided directly by the participants in a more comprehensive and coherent fashion.

He pointed out that a number of citations in the section on quantitative restrictions noted import licensing restrictions and import prohibitions which appeared to be related to balance-of-payments problems. He said that countries taking such measures should notify them formally to GATT and should consult in the Committee on Balance-of-Payments Restrictions if the measures were taken under Articles XII or XVIII. Only in this way could GATT be expected to serve the broad interest of all contracting parties by ensuring transparency and encouraging dialogue on the effects of such restrictions on contracting-party trade.

The representative of the European Communities said that the US Trade and Competitiveness Act might be some sort of war machine for market opening, but not for the US market. Efforts should thus be made for the application of the Act so that it would lead to an across-the-board opening of markets.

He then referred to documents C/W/566 and Spec(88)51, and said that the Community considered the latter to be an integral part of this important documentation. He hoped that one day it would be merged into one structured presentation. He recalled that these documents had been produced on the Secretariat's own exclusive responsibility; his comments were therefore meant only as a contribution to the discussion that these documents might induce.

With regard to paragraph 9 of C/W/566, concerning "screwdriver assembly" operations, he pointed out that the European Court of Justice had confirmed the Community's efforts to prevent circumvention of the legislation in this area. As this matter was still far from being closed, he recommended the utmost prudence in order to avoid misconceptions and prejudices about the ongoing démarche, including the dispute-settlement aspects thereof. Thus the Secretariat's documentation was useful to the extent that it did not lead to unreasonable interpretations, in particular with regard to the ongoing proceedings.

He saw the assessment by the Secretariat and the lessons it was drawing therefrom on the evolution of the trading system in general and of the world economy, as very interesting, somewhat unusual, and deserving of careful thinking. He could only react positively to this approach, notwithstanding some necessary nuances, as for instance when the Secretariat touched upon the forces of change. Just as important as those forces was the rapidity of the changes, which could possibly create imbalances as the trade and economic systems in several regions of the world could not cope with the extraordinary pace of events. With respect to technology as a factor of market globalization, the Secrtariat had somewhat timidly referred to the factors which reinforced the services component of trade in goods. He said that it was precisely the services as such which were at play and not only as a component of the trade in goods, let alone the difficulty in estimating that share, although it was probably easier to do so now that services were recognized as representing a growing share of world trade and in particular of the gross national product (GNP) of each country, including the developing countries. The Uruguay Round had at least allowed recognition of this, which should not be underestimated.

Another Secretariat idea which should perhaps be forcefully developed was the interactions -- not just the interdependance -- between the various economies or the various policies in different countries. It was no longer possible for an economy to operate in isolation or to insulate itself, unless extremely onerous recourse to unilateralism or bilateralism was adopted. That would mean the future erosion of the economies which dared to venture in that direction, as well as of the multilateral system itself, which protected both the large and the small, the strong and the weak.

Another interesting idea in the Secretariat's documentation, although again stated with much timidity, was that of the reduction of imbalances as a result of contracting parties and trading partners assuming greater responsibilities, or to put it clearly and frankly, that of integration. One of the reasons which had led to launching the Uruguay Round had been the search for reducing imbalances. The Round provided an unexpected opportunity for the developing countries to integrate further and not to

remain marginalized. If they did not understand the message, they would risk being marginalized forever. Extrapolating briefly, he said that the Uruguay Round could not be successfully concluded without an overall progressive integration of all concerned. Because of the relentless difficulties which arose, there was great risk that those capable of constituting important trading blocks -- North America, Europe, Japan and the Pacific region -- would be forced to build bridges between themselves and to create rules which would probably fall outside the multilateral system. The laggards, which had not understood the message, would be marginalized forever. He urged the developing countries to integrate into the system and to reap its benefits, and not to remain passive and sheltered behind provisions that had been drafted in a dynamic perspective. The Secretariat's own conclusions hinted that those countries which had assumed their responsibilities had been able to derive benefits in a rather startling way. That was equally a source of imbalance between the contracting parties and among the trading partners.

As for population trends, it was said that 600 million jobs would have to be created in the developing countries in the course of the next two decades. The developing countries accounted for 83 per cent of the world population and the Northern Hemisphere for 17, while the respective GNP figures were approximately the reverse. These were striking figures. Could one expect that trade and trade development could absorb the production generated by the 600 million jobs? Certainly so, provided that domestic demand expanded and developed in the developing countries. Without such demand, it would be erroneous to think that this could be achieved.

He said the Secretariat's conclusion concerning the handicap of trade barriers between provinces and regions within the same country (Spec(88)51, page 9, 1st paragraph) would also apply to the Community's démarche towards a unified market in 1992 if one substituted "Community" for "country". He could not have asked for a more concise presentation of the Community's internal market, and his own interpretation of the consequences of the challenge of 1992 confirmed the Secretariat's. He was aware that the Community's project -- the Community could not be made to deviate from it or from its internal sovereignty -- raised fears both outside and within the Community. Within the Community, the question was whether the single market would not primarily benefit third countries in the first instance, while outsiders feared that a form of protectionism would compensate for internal liberalization. He said that both sides' fears were absolutely groundless. The internal market would create opportunities for both Community and foreign businesses, depending essentially on the firms' respective capacities to take advantage of those opportunities. The Community would only provide the framework.

The Community's démarche was well in line with the treaties to which it was a party. In fact, the absence of an internal market cost the Community on average ECU220 billion, and the achievement of the unified market would induce an annual growth rate of 5 to 7 per cent, thus constituting a sort of dynamic not only for Community businesses but also for firms around the world if they knew how to take advantage of the opportunities. He underlined that the Community's external policy would be

pursued with total respect for its international obligations at the bilateral and multilateral levels, wherever they existed. While not challenging existing obligations, however, the Community would not concern itself with obligations which did not yet exist. The Community thus assumed its existing GATT obligations; where obligations did not yet exist, the Community would pursue its course as long as the Uruguay Round had not reached a stage where it could allow, multilaterally, a definition and an implementation of new disciplines. The concept of reciprocity ranked high in this institution, and the Community would call it into play when disciplines did not exist at the multilateral level. Clearly the Community would want to see its market opening duplicated or parallelled by its partners. There was no point in speaking about threats, as the Community was quietly pursuing its démarche. He urged representatives not to rely too much on the press, but rather to listen carefully to its authorized spokesman in the Council.

The representative of Brazil said that that word "complacency" came to mind when one read most of the recent appraisals of the world economic and financial situation. Part of the explanation for this lack of concern certainly stemmed from the fact that the recession anticipated after the stock market crash of 1987 had not materialized, and that the output growth rate in the industrialized countries had stabilized above the three per-cent level. If ground therefore existed for some cautious relief with regard to recent developments in the world economy, this feeling had undeniably to be accompanied by important qualifications. Even the modest recovery in the industrialized countries was endangered by the persistence of some pervasive facts and trends negatively affecting the world economy as a whole.

The first of these was the slowness in the adjustment process needed to correct the huge trade imbalances amongst the three main industrialized countries, as had been recently confirmed by the release of official figures indicating the widening of the US trade deficit. By contrast, Japan's and the Federal Republic of Germany's enormous trade surpluses had been steady. These trade imbalances constituted a major reason for the existing major financial disequilibria and instability in the exchange rates and equity markets. Reversing these imbalances at a faster pace, chiefly by means of improved macro-economic coordination amongst major trading partners, was therefore an urgent need.

A second negative factor affecting the world economy was the lack of progress by the international community in bringing about a lasting solution to the debt crisis, now entering its seventh year. Recent developments were hardly encouraging. As the 1988 Annual Report of the IMF indicated, the total dollar value of developing countries' outstanding debt had risen by 10.4 per cent in 1987 to US$1.217 billion, or the equivalent of practically 40 per cent of their aggregate GNP. The fall in the terms of trade for developing countries, estimated at some 20 per cent from 1982 to 1987, had offset much of the real adjustment that indebted countries had achieved with great sacrifice. Finally, commitments of new financing under concerted bank lending, which had amounted to over US$15 billion in 1983-84, had declined to US$5 billion in 1985-86 and had plummeted to a paltry US$2.4 billion in 1987. This sharply declining trend had been

recently dramatized when the Institute of International Finance had stated in a letter to the IMF that commercial banks had neither the capacity nor the willingness to meet their share of the financing needs of debtor developing countries. Therefore, by reaffirming a strategy for the debt problem, of which an essential element had been missing -- new financing by commercial banks --the recent meeting of the IMF in West Berlin had failed to bring about an effective contribution to addressing the debt crisis.

A third negative trend in the world economy was the threat of erosion of the multilateral trading system that was posed, in the first place, by the increasing resort to unilateralism and bilateralism that seemed to be presiding over recent attitudes and actions by the major trading partners. Moreover, there had been also a tendency to fragment the system into more-or-less closed economic blocks. Consequent fears, however, had stemmed much more from suspected intentions than from concrete decisions, since in the majority of cases, the setting-up of such economic blocks had not yet become a tangible reality.

The world trading scenario therefore gave cause for concern. Though in some quarters the picture was painted in more positive tones, giving the impression that despite some minor bumps, the road on which the global economy was travelling was a smooth one, it would be equally correct, if not more so, to say that the destabilizing influences were still far too prominent to allow for complacency or undue optimism. The excellent background documentation prepared by the Secretariat gave further evidence of this situation. While some macro-economic indicators were showing strong performances, other more disturbing signals were pointing unequivocally in the direction of increased protectionism and to a widening range of trade distorting measures that undermined the fragile stability of the multilateral trading system.

For its part, Brazil had always advocated the need to maintain the efficiency and credibility of the system laid down in the multilateral framework represented by the contracting parties, so as to ensure the continual prosperity and balanced development of the global economy. That positive picture as seen by some, had failed to translate itself into wider and more equitable benefits for all trading partners. There was increasing recourse to unilateral and restrictive actions which served only to undermine the confidence which should be placed in the GATT system. His country had been the victim of discriminatory and restrictive actions that had severely damaged its trading interests and had consequently limited the options for redressing its difficult economic situation. Notwithstanding all these negative pressures which, in Brazil's case, could be seen in its intolerably heavy debt burden and the external constraints placed on its capacity to encourage growth and development through trade, Brazil had been making significant efforts to promote an even greater integration of the country into the world economy. The Secretariat had underlined these efforts very clearly, as noted in paragraphs 154 to 158, 228, 229 and 256 of C/W/566, which referred to recent measures taken in the areas of tariff reduction and modernization, import liberalization and removal of certain subsidies. These actions were further evidence of Brazil's commitment to the principles embodied in GATT. He said that Brazil was confident that

these unilateral demonstrations of faith in the multilateral trading system would also be recognized as its positive contribution to the objectives of the Uruguay Round.

The representative of Tanzania said that one could appreciate that document C/W/566 took the usual, stereotyped form which presumably was a clinical approach on the part of the GATT Secretariat. But in the developing countries, which constituted the majority of the global community, and its most vulnerable group, that was not realistic, as one lived, produced and traded in a germ-infested environment. A presentation of "developments in the trading system" could only be a very partial product, and in the medium term and long term of very little practical value, if it did not present data and an analysis of developments in the trading system as they took place in many developing countries. Trade was a two-way affair, and those who were at the receiving end of things needed to be given a proper place in the presentation, if only to make the GATT system reflective of the total membership, asymmetrical as it was in its range of economic and trading strength.

There were countries and economies in which "developments in the trading system" meant quite simply suppressing potential production by starving existing production of investment capital in order to service external debt, to pay for high interest rates, and to provide for the haemorrhage caused by the volatile behaviour of exchange rates of trading countries. Such developments also included continuing uncertainties and real loss of purchasing power, a matter of some importance, one hoped, in being able to conduct buoyant trade.

There were additional dimensions which constituted "developments in the trading system" for many developing countries. These were related to developments in shipping freight and to an industrial society's imperatives for cubic-shaped packaging, which synchronized only fractionally with the realities of coarse, scattered areas of primary production, ill-served by a transport network at the best of times, ill-equipped to connect with the exacting split-second demands of container traffic, and grossly lacking in packaging material and facilities, let alone cubic-shaped packaging. Also important was the inadequate control over factors that caused deterioration of quality due to production being infested, or inadequate storage/ warehousing causing exposure at the cost of quality, and timely delivery. For many developing countries, these were "developments in the trading system" of direct relevance and meaning to their own efforts, including efforts on the part of their entrepreneurs and producers. Document C/W/566 and its successors would remain incomplete and not very meaningful unless their content reflected the legitimate concerns of many developing countries represented in the GATT, not to mention their relevance in the context of the Uruguay Round.

The representative of Japan said that his delegation had always taken an active part in the special Council meetings with the strong conviction that the reviews could play a unique and important rôle for the integrity of the GATT system. Although it was Japan's view that the world economy had been developing steadily as a whole, there still remained some points of concern. It was therefore important that contracting parties exert

further concerted efforts for progress in the Uruguay Round, with a renewed determination that the objectives of free trade should be pursued with increased vigour.

One movement which caused concerns in current world trade was the strengthening of bilateralism. At the 22 September Council meeting, Japan had explained at some length its concern with the United States Omnibus Trade and Competitiveness Act. He reiterated his Government's hope that the present and future US Administrations would see to it that the implementation of the Act was fully consistent with the General Agreement.

As to regional developments, the Secretariat's background documentation referred to the contracting parties' increased interest in the development of European economic integration and in the ratification of the US-Canada Free-Trade Agreement (FTA). As Japan had pointed out on various occasions, regional integration, in spite of its positive aspect of contributing to the expansion of free trade among member countries, had the inherent tendency of differentiating treatment between member- and non-member countries. For this reason, many countries, including Japan, looked at the development of such regional groupings with concern, especially from the viewpoint of how they might affect the future of the international trading system. The creation of regional arrangements such as the European Economic Community or the US-Canada FTA, which had made vast exceptions to the m.f.n. principle, was not something that had been foreseen by the drafters of the GATT provisions. Japan intended to follow developments very closely. Japan strongly hoped that such regional economic groupings would be open to the outside world, thereby contributing to the further development of the world economy as a whole, since they could be detrimental to the very foundation of the multilateral trading system if not implemented properly.

A recent specific encouraging development was the presidential veto of the US Textile and Apparel Trade Bill of 1987. Japan welcomed that this veto had successfully withstood the Congressional attempt to override it and put an end to proposed legislation which had contained trade restrictive and discriminatory elements contrary to free trade. This was a welcome success of the US Administration's fight against protectionism under the leadership of its President.

For the developing countries, the accumulation of debts still remained a most serious difficulty. Domestic economic growth, expansion of exports as well as restraint in the increase of debts were some of the remedies necessary to solve this problem. In order to achieve these objectives, the rationalization of domestic industries would be required. In parallel with such efforts by developing countries, developed countries would have to make their contribution to assist such efforts; they should not only maintain their pace of economic growth but also provide increased access to the exports of developing countries. In that respect, the Uruguay Round provided an opportunity for the developing countries to enlarge the markets for their exports. Moreover, the establishment of new rules in the field of the "new areas" would also benefit the developing countries by providing them with new trade opportunities or enhancing the structural adjustment of their economies in the long run.

During recent years, Japan had been making serious and rather successful efforts to expand domestic demand, improve market access and convert its industrial structure with a view to rectifying the disequilibrium in its balance of payments and to fulfilling its responsibility in the international economy. Japan had recently taken market-opening measures on beef and citrus and on 12 additional agricultural products, and the Japanese authorities intended to continue to contribute to the maintenance and reinforcement of the open multilateral free-trading system.

The representative of Australia said that it was useful for Spec(88)51 to have been circulated at the same time as the Secretariat's background document in C/W/566; this provided a broader picture of the international economic environment in which developments in the trade field were taking place. The world economy was still fragile, and there were still many countries with balance-of-payments problems. The efforts to grapple with the US budget and trade deficits were also likely to have an impact on the multilateral trading system; it should be remembered that the growth in many countries' trade had been achieved because of this trade deficit. It was therefore important that growth -- even minimal -- be maintained; this environment was necessary for structural adjustment and international liberalization to take place.

The Secretariat's documentation was useful in having drawn attention to certain longer-term developments which had an effect on trade. The Secretariat had also drawn attention to developments in the Uruguay Round. He was particularly interested by a comment on page 6 of Spec(88)51 regarding discriminatory quantitative export restraints and increasing subsidization of agriculture, which were described as high on the list of current measures which threatened to undermine the multilateral trading system. He thought that economists should also reflect upon another issue, namely the character of the protection faced across-the-board in some of the less obvious sectors. One knew of problems in specific sectors, such as agriculture, textiles and manufactures generally where there were tariffs and non-tariff barriers. Domestic subsidization across-the-board, however, was emerging quite clearly as a significant source of protection. In its simplest form, this meant subsidies allowing a domestic product to be sold below the price of the imported product. It was important that this type of issue be on the agenda of the Uruguay Round to make sure that negotiators were looking at the total picture, including its long-term implications.

Turning to the outlines now being developed to guide Community trade policy after 1992, referred to in paragraph 407 of C/W/566 and in unspecified announcements by the Community, he welcomed the assurances provided by the representative of the European Communities that the single market would not lead to actions inconsistent with the GATT. He was not really concerned, however, whether the Community would meet its legalistic requirements, but rather whether its approach would be consistent with the philosophy of "growth through liberalization". His delegation had some disquiet with indications that some trade barriers would need to be consolidated, e.g., for motor vehicles and perhaps for textiles. He said

that protectionism was an addiction. If some of the techniques proposed for motor vehicles were to be applied, it would be an alarming precedent for other areas.

His delegation was also concerned with reports that the expected economic advantages would not be automatically extended to third-country partners in areas where no international obligations currently existed. Also of concern was the interpretation of the concept of reciprocity. It was not clear whether the Community saw it as applying as an overall balance across the services sectors, or self-balancing within individual sectors. He illustrated his point by referring to a draft Community banking directive, querying whether the notion of growth through liberalization was being followed. Australia hoped that the Community's eagerness to complete the process by the target year -- 1992 -- would not compromise or even undermine some important areas of the current Uruguay Round negotiations, in particular services, where rules were being developed which would apply for the decades to come. Australia also hoped that one important trading partner would not yield to short-term considerations alone and deprive the rest of the trading community from the benefits of liberalization in the long run.

Turning to agriculture, the Secretariat's background document had singled out some important developments, e.g., the lifting of some restrictions by Japan. Such positive developments showed that the impetus to liberalization represented by the Uruguay Round was having some effect. There were blemishes, however, and he drew attention to two instances of continuing interference with agricultural trade which involved actions which had directly affected Australia's export opportunities and revenue at a time when Australia was lowering barriers to its own market across-the-board and trying to bridge a major balance-of-payments deficit. The Secretariat document noted in paragraph 321 the acceptance by Australia and New Zealand of export restraint arrangements for 1988 on their beef exports to the United States. In fact, this was the second year in succession that export restraints had been requested by the United States and the fourth time since 1980. Australian ministers had publicly declared that there was nothing voluntary about Australia's acceptance of the US request. In Australia's case, the alternative to acceptance of a restraint figure below the level of projected exports was the imposition of a quota at a much lower level, possibly of the order of 48,000 tonnes. It was recognized that the US Administration had little discretion under the US Meat Import Law; this did not, however, provide any GATT justification for the law itself. The imposition of restraints was at odds with the cause of free and open trade in agriculture, which the United States and others were pursuing in the Uruguay Round. It also stood in stark contrast with the liberalization of the Japanese beef régime which the United States had been instrumental in negotiating.

In paragraph 406 of C/W/566, reference was made to the Community's proposal to establish a facility which would combine the use of export restitutions with concessional credit to encourage Community food exports to developing countries. That warranted close attention. It was disconcerting that the Community had chosen once more to increase its food assistance by a means which distorted world prices and in the long term was

in nobody's economic interest. Such commendable humanitarian gestures, such as the Community food relief programmes, would be better achieved through direct-grant aids which would allow developing countries to purchase food at world prices with no distortions being introduced.

The other instance of increased protection affecting Australian agricultural trade was action by Sweden to insulate further its high-cost agricultural sector. Since June 1987, Sweden had increased by some 41 per cent its import levy on sheepmeat, which had effectively excluded Australian products from the market. The decisions to raise the levy had been taken in spite of bilateral representations by Australia and in the absence of any justification related to change in trade flows or the circumstances of domestic producers. It was interesting to reflect on this action in light of a recent study by the Swedish Defence Research Institute which had called into question the validity of the food security argument traditionally tendered by Sweden as justification for the high levels of protection afforded its agricultural sector. His delegation looked for early action by Sweden to reduce the levy.

The representative of Canada said the signals facing the trading community were very mixed. There were a number of promising trends in the short term, major concerns in the medium term and enormous challenges over the next two decades. Those factors had been clearly brought out in the Secretariat's documentation, which showed, for instance, that in the short term there had been some very welcome trade liberalization moves by various countries, some encouraging signs in the volume and pattern of world trade and even some abatement in the threats of protectionism that had been so prevalent in the first part of the present decade. In the medium term, there were major problems; these had been clearly identified by Brazil. As to the long term, the Secretariat's note in Spec(88)51 described the enormous challenges posed by developments in technology and by major changes in demographic patterns in the world. It was quite clear that these developments would pose real challenges for structural adjustment and would put a real burden on the GATT as an institution.

Referring to Australia's remarks concerning the need for maintaining an environment of growth, he agreed that one should take advantage of the momentary respite from longer-term challenges and make as much progress as possible in moving forward in the Uruguay Round towards a better framework for dealing with those challenges in a more fundamental way. His delegation agreed fully with Brazil that there was no time for complacency.

The representative of Sweden, speaking on behalf of the Nordic countries, said that they attached great importance to the review of developments in the trading system. Some twenty years earlier when the world was still predictable, it had been quite common to make 5-10 year forecasts for economic developments. Nowadays, however, forecasts by international institutions were made for 3 or 6 months only, and even then they turned out to be wrong. Over the preceding year, they had turned out wrong, but in the right direction. A year earlier to the day there had been "Black Monday", when stock markets all over the world had tumbled. Most economists and experts had predicted, if not a depression comparable to the one which had started in 1929, at least a deep and lasting

recession. Whereas deep pessimism had then prevailed, world-wide economic activities had nevertheless continued to expand. According to the documents before the Council, the global economy as a whole was expected to grow at a rate of 3.5 per cent for 1988, and trade was doing still better with an average annual growth rate of 5 per cent. Those were very respectable growth rates, but it was of utmost importance that a healthy and predictable growth rate be sustained. He agreed with Australia that an environment of confidence should be preserved to provide governments with scope for structural adjustment.

There was no reason, however for those responsible for trade policy to sit back and to be proud of their accomplishments, because most of the world-wide structural problems were still to be resolved. The largest economy was still plagued by a huge budget deficit, which in one way or another had to -- and would -- come down. There were signs that the imbalances between the major economies were being reduced, but too slowly to be reassuring, and with recurrent setbacks. Many developing countries continued to be confronted by balance-of-payment and debt-servicing problems. It was more important than ever for those responsible for trade policy to be vigilant and not to give in to protectionist pressures. With the growing linkages among economies, the proportion of national income accounted for by international trade in goods and services had increased. Trade currently accounted for about 20 per cent on average of the economic activity in a broad cross section of countries. It was clear, as the representative of the European Communities had said, that there were no longer isolated economies. Trade had therefore come to play a central rôle in general policy making. It was evident that under these changed circumstances, the way in which trade policies were designed was of great importance.

It was particularly timely that the Secretariat had drawn attention to two major longer-term trends which were generating pressure for structural changes in the patterns of world production and trade, namely new technologies and diverging population trends. Important trade policy tasks were to cope with these pressures in order to promote structural adjustment and to create conditions for a rational world-wide production structure with the aim to facilitating economic growth. It was in this perspective that the significance of contracting parties' efforts in the framework of the Uruguay Round had to be seen, which should lead to an expansion of multilateral disciplines in new areas. A successful Round would have a major impact on economic growth and development during the remainder of this century.

The single most important event during the period under review was the passage of the US Omnibus Trade and Competitiveness Act. The Nordic countries had already reacted to it at the September Council meeting; he would only repeat that there were elements in the Act which gave them great concern. The risks were potential only, and the factual outcome depended on how the provisions of the Act were used. The Nordic countries urged the United States to apply them in accordance with its international obligations and so as to reinforce and strengthen the free and open multilateral trading system. The practical implementation of the Trade Act would be a decisive factor for the international trading climate. In this

context, the Nordic countries expressed their appreciation of the vetoing of the Textiles and Apparel Act as a very positive step in the right direction.

Turning to agriculture and speaking on behalf of Sweden alone, he said and later emphasized, that the increase in the import levy on sheepmeat, to which Australia had referred, had taken place in the framework of the normal functioning of the Swedish agricultural system, which provided for semi-annual reviews, the most recent having taken place in July and the next being scheduled for December. There had been complaints by Swedish importers of sheepmeat, and those would be dealt with by the Agricultural Market Board on 24 October.

The representative of Bangladesh said that in C/W/566 the Secretariat had brought out the salient features of developments in the trading system. Trade should not only be liberal, and the trade survey should take into account the environment as a whole. He agreed with Tanzania's having drawn attention to certain important and vital perspectives of the economies of the developing countries. Referring to the Asian region, he said that there were, so to speak, two Asias, one with robust growth -- the newly industrialized countries -- and the other, still grappling with high population pressures, commodity and debt problems, low flows of financial assistance, stagnation of overall development assistance and even natural disasters. He hoped that successor versions of the Secretariat's document would adequately address the situation.

The representative of Hong Kong said that his delegation shared the Secretariat's view in paragraph 8 of C/W/566 that during the period under review, developments in trade policy on three fronts were of particular importance for the future of the trading environment, or more precisely, the multilateral trading system: the passage of the US Omnibus Trade and Competitiveness Act and the vetoing of the Textile and Apparel Act, movement towards the closer unification of the Community market and progress in the Uruguay Round.

On the US Trade Act, his delegation welcomed the availability of a clear negotiating authority for the Uruguay Round, and trusted that it would be used to uphold multilateralism and to achieve meaningful results in the Round. His delegation did not think that the Act was totally trade-liberalizing, however, even though the efforts of the US Administration in resisting earlier more protectionist provisions were appreciated. One particular area of concern, which had been aired at the September Council meeting, was the provision on anti-dumping and countervailing measures. The real impact of the Act would to a degree be dependent on how it was implemented. He recalled the US representative's statement at that Council meeting that the US Administration would do this "responsibly". His delegation would carefully monitor implementation of the Act.

Hong Kong's concerns on the anti-dumping front were not limited to the new US legislation. The Community's new anti-dumping regulations were also of concern. Fundamentally, Hong Kong abhorred protectionism. Protectionist pressures, which in the past had found an outlet first in

tariffs and then in grey-area measures, could look to use anti-dumping measures. For this reason, his delegation had reacted sharply to regulations and legislation which codified practices which went beyond both the letter and the spirit of the General Agreement and the Anti-Dumping Code.[1] These issues should be examined in the Anti-Dumping Committee and in the Uruguay Round's MTN Agreements and Arrangements Negotiating Group, where one could fully debate and determine the balance between the rights of importing countries to protect themselves against unfair trade and of the exporting countries to exercise a proper comparative advantage. Therefore, it was unfortunate and untimely that the measures seemed to pre-empt these consultative processes.

On the US Textile and Apparel Act, Hong Kong and many other delegations -- including the United States -- had been relieved when the US House of Representatives had voted to sustain the President's veto. Hong Kong appreciated that the US Administration had fought very hard to win this particular battle. The war was not over, however, and he could expect to see new protectionist legislation tabled in the US Congress in 1989. He wished the US Administration well in defending its GATT obligations; again Hong Kong would be monitoring developments closely.

He was grateful to the Community for its statement on another key development, namely the creation of the single Community market. This was likely to have far-reaching implications for Hong Kong and probably for all exporters to the Community. One could appreciate the possible advantages of the creation of this single market in providing, for example, enhanced economic growth within the Community, hence more trade opportunities, and therefore the potential for economic growth for exporters. The elimination of cumbersome administrative and customs procedures and the harmonization of national standards would also facilitate trade. Some questions came to mind, however, such as whether the Community might become more inward-looking and more interested in trade amongst its Member states than with the rest of the world. This regional approach, which hopefully would not happen, would erode further the fundamental principles of multilateral trading. Would the dismantling of internal barriers, particularly in the hitherto restrained sectors, lead to substitute measures at the Community-wide level in order to continue the same protection to domestic industries? As the completion was still four years away and as many of the decisions that would be needed in terms of the removal of quantitative restrictions and in terms of the Community's trade policy were still on the drawing board, it was difficult at this stage to make any accurate assessment of how things would develop or of the impact this would make on the multilateral trading system.

As to the Uruguay Round, all concerned had been working very hard and would be working even harder in the Negotiating Groups in order to produce a pre-Christmas offering for the Ministers. One note of caution: some issues were more advanced, and early results might be possible in Montreal, but others might need a longer time span to ripen. It was therefore

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[1]Agreement on Implementation of Article VI (BISD 26S/171).

important to secure as much progress as possible by Montreal, but there should be no artificial forcing of results merely to meet the demands of this mid-term audit. In conclusion, his delegation was grateful to the Secretariat for having brought attention to these issues in its latest most helpful documentation.

The representative of Chile agreed with Brazil -- there was no room for complacency regarding the world economic and monetary situation, to which trade was closely linked. The situation was one of basic disequilibrium in financial flows: the huge US trade deficit which, coupled with other countries' surpluses, endangered financial stability when exchange and interest rates were volatile. These rates affected most of the developing countries and frustrated their efforts to increase productivity, to reduce production costs and to increase market access if they rose momentarily. For that reason, one might say that it was more useful to attempt forecasting exchange rate fluctuations than to make serious efforts to increase productivity. With regard to interest rates, the situation was even more dramatic: a one per-cent increase in the interest rate applied to Latin America's US$400 billion foreign debt would mean an additional US$4 billion in service payment -- an amount equivalent to the total exports of many, if not all, the countries in that region. There was absolutely nothing that these countries could do in the face of such fluctuations, a situation differing notably from that prevailing in trade.

He referred to paragraph 322 of C/W/566 concerning the Community's opinion that exporting countries had shown reluctance to accept voluntary export restraints, thus forcing the Community to exert greater vigilance over imports. That meant that if developing countries made an important effort to increase their exports, the developed countries could always frustrate this effort by restricting imports. Why could the developing countries not adopt the same attitude with regard to interest rates and say that they were prepared to redeem debts only at a given rate? In other words, they could impose a "voluntary" restriction on the payment of interest, and if this were not acceptable to creditors, impose a quota on the amount they were prepared to pay. Unfortunately that was purely theoretical, as developing countries did not have the leverage or necessary capacity to react in that way. That was only one of the assymetrical features of the GATT, as well as the IMF and other monetary institutions. He agreed with Japan that it was the developed countries' responsibility to provide the necessary access conditions for the exports of developing countries. If all industrial countries shared that approach, the developing countries could then hope that the difference between rhetoric and politics would be bridged.

He thanked the Secretariat for the background documentation, which had allowed such a debate and had helped bring transparency to trade, economic and monetary policy. That documentation could have been more critical of the existing situation, however. He was worried about the December 1988 meeting of the Trade Negotiations Committee in Montreal, as the balance between assets and liabilities in the Uruguay Round was not very favourable. Referring to paragraph 7.1 of the 1982 Ministerial Declaration[2], he said that one would expect to read in C/W/566 about all

[2]BISD 29S/9 - Ministerial Declaration of 29 November 1982.

the efforts and progress made to implement the Declaration. On the contrary, the Secretariat's document showed that things had gone the opposite way and that protectionism had caused international trade to fail.

Chile agreed with the Community as to the interdependence of economies and the impossibility of keeping them insulated, and that the Uruguay Round offered an opportunity for developing countries to integrate into the system. However, Chile's experience in that respect had not been that happy. With the exception of Hong Kong, Chile was the developing country that had the most open economy in the world. It was unique in having totally bound its tariff in GATT, including for agriculture; Chile would welcome mention of the same in the report for developed countries. Chile did not maintain quantitative restrictions of the type mentioned in paragraph 17 for balance-of-payments reasons or for any other reason. Other developing countries were asking privately how Chile had fared. The answer was: well and not so well at the same time, because when one looked at the results, greater access to developed countries' markets had not been achieved. Moreover, Chile's situation continued to suffer from the developed countries' failure to redress the imbalance between themselves and the developing countries illustrated by the population and GNP figures quoted earlier by the Community representative.

He said he was making these comments in a constructive manner, in the hope that one could go to Montreal with at least the possibility of moving forward on the path set by the Punta del Este Declaration, in order to advance the elimination of protectionism and the coordination of efforts with monetary institutions so that GATT did not fall victim of measures which escaped its jurisdiction.

The representative of Korea thanked the Secretariat for the useful documentation prepared for the Council's review. Regarding C/W/566, his delegation had found visible improvements compared to previous similar documents, and believed that the Secretariat had succeeded in enlarging the information sources and in processing this information to provide a useful basis for discussion. His delegation also found that document Spec(88)51, containing Section 3 of the "International Trade 87/88", provided a fresh and enlightening insight by dealing with the possible impact of technological developments and changes in population composition on international trade.

While the Montreal TNC meeting at Ministerial level was only a little more than a month away, and when every participant in the Uruguay Round negotiations was seriously engaged in preparatory work for a successful outcome of that meeting, his delegation had noticed some discouraging developments in the national trade policies of some of the major participants in the negotiation; these would have a serious bearing upon the international trading environment and on the ongoing process of Uruguay Round negotiations. Amongst other things, his delegation registered its grave concern with the enactment of the US Omnibus Trade and Competitiveness Act and the revision of the Community's anti-dumping regulations. Korea believed that these would be carefully examined in the relevant GATT bodies, but until such examination was carried out, hoped that their implementation would be enforced with a maximum amount of

caution by the responsible authorities, in order not to affect adversely the fulfilment of the objectives of the Uruguay Round.

As to liberalization measures taken recently by the Korean Government, he drew attention to the following: (1) the 5 year tariff reduction schedule whereby the current average tariff rate of 20 per cent would be lowered to 12.7 per cent in 1989 and to 7.9 per cent in 1993; (2) the market opening for 216 items, which brought the import liberalization ratio to 94.8 per cent; (3) the reduction in the number of products under surveillance and recommendation requirements under various special laws; and (4) the reduction of special excise tax rates in order to promote domestic consumption. His delegation sincerely hoped that such efforts by Korea would be taken as a valuable contribution for a better world trade environment.

The representative of Czechoslovakia praised the quality of the Secretariat's documentation, which drew attention to both positive and negative developments in the trading system. One comforting observation was that international trade had grown faster (at 5 per cent) than production, as a result of both the material environment and of the trade policies pursued. One could only hope that no distorting factors, such as those pointed out by Canada, would operate below the surface to compromise this situation in the medium- and long-terms. As to the negative trends, there was the exaggerated use of anti-dumping practices as well as the pressures exerted by certain importing countries on certain exporting countries to accept limitations on their exports of certain goods. The word "voluntary" did not correspond to reality, as had been explained earlier by Australia. A third trend was the continued exchange rate fluctuations of the main international currency. Everyone knew how much the monetary factor influenced international trade and the trade policies in all countries. He said that all these trends affected negatively the international trading system. As for countertrade (C/W/566, pages 72-78), he wondered why references had also been made to inter-firm contracts as opposed to State-trading.

The representative of New Zealand said that his delegation found C/W/566 useful, particularly the comments in the "Overview" section along with those in Spec(88)51. The documents did not, however, mention one issue of concern to his delegation, also raised by the representative of Australia, namely, Sweden's decision to increase import levies on lamb as of 1 July 1988. Over the most recent years, New Zealand had developed a market for high quality lamb, and the levy would make this trade uneconomic. Traders would not take comfort in the Swedish reply that this measure had been taken in conformity with Sweden's overall agricultural policy. Their concerns were with trade effects, and in this case that had meant exclusion from the Swedish markets of an unsubsidized high quality product. He had taken note of Sweden's statement concerning the forthcoming review of the matter, and he hoped that the levies would be decreased as soon as possible.

The representative of the United States said that he considered the debate at the present special Council meeting as probably the best one ever. He said that this was the last such meeting of the present US

Administration. In its estimation, much had been achieved in the previous three years, both in terms of improving US trade performance and opportunities and in strengthening the international trading system. In $1985, the United States had embarked upon a new three-part strategy for achieving the President's long-term goal of opening world markets and enhancing free trade. As for the first part of that strategy, the Administration had made substantial efforts to improve economic fundamentals and to strengthen macroeconomic coordination among the major industrial nations. Success could be seen in the sizeable reductions in the US trade deficit. This improvement was expected to continue.

The second part of the President's trade policy was to open markets to US exports by negotiating improved, comprehensive trade agreements aimed at expanding trade. The United States' impetus for launching the Uruguay Round and the free-trade agreement with Canada were examples of that. Although concerns had been expressed with respect to the latter, the United States did not view these efforts as a divergence from multilateral efforts to liberalize trade, but rather as supplements to multilateral efforts, while the United States would be watching carefully the Community's internal market exercize.

The third part of the President's strategy had been to work towards the elimination of unfair trade practices through the agressive use of bilateral negotiations, GATT procedures and US trade laws. This strategy had resulted in the elimination of a number of unfair trade practices and had enabled third countries as well as US businesses, farmers and workers to expand their exports. This had been a critical factor in the Administration's ability to defend free trade and the multilateral system to the Congress and domestic consituencies. Unfortunately, the United States expected a continuation of protectionist pressure, including on the US authorities, and bilateral tensions in world trade.

In this connection, he referred to Australia's statement concerning the US meat import law. The US Government did not like to restrict meat imports, but under certain conditions it had to do so by virtue of the law. His delegation believed that a reasonable solution had been reached under the circumstances, meeting the commercial interests of all parties. The best way to deal with this type of issue was to seek multilateral liberalization of agriculture and other areas in the Uruguay Round. That was the real challenge, as without progress in the Round, there would be growing reliance on bilateral solutions to trade problems. It was therefore important that the mid-term review send a positive signal to the World that the Uruguay Round was making real progress towards strengthening the multilateral system and that the GATT could play a positive rôle in this trade liberalization.

The representative of Brazil noted that a reference had been made to Brazil's new Constitution, promulgated on 5 October 1988, in C/W/566 (Section XI, paragraph 456). His delegation found this information, apparently of a factual nature, to be very selective, as it seemed to try to underline -- incorrectly -- some aspects which were of the exclusive and sovereign jurisdiction of the Brazilian Government and people. His delegation would not request deletion or amendment of the paragraph, which

was found in a document issued under the Secretariat's own responsibility, on the understanding that national constitutions could not be examined or monitored in the GATT or elsewhere. His delegation therefore strongly opposed any discussion of this matter.

The Chairman, in summing up, said that he had noted that important issues had been fully and usefully discussed. The preparation of the documentation for the Council's review involved studying a spectrum of globally diverse trading realities and giving it a systemic aspect. Understandably, there was a cluster of realities, and it was not a purely mechanical, physical mixture of elements, but perhaps a chemistry thereof. He hoped that given the time dimension of the problems, an appropriate mix of policies would be applied to ensure symmetrical development of the global economy in it entirety through the instrumentality of international trade.

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